

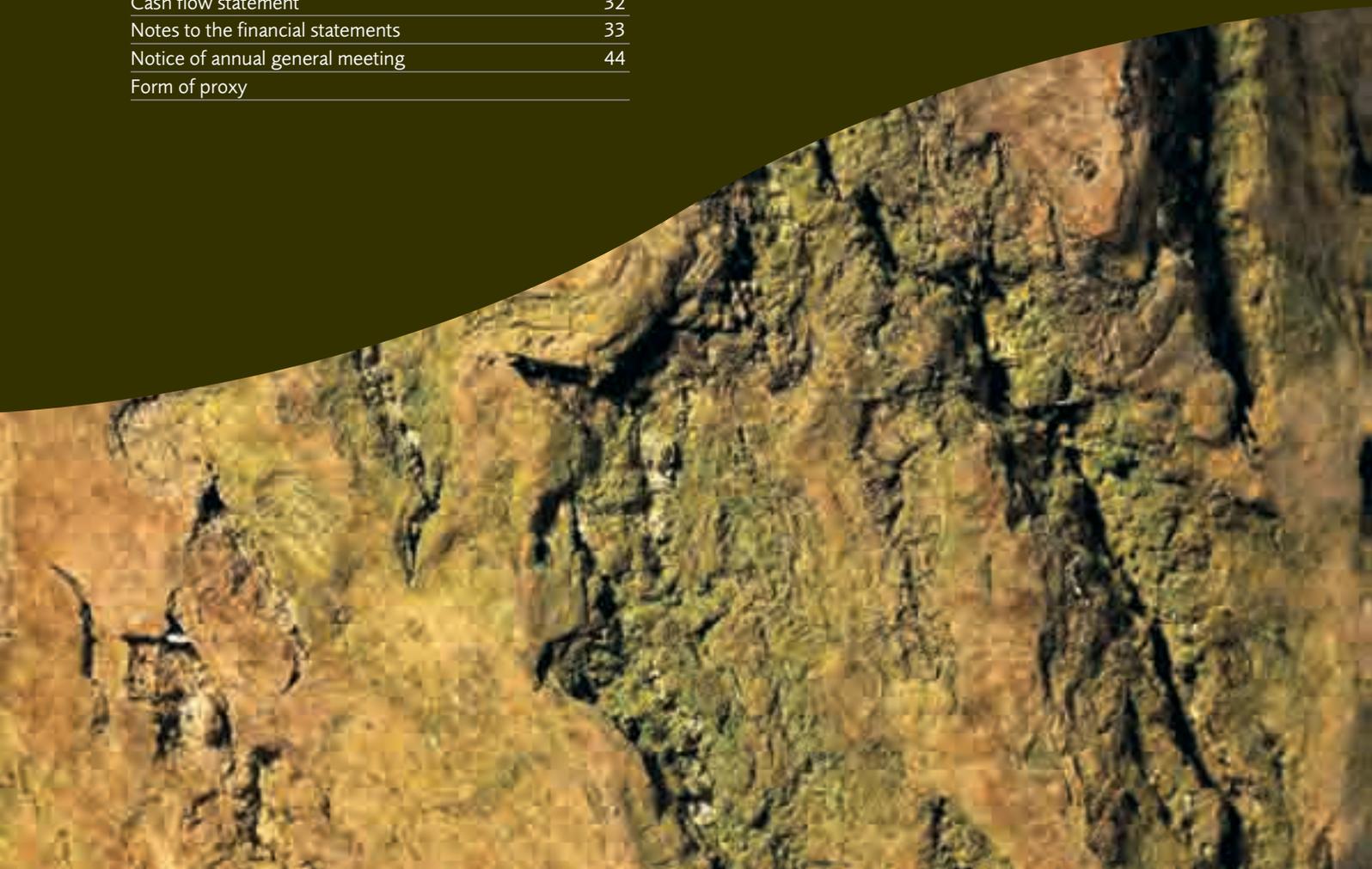
2008

Northern 3  
VCT PLC

Annual Report and Accounts  
31 March 2008

Northern 3 VCT PLC is a Venture Capital Trust (VCT) managed by NVM Private Equity. It invests mainly in unquoted venture capital holdings and aims to provide high long-term tax-free returns to shareholders through a combination of dividend yield and capital growth.

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# Financial Summary

	18 months ended 31 March 2008	Year ended 30 September 2006
Net assets	£28.6m	£29.3m
Net asset value per share	96.3p	95.2p
<b>Return per share</b>		
Revenue	4.1p	2.4p
Capital	4.7p	0.5p
Total	8.8p	2.9p
<b>Dividend per share declared in respect of the period</b>		
Revenue	4.2p	2.0p
Capital	1.8p	2.0p
Total	6.0p	4.0p
<b>Cumulative return to shareholders since launch</b>		
Net asset value per share	96.3p	95.2p
Dividends paid per share	18.9p	10.9p
Net asset value plus dividends paid per share	115.2p	106.1p
<b>Share price at end of period</b>	84.5p	83.0p

## Key dates

Results announced  
Annual general meeting

20 May 2008  
3 July 2008 (11.30am, The Balmoral, Edinburgh)

# Chairman's Statement

We expect to see the company make further progress over the next year.



Our company has made further progress during the extended 18 month period to 31 March 2008 and we can report a healthy level of new investment activity, an increasing flow of exit opportunities and an overall increase in net asset value per share after recognising dividends paid during the period. The return per share after tax as shown in the income statement was 8.8p, equivalent to 9.2% of the opening net asset value. Over the same period the FTSE All-share (total return) index rose by 0.8%.

## Results and dividend

The net asset value (NAV) per share at 31 March 2008 was 96.3p, a pleasing increase from the corresponding figure of 95.2p as at 30 September 2006 given that dividends totalling 8.0p per share were paid during the period (including 2.0p relating to the year ended 30 September 2006). Three interim dividends each of 2.0p per share were declared and paid in respect of the 18 month period to 31 March 2008, maintaining the annual rate of 4.0p established in the preceding year. No final dividend is proposed. The cumulative return to shareholders since launch, comprising net asset value plus cumulative dividends paid, increased from 106.1p to 115.2p over the period. In respect of the financial year ending 31 March 2009, we presently intend that an interim dividend will be paid in January 2009 and a final dividend in July 2009.

## Investment portfolio

The business review on pages 6 to 10 gives details of recent developments

in the investment portfolio. The flow of new investment opportunities was strong for most of the period under review and in total 14 new deals were completed at a cost of £8.4 million. A number of our earlier investments are now beginning to mature and several satisfactory exits were achieved during the period, notably the sales of **Ithaca Holdings** to United Business Media plc and **KCS Global Holdings** to Sage Group plc. As previously reported, there was also a significant disappointment in the failure of **Nightingales Holdings**. We believe that the overall condition of the portfolio is good although some companies, particularly those involved in construction-related sectors, are finding current conditions challenging. This has been taken into account in arriving at investment valuations at the balance sheet date.

## Shareholder issues

The company has continued to buy back shares in the market for cancellation at a 10% discount to net asset value. During the 18 months to 31 March 2008 approximately 1.3 million shares, representing 4.3% of the issued capital at the beginning of the period, were re-purchased at an average cost of 86.7p per share. The secondary market in VCT shares has remained subdued and we intend, subject to periodic review by the board and to market conditions, to maintain our buy-back policy in the coming year. In the longer term, stimulation of market demand for the company's shares will depend on our



**John Hustler**  
Chairman



ability to generate an attractive flow of tax-free dividend income for investors. We are encouraging our managers to communicate the merits of secondary VCT investment as widely as possible and through our membership of the Association of Investment Companies we are contributing to generic marketing efforts. As reported earlier in the year, following a review of broking arrangements we have appointed Landsbanki Securities (UK) Limited as brokers to the company; they are also making a market in the company's shares which has led to a narrowing in the quoted bid-offer spread.

Your directors would like to be able to increase the size of the company through further public offers of new shares in the future, although changes in the rules defining VCT-qualifying investments together with the reduction in initial income tax relief to 30% have restricted recent fund-raising by VCTs. We will continue to keep the position under review.

The annual general meeting this year will be held in Edinburgh on 3 July 2008 and your directors look forward to meeting shareholders on that occasion.

#### **VCT qualifying status**

I am pleased to report that the company has satisfied the requirements laid down by HM Revenue & Customs for maintaining its approved status as a venture capital trust as at 31 March 2008. It will be recalled that the directors changed

the company's year end from 30 September to 31 March in order to allow a full three years for the investment of the funds raised in our share issue in 2005. The challenge now is to maintain the required 70% qualifying investment level at a time when we are achieving a good level of realisations and sensibly-priced new opportunities are relatively thin on the ground. Our managers continue to monitor the position closely and the board is independently advised in relation to VCT taxation matters by PricewaterhouseCoopers LLP.

#### **VAT on management fees**

The Government has recently announced that VCTs will be exempt from paying VAT on investment management fees with effect from 1 October 2008. This follows a European Court of Justice judgment against the Government in a case relating to VAT payable by investment trusts. It is not yet clear whether it will be possible to obtain a repayment of VAT paid on management fees prior to the new measure taking effect, and we will follow developments with the help of our advisers. However the future annual saving in VAT should amount to around £100,000, based on the company's present level of net assets and a management fee at the rate of 2% per annum.

#### **Board of directors**

In September 2007 Barry Sealey retired from the board, having served since the company was launched in 2001. On behalf of

shareholders I thank him for his excellent contribution to our business. John Waddell, chief executive of Archangel Informal Investment, was appointed to the board on Barry's retirement and we are benefiting from his extensive experience of private equity investment.

Your board has agreed that in January 2009 I should stand down as chairman of Northern 3 VCT, a position I will by then have held for over seven years, in order to take up the chair of Northern Venture Trust on the retirement of Sir Fred Holliday. I will continue to serve as a director and am delighted to report that James Ferguson has accepted an invitation from the board to become chairman of Northern 3 VCT in my place.

#### **Future prospects**

The company's investment portfolio is maturing well and there appear to be good prospects of further profitable realisations, which will contribute to future dividends. The present depressed state of the UK economy and financial markets is a cause for concern, as it may not only have an adverse impact on some of our existing companies but also affect the availability of attractive new investment opportunities. However our managers will continue to apply their well-established procedures and disciplines to the portfolio and we expect to see the company make further progress over the next year.

**John Hustler**  
Chairman

# Directors and Advisers

from left to right:

John Hustler, James Ferguson,  
Chris Fleetwood, Tim Levett, John Waddell.



## **John Hustler FCA MSI CF (Chairman)**

**aged 61**

was for ten years a corporate finance partner at KPMG, where he was head of venture capital; he formed Hustler Venture Partners Limited, a specialist adviser to small firms, in 1993. He is non-executive chairman of Octopus Titan VCT 2 plc and a non-executive director of Northern Venture Trust PLC and Hygea VCT plc. He was appointed to the board in 2001.

## **James Ferguson BA**

**aged 60**

was chairman and managing director of Stewart Ivory Limited from 1989 until 2000. He is chairman of Value and Income Trust plc, The Monks Investment Trust PLC and The Scottish Oriental Smaller Companies Trust plc, a non-executive director of Lloyds TSB Scotland plc, Edinburgh US Tracker Trust plc and Independent Investment Trust plc and a former deputy chairman of the Association of Investment Companies. He was appointed to the board in 2001.

## **Chris Fleetwood BA FCA**

**aged 56**

held a number of positions in manufacturing businesses and was group chief executive of Whesoe plc from 1988 until 2000. He is now managing partner of io solutions, e-business strategy advisers. He is chairman of Onyx Internet and North East Regional Portal 2001 Limited and a non-executive director of Chieftain Group plc and Darlington Building Society. He was appointed to the board in 2001.

## **Tim Levett MBA**

**aged 59**

is investment director of NVM Private Equity Limited, having been a co-founder of NVM in 1988. He is a non-executive director of a number of unquoted companies. He was appointed to the board in 2001.

## **John Waddell LLB**

**aged 52**

is chief executive of Archangel Informal Investment Limited, a Scottish-based syndicate of individual private equity investors, and was previously a director of Noble Grossart Limited and head of strategic planning at Bank of Scotland. He was appointed to the board in September 2007.



#### **Secretary and Registered Office**

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**Registered Number**  
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#### **Independent Auditors**

KPMG Audit Plc  
Saltire Court  
20 Castle Terrace  
Edinburgh EH1 2EG

#### **Taxation Advisers**

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1 Embankment Place  
London WC2N 6RH

#### **Solicitors**

Dickinson Dees LLP  
St Ann's Wharf  
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#### **Stockbroker**

Landsbanki Securities (UK) Limited  
Beaufort House  
15 St Botolph Street  
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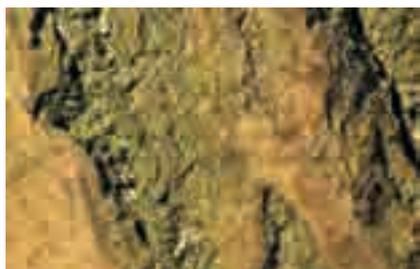
#### **Bankers**

Barclays Bank PLC  
71 Grey Street  
Newcastle upon Tyne NE99 1JP

#### **Registrars**

Equiniti  
Aspect House  
Spencer Road  
Lancing BN99 6DA  
Shareholder helpline: 0871 384 2030

The company's objective is to provide high long-term tax-free returns to investors through a combination of dividend yield and capital growth.



This review has been prepared by the directors in accordance with the requirements of Section 234ZZB of the Companies Act 1985, and forms part of the directors' report to shareholders. The company's independent auditors are required by law to report on whether the information given in the directors' report (including the business review) is consistent with the financial statements. The auditors' opinion is included in their report on page 28.

### Objectives and investment policy

The company's objective is to provide high long-term tax-free returns to investors through a combination of dividend yield and capital growth, by investing in a portfolio mainly comprising holdings in UK unquoted companies.

The company is a Venture Capital Trust approved by HM Revenue & Customs. In order to maintain approved status, the company must comply on a continuing basis with the provisions of Section 274 of the Income Tax Act 2007; in particular, the company is required at all times to hold at least 70% of its investments (as defined in the legislation) in VCT-qualifying holdings, of which at least 30% must comprise eligible ordinary shares. For this purpose a "VCT-qualifying holding" consists of up to £1 million invested in any one year in

new shares or securities of a UK unquoted company (which may be quoted on AIM) which is carrying on a qualifying trade, and whose gross assets at the time of investment do not exceed a prescribed limit. The definition of "qualifying trade" excludes certain activities such as property investment and development, financial services and asset leasing.

The company's investment policy has been designed to enable the company to comply with the VCT qualifying conditions set out above. The directors intend that the long-term disposition of the company's assets will be approximately 80% in a portfolio of VCT-qualifying unquoted and AIM investments and 20% in cash or near-cash investments (including listed fixed-interest securities), to provide a reserve of liquidity which will maximise the company's flexibility as to the timing of investment acquisitions and disposals, dividend payments and share buy-backs. Within the VCT-qualifying portfolio investments will be structured using various listed and unlisted investment instruments, including ordinary and preference shares, loan stocks and convertible securities, to achieve an appropriate balance of income and capital growth, having regard to the VCT legislation. The portfolio will be diversified by investing in a broad range of VCT-qualifying industry

**Table 1: Movement in net assets and net asset value per share**

	£000	Pence per ordinary share
<b>Net asset value at 30 September 2006</b>	<b>29,281</b>	<b>95.2</b>
Net revenue (investment income less revenue expenses and tax)	1,233	4.1
Capital surplus arising on investments:		
Realised net gains on disposals	85	0.3
Changes in fair value	1,969	6.5
Management expenses allocated to capital account (net of tax relief)	(632)	(2.1)
<b>Total return for the period as shown in income statement</b>	<b>2,655</b>	<b>8.8</b>
Proceeds of issue of new shares (net of expenses)	287	–
Shares re-purchased for cancellation	(1,142)	0.3
Expenses charged to capital reserve	(18)	–
<b>Net movement for the period before dividends</b>	<b>1,782</b>	<b>9.1</b>
<b>Net asset value at 31 March 2008 before dividends recognised</b>	<b>31,063</b>	<b>104.3</b>
Dividends recognised in the financial statements for the period	(2,418)	(8.0)
<b>Net asset value at 31 March 2008</b>	<b>28,645</b>	<b>96.3</b>

sectors and by holding investments in companies at different stages of maturity in the corporate development cycle. The normal investment holding period will be in the range from three to seven years. Up to 15% by value of the company's investments may be in early stage companies with high growth potential.

The target size range for VCT-qualifying investments is from approximately £250,000 to £1 million (the maximum permitted within any tax year), with an average investment of over £500,000. As a result, and based on the company's present gross assets of approximately £29 million, no single investment would normally represent in excess of 3.5% of the company's total assets at the time of acquisition. However shareholders should be aware that the company's VCT-qualifying investments are held with a view to long-term capital growth as well as income and will often have limited marketability; as a result it is possible that individual holdings may grow in value to the point where they represent a significantly higher proportion of total assets prior to a realisation opportunity being available. Investments will normally be made using the company's equity shareholders' funds and it is not intended that the company will take on any long-term borrowings.

The company is entitled to participate pro rata to net assets in all investment opportunities developed by NVM and

regularly invests alongside the four other funds managed by NVM, enabling the funds together to undertake investment commitments in any one investee company of up to approximately £7 million. Under a co-investment scheme introduced in 2006, NVM executives are required to invest personally alongside the funds in each new investee company on a predetermined basis.

#### Investment management

NVM Private Equity Limited (NVM) has acted as the company's investment manager since inception. NVM has an experienced team of venture capital executives based in its offices in Newcastle upon Tyne and Reading and currently has approximately £200 million under management in five venture capital funds.

The board's management engagement committee reviews the terms of NVM's appointment as investment manager on a regular basis. The principal terms of the company's management agreement with NVM

are set out in Note 3 to the financial statements.

#### Overview of the period

During the 18 month period under review Northern 3 VCT achieved a net increase in net asset value, before dividends, of 9.1p per share, equivalent to 9.6% of the opening net asset value per share of 95.2p. The movement in total net assets and net asset value per share is summarised in table 1.

The net cash outflow relating to the venture capital portfolio was £5.5 million, comprising additions to investments of £9.2 million less sales proceeds of £3.7 million. Portfolio cash flow over the past five accounting periods is summarised in table 2.

After taking account of other cash flows, the company's total cash balances decreased over the period by £2.1 million to £1.5 million. In addition the company holds readily realisable listed fixed-interest investments valued at £7.5 million.

**Table 2: Venture capital portfolio cash flow**

Period	New investment £000	Disposal proceeds £000	Net cash outflow £000
Year ended 30 September 2003	1,978	368	1,610
Year ended 30 September 2004	2,207	1,028	1,179
Year ended 30 September 2005	4,733	288	4,445
Year ended 30 September 2006	2,867	1,183	1,684
18 months ended 31 March 2008	9,211	3,738	5,473
<b>Total</b>	<b>20,996</b>	<b>6,605</b>	<b>14,391</b>

# Business Review

**Table 3: Investment realisations**

Company	Date of original investment	Original cost £000	Sales proceeds £000	Realised surplus/ (deficit) £000
Arrow Industrial Group	2002	245	364	119
Computer Software Group	2005	135	353	218
Develop Training	2002	362	526	164
Ithaca Holdings	2005	307	816	509
KCS Global Holdings	2005	338	898	560
Nightingales Holdings	2006	1,191	–	(1,191)

## Dividends

The directors have declared three interim dividends totalling 6.0p per share during the period, comprising a 4.2p revenue dividend and a 1.8p capital distribution. No final dividend is proposed.

## Investment portfolio

During the 18 months ended 31 March 2008, 14 new holdings were added to the venture capital portfolio at a cost of £8.4 million, and additional investments totalling £0.8 million were made in existing portfolio companies. The portfolio at 31 March 2008 comprised 42 holdings with an aggregate value of £19.7 million.

A summary of the venture capital holdings at 31 March 2008 is given on page 11, with information on the fifteen largest investments on pages 12 to 15.

## New investments

The new investments completed during the period were:

- **Brulines (Holdings) (£184,000)** – AIM-quoted provider of revenue protection systems for the licensed trade, Stockton-on-Tees

- **Product Support (Holdings) (£1,000,000)** – logistics services contractor to the defence industry, Kingswinford

- **Gentronix (£238,000)** – drug development support services, Manchester

- **Promanex Group Holdings (£1,000,000)** – engineering and maintenance services contractor, Nuneaton

- **Summit Corporation (£122,000)** – AIM-quoted provider of drug discovery services, Abingdon (acquired in a share-for-share exchange for the former holding in Daniolabs)

- **Maelor (£199,000)** – AIM-quoted specialist hospital medicines developer, Chester

- **IDOX (£298,000)** – AIM-quoted information management software developer, London

- **Foreman Roberts Group (£1,000,000)** – building services consultants, London

- **Astbury Marsden Holdings (£1,000,000)** – specialist recruitment consultancy, London

- **Shieldtech (£248,000)** – AIM-quoted manufacturer of body armour systems, London

- **Promatic Group (£568,000)** – manufacturer of clay target launch equipment, Ellesmere Port

- **Frontier Foods (£542,000)** – specialist food products, Doncaster

- **Optilan Group (£1,000,000)** – telecommunications systems integrator, Coventry

- **Axial Systems Holdings (£1,000,000)** – supplier of distributed network management solutions, Maidenhead

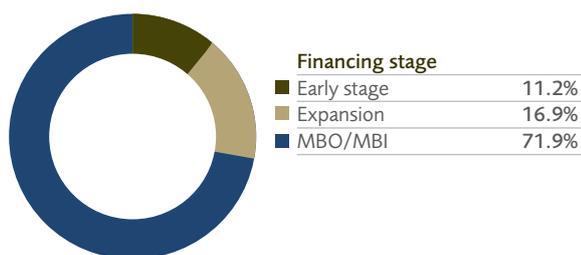
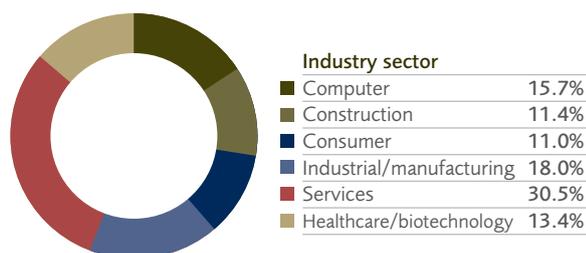
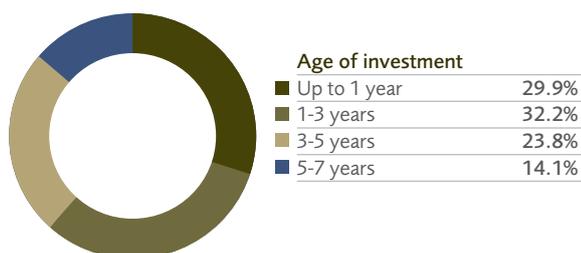
## Investment realisations

Details of investment sales during the period are given in Note 9 on page 38. The most significant realisations (original cost or sales proceeds in excess of £0.3m) in the period are summarised in table 3.

Satisfactory exits were achieved from the unquoted investments in **Arrow Industrial Group**, **Ithaca Holdings** and **KCS Global Holdings** through sales to trade purchasers for cash. **Develop Training** was sold through a secondary management buy-out

**Table 4: Investment valuation by category**

Category	Number of investments	Valuation £000	% of portfolio by value
<b>Unquoted investments at directors' valuation</b>			
Original cost	12	7,829	39.7
Original cost less provision	2	397	2.0
Net assets	1	432	2.2
Earnings multiple	12	9,194	46.7
<b>Quoted investments at bid price</b>			
Listed on London Stock Exchange	1	23	0.1
Quoted on Alternative Investment Market	14	1,828	9.3
<b>Total</b>	<b>42</b>	<b>19,703</b>	<b>100.0</b>



following a demerger from its parent organisation **Longhirst Group**. The AIM-quoted holding in **Computer Software Group** was the subject of a recommended bid, also for cash. The major disappointment of the year was the failure of **Nightingales Holdings**, the mail order clothing retailer, which suffered from difficult trading conditions exacerbated by customer uncertainty resulting from postal strikes, leading eventually to the appointment of receivers in October 2007.

#### Portfolio composition

The pie charts above show the composition of the investment portfolio at 31 March 2008 according to age, industry sector, financing stage and whether quoted or unquoted. The portfolio is well diversified and the company has continued to invest primarily in manufacturing and service businesses which meet the managers' key criteria of good value, growth potential, strong management and ability to generate cash.

#### Product Support (Holdings),

**Paladin Group** (formerly known as Touchstone Asset Management) and **Britspace Holdings** have made strong progress recently and are now our largest investments by value, as can be seen from the portfolio summary on page 11. The next five largest investments are still held at cost, all having been acquired during

the period under review. The investment valuation review has taken place against a background of depressed conditions in the housing and construction sectors and this is reflected in valuation reductions for **John Laing Partnership** and **IG Doors**. The portfolio of AIM-quoted venture capital investments has had a difficult time, despite the successful exits from **Computer Software Group**, **Inspicio** and **PM Group**; the AIM All-share index fell by 5.6% over the 18 months to March 2008 and several of our stocks are trading well below their issue price at present.

#### Valuation policy

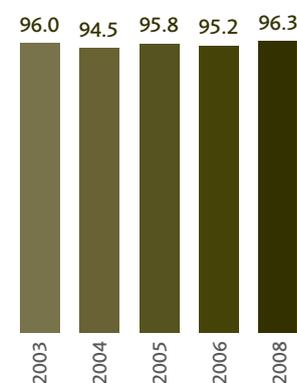
Unquoted investments are valued in accordance with the accounting policy set out on page 33, which takes account of current industry guidelines for the valuation of venture capital portfolios. Provision against cost is made where an investment is under-performing significantly, and investments are not normally revalued upwards within 12 months of acquisition.

As at 31 March 2008 the number of investments falling into each valuation category was as shown in table 4.

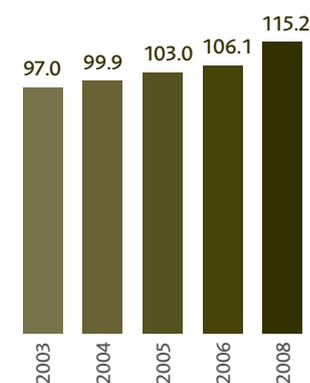
#### Key performance indicators

The directors regard the following as the key indicators pertaining to the company's performance:

**Net asset value and total return to shareholders:** the following charts show the movement in net asset value and cumulative return (net asset value plus cumulative dividends) per share over the past five accounting periods:



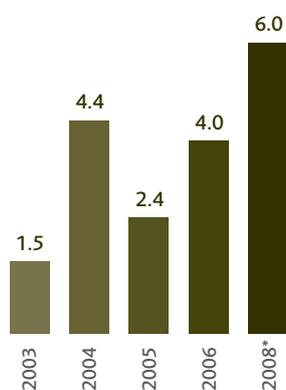
Net asset value (p)



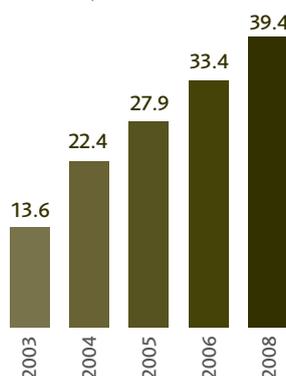
Net asset value plus cumulative dividends paid per share (p)

# Business Review

**Dividend distributions:** the following charts show the dividends (including proposed final dividends) declared in respect of each of the past five financial periods and on a cumulative basis since inception:

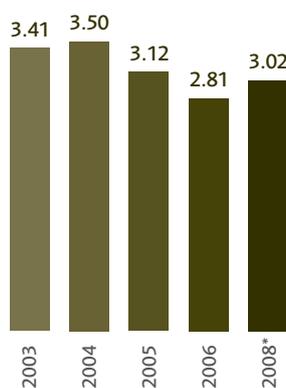


**Dividend per share (p)**  
\*18 month period



**Cumulative dividends per share (p)**

**Total expense ratio:** the following chart shows total annual running expenses (including investment management fees charged to capital reserve but excluding performance-related fees) as a percentage of the average net assets attributable to shareholders for each of the past five years:



**Total expense ratio (%)**  
\*Annualised

## Our managers will take a highly selective approach to new investment.

**Maintenance of VCT qualifying status:** the directors believe that the company has at all times since inception complied with the VCT qualifying conditions laid down by HM Revenue & Customs.

### Risk management

The board carries out a regular review of the risk environment in which the company operates. The main areas of risk identified by the board are as follows:

**Investment risk:** the majority of the company's investments are in small and medium-sized unquoted 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. The directors and the managers aim to limit the risk attaching to the portfolio as a whole by careful selection 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, industry sector and geographical location. The board reviews the investment portfolio with the managers on a regular basis.

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

**Internal control risk:** 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. The manager keeps the company's VCT qualifying status under continual review and reports to the board on a quarterly basis. The board has also retained PricewaterhouseCoopers LLP to undertake an independent VCT status monitoring role.

### Future prospects

The adverse conditions prevailing in the UK economy at present are likely to lead to a reduction in corporate activity over the next 12 months. Our managers will take a highly selective approach to new investment and will pursue several exit opportunities where discussions are already in progress. It can be expected that some of our portfolio companies will find the immediate future challenging but we are confident in the strength of our balance sheet and look forward to achieving good returns for shareholders in the future.

By order of the Board

C D Mellor  
Secretary

20 May 2008

# Investment Portfolio

as at 31 March 2008

	Cost £000	Valuation £000	% of net assets by value
<b>Fifteen largest venture capital investments (see pages 12 to 15)</b>			
Product Support (Holdings)	1,000	1,547	5.4
Paladin Group	861	1,236	4.3
Britspace Holdings	588	1,058	3.7
Astbury Marsden Holdings	1,000	1,000	3.5
Axial Systems Holdings	1,000	1,000	3.5
Foreman Roberts Group	1,000	1,000	3.5
Optilan Group	1,000	1,000	3.5
Promanex Group Holdings	1,000	1,000	3.5
Pivotal Laboratories Holdings	679	908	3.2
Envirotec	456	812	2.8
Crantock Bakery	442	762	2.7
Promatic Group	568	568	2.0
DxS	325	561	2.0
Frontier Foods	542	542	1.9
John Laing Partnership	305	522	1.8
	<b>10,766</b>	<b>13,516</b>	<b>47.3</b>
<b>Other venture capital investments</b>			
IG Doors	500	500	1.7
Liquidlogic	126	486	1.7
Arleigh International	210	482	1.7
Abermed	375	467	1.6
Longhirst Venues	118	432	1.5
Wear Inns	386	386	1.3
Direct Valeting	370	370	1.3
IDOX*	298	357	1.2
S&P Coil Products	240	354	1.2
Cello Group*	251	286	1.0
Maelor*	199	253	0.9
Gentronix	238	238	0.8
LEDA Holdings	420	227	0.8
e-know.net	225	225	0.8
Brulines (Holdings)*	184	209	0.7
Warmseal Windows (Newcastle)	339	169	0.6
Shieldtech*	247	168	0.6
Intercytex Group*	250	97	0.3
Andor Technology*	201	94	0.3
Fountains*	84	91	0.3
Summit Corporation*	122	82	0.3
Twenty*	198	79	0.3
Adept Telecom*	235	72	0.3
Spectrum Interactive*	163	23	0.1
Alizyme**	15	23	0.1
Oxonica*	45	17	0.1
Hat Pin*	149	–	–
<b>Total venture capital investments</b>	<b>16,954</b>	<b>19,703</b>	<b>68.8</b>
Total listed fixed-interest investments	7,591	7,497	26.2
<b>Total fixed asset investments</b>	<b>24,545</b>	<b>27,200</b>	<b>95.0</b>
Net current assets		1,445	5.0
<b>Net assets</b>		<b>28,645</b>	<b>100.0</b>

\* Quoted on Alternative Investment Market

\*\* Listed on London Stock Exchange

# Fifteen Largest Venture Capital Investments



## PRODUCT SUPPORT (HOLDINGS) LIMITED

Cost	£1,000,000
Valuation	£1,547,000
Basis of valuation	Earnings multiple
Equity held	7.4%
Business/location	Provider of logistics services to the defence industry, Kingswinford
History	Management buy-out from private ownership, December 2006, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT
Income in year	Dividends nil, loan stock interest £65,000

### Audited financial information:

Period ended 31 March	2007* £m
Sales	6.3
Profit before tax	-
Loss after tax	(0.1)
Net assets	1.7

\*4 months ended 31 March



## PALADIN GROUP LIMITED (formerly TOUCHSTONE ASSET MANAGEMENT LIMITED)

Cost	£861,000
Valuation	£1,236,000
Basis of valuation	Earnings multiple
Equity held	6.0%
Business/location	Provider of property management services, Bath
History	Development capital investment, June 2006, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT
Income in year	Dividends nil, loan stock interest £67,000

### Audited financial information:

Period ended 31 March	2007* £m
Sales	11.5
Profit before tax	0.6
Profit after tax	0.3
Net assets	2.8

\*9 months ended 31 March



## BRITSPACE HOLDINGS LIMITED

Cost	£588,000
Valuation	£1,058,000
Basis of valuation	Earnings multiple
Equity held	7.0%
Business/location	Manufacturer of modular buildings, Hull
History	Demerged from GB Industries Limited in September 2007
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT, Northern AIM VCT
Income in year	Nil

### Audited financial information:

First audited accounts will be for the period to 31 March 2008



## ASTBURY MARSDEN HOLDINGS LIMITED

Cost	£1,000,000
Valuation	£1,000,000
Basis of valuation	Cost
Equity held	7.9%
Business/location	Specialist recruitment consultancy, London
History	Management buy-in/buy-out from private ownership, July 2007, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT
Income in year	Dividends nil, loan stock interest £39,000

### Audited financial information:

First audited accounts will be for the period to 31 December 2007



### AXIAL SYSTEMS HOLDINGS LIMITED

Cost	£1,000,000
Valuation	£1,000,000
Basis of valuation	Cost
Equity held	8.0%
Business/location	Supplier of distributed network management solutions, Maidenhead
History	Management buy-out from private ownership, March 2008, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT, Northern AIM VCT
Income in year	Nil

#### Audited financial information:

First audited accounts will be for the period to 31 December 2008



### FOREMAN ROBERTS GROUP LIMITED

Cost	£1,000,000
Valuation	£1,000,000
Basis of valuation	Cost
Equity held	8.0%
Business/location	Building services consultants, London
History	Management buy-out from private ownership, July 2007, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT
Income in year	Dividends nil, loan stock interest £67,000

#### Audited financial information:

First audited accounts will be for the period to 31 December 2007



### OPTILAN GROUP LIMITED

Cost	£1,000,000
Valuation	£1,000,000
Basis of valuation	Cost
Equity held	7.4%
Business/location	Telecommunications systems integrator, Coventry
History	Management buy-out from private ownership, March 2008, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT, Northern AIM VCT
Income in year	Nil

#### Audited financial information:

First audited accounts will be for the period to 31 October 2008



### PROMANEX GROUP HOLDINGS LIMITED

Cost	£1,000,000
Valuation	£1,000,000
Basis of valuation	Cost
Equity held	12.0%
Business/location	Provider of engineering and maintenance services, Nuneaton
History	Management buy-out from venture capital ownership, March 2007, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT.
Income in year	Dividends nil, loan stock interest £93,000

#### Audited financial information:

First audited accounts will be for the period to 30 September 2007

# Fifteen Largest Venture Capital Investments



## PIVOTAL LABORATORIES HOLDINGS LIMITED

Cost	£679,000
Valuation	£908,000
Basis of valuation	Earnings multiple
Equity held	9.2%
Business/location	Laboratory analysis service for clinical trials, York
History	Management buy-out from private ownership, August 2005, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT, Northern AIM VCT
Income in year	Dividends nil, loan stock interest £101,000

### Audited financial information:

Year ended 31 October	2006 £m	2005* £m
Sales	4.1	0.9
Profit before tax	0.1	0.1
Profit after tax	–	–
Net assets	0.8	0.8

\*2 months ended 31 October



## ENVIROTEC LIMITED

Cost	£456,000
Valuation	£812,000
Basis of valuation	Earnings multiple
Equity held	4.9%
Business/location	Manufacture of air curtains and air handling equipment, High Wycombe
History	Management buy-out from institutional investor, January 2005, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT
Income in year	Dividends £60,000, loan stock interest £60,000

### Audited financial information:

Year ended 28 February	2007 £m	2006 £m
Sales	8.1	6.0
Profit before tax	1.6	0.8
Profit after tax	1.1	0.5
Net assets	1.9	1.3



## CRANTOCK BAKERY LIMITED

Cost	£442,000
Valuation	£762,000
Basis of valuation	Earnings multiple
Equity held	6.2%
Business/location	Manufacture of premium hand-made Cornish pasties, Newquay
History	Management buy-in from private ownership, October 2002, led by NVM
Other NVM funds investing	Northern Investors Company, Northern 2 VCT, Northern AIM VCT
Income in year	Dividends nil, loan stock interest £36,000

### Audited financial information:

Year ended 30 September	2006 £m	2005 £m
Sales	7.1	6.5
Profit before tax	0.4	0.9
Profit after tax	0.2	0.6
Net assets	1.4	1.2



## PROMATIC GROUP LIMITED

Cost	£568,000
Valuation	£568,000
Basis of valuation	Cost
Equity held	7.3%
Business/location	Manufacturer of clay target launch equipment, Ellesmere Port
History	Management buy-out from private ownership, August 2007
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT
Income in year	Nil

### Audited financial information:

First audited accounts will be for the period to 31 January 2008



### DxS LIMITED

Cost	£325,000
Valuation	£561,000
Basis of valuation	Earnings multiple
Equity held	8.3%
Business/location	Research, clinical and diagnostic genotyping, Manchester
History	Growth capital investment, May 2001, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT
Income in year	Dividends nil, loan stock interest £6,000

#### Audited financial information:

Year ended 30 June	2007 £m	2006 £m
Sales	1.1	1.2
Loss before tax	(0.8)	(0.5)
Loss after tax	(0.7)	(0.4)
Net liabilities	(3.6)	(2.9)



### FRONTIER FOODS LIMITED

Cost	£542,000
Valuation	£542,000
Basis of valuation	Cost
Equity held	18.7%
Business/location	Manufacturer of specialist food products, Doncaster
History	New business start-up financing, August 2007, led by NVM
Other NVM funds investing	Northern Venture Trust
Income in year	Nil

#### Audited financial information:

First audited accounts will be for the period to 31 July 2008



### JOHN LAING PARTNERSHIP LIMITED

Cost	£305,000
Valuation	£522,000
Basis of valuation	Earnings multiple
Equity held	5.2%
Business/location	Builder of private and social housing, Elstree
History	Management buy-out from John Laing plc, September 2003, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT, Northern Aim VCT
Income in year	Dividends £29,000, loan stock interest £27,000

#### Audited financial information:

Year ended 31 December	2006 £m	2005 £m
Sales	76.0	57.9
Profit before tax	2.5	1.1
Profit after tax	1.8	0.7
Net assets	3.0	1.5

# Shareholder Information

## The trust invests mainly in unquoted venture capital holdings.

### The Company

Northern 3 VCT PLC is a Venture Capital Trust (VCT) launched in September 2001. It has raised over £30 million to date through its public share offers. The trust invests mainly in unquoted venture capital holdings, with its remaining assets invested in a portfolio of listed fixed-interest investments and bank deposits.

The company is a member of the Association of Investment Companies (AIC).

Northern 3 VCT PLC is managed by NVM Private Equity Limited (NVM), an independent specialist firm of venture capital managers based in Newcastle upon Tyne and Reading. NVM also acts as manager of four other listed investment companies, Northern Investors Company PLC, Northern Venture Trust PLC, Northern 2 VCT PLC and Northern AIM VCT PLC, and has a total of approximately £200 million under management.

### Venture Capital Trusts

Venture Capital Trusts (VCTs) were introduced by the Chancellor of the Exchequer in the November 1994

Budget, the relevant legislation being contained in the Finance Act 1995.

VCTs are intended to provide a means whereby private individuals can invest in small unquoted trading companies in the UK, with an incentive in the form of a range of tax benefits. With effect from 6 April 2006, the benefits to eligible investors include:

- income tax relief at up to 30% on new subscriptions of up to £200,000 per tax year, provided the shares are held for at least five years;
- exemption from income tax on dividends paid by VCTs (such dividends may include the VCT's capital gains as well as its income); and
- exemption from capital gains tax on disposals of shares in VCTs.

Subscribers for shares in VCTs between 6 April 2004 and 5 April 2006 were entitled to income tax relief at 40% rather than 30% and the shares had to be held for at least three years rather than five years. Prior to 6 April 2004, subscribers for shares in VCTs were entitled to income tax relief at 20% and could also obtain capital gains

deferral relief. Capital gains deferred by pre-6 April 2004 subscriptions are not affected by the subsequent changes in tax reliefs.

Northern 3 VCT PLC has been approved as a VCT by HM Revenue & Customs. In order to maintain its approval the company must comply with certain requirements on a continuing basis; in particular, at least 70% of the proceeds of each new share issue must within three years be invested in "qualifying holdings", of which at least 30% must be in eligible ordinary shares. A "qualifying holding" consists of up to £1 million invested in any one year in new shares or securities in an unquoted company (including companies quoted on AIM) which is carrying on a qualifying trade and whose gross assets do not exceed £15 million at the time of investment. The definition of "qualifying trade" excludes certain activities such as property investment and development, financial services and asset leasing. The gross assets limit has been reduced to £7 million for investments made using funds subscribed after 5 April 2006.

### Financial Calendar

The company's financial calendar for the year ending 31 March 2009 is as follows:

#### *November 2008*

Half-yearly report for six months to 30 September 2008 published

#### *January 2009*

Interim dividend paid

#### *May 2009*

Final dividend and results for year to 31 March 2009 announced; annual report and financial statements published

#### *July 2009*

Annual general meeting

#### *July 2009*

Final dividend paid

### Share price

The company's share price is carried daily in the Financial Times, the Daily Telegraph, the Newcastle Journal and The Herald. The company's FTSE Actuaries classification is "Investment Companies".

A range of shareholder information is provided on the internet at [www.shareview.co.uk](http://www.shareview.co.uk) by the company's registrars, Equiniti, including details of shareholdings, indicative share prices and information on recent dividends. Contact details for Equiniti are on page 5.

Share price information can also be obtained via the NVM website at [www.nvm.co.uk](http://www.nvm.co.uk).

### Dividend investment scheme

The company operates a dividend investment scheme, giving shareholders the option of reinvesting their dividends in new shares in the company with the benefit of the tax reliefs currently available to VCT subscribers. Information about the scheme can be obtained from the company secretary (see page 5 for contact details).



# Directors' Report

The directors have managed the affairs of the company with the intention of maintaining its status as an approved venture capital trust.

The directors present their report and the audited financial statements for the 18 month period ended 31 March 2008.

## Activities and status

The principal activity of the company during the period was the making of long term equity and loan investments, mainly in unquoted companies.

The directors have managed the affairs of the company with the intention of maintaining its status as an approved venture capital trust for the purposes of Section 274 of the Income Tax Act 2007. The directors consider that the company was not at any time up to the date of this report a close company within the meaning of Section 414 of the Income and Corporation Taxes Act 1988.

The directors are required by the articles of association to propose an ordinary resolution at the company's annual general meeting in 2012 that the company should continue as a venture capital trust for a further five year period, and at each fifth subsequent annual general meeting thereafter. If any such resolution is not passed, the directors shall within four months convene an extraordinary general meeting to consider proposals for the reorganisation or winding-up of the company.

## Business review

The directors are required by Section 234ZZB of the Companies Act 1985 to include a business review in their report to shareholders. The business review is set out on pages 6 to 10 and is included in the directors' report by reference.

## Results and dividend

The return on ordinary activities after tax for the period of £2,655,000 has been transferred to reserves.

The second interim dividend of 2.0p per share in respect of the year ended 30 September 2006 and three interim dividends each of 2.0p per share in respect of the 18 month period ended 31 March 2008 were paid during the period at a cost of £2,418,000 and have been charged to reserves. No final dividend is proposed in respect of the period.

## Provision of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

## Going concern

After making enquiries, the directors believe that it is appropriate to continue to apply the going concern basis in preparing the financial statements.

## Directors

The directors of the company during the period and their interests (in respect of which transactions are notifiable to the company under Disclosure and Transparency Rule 3.1.2R) in the issued ordinary shares of 5p of the company are shown in table 1.

All of the directors' share interests were held beneficially. There have been no changes in the directors' share interests between 31 March 2008 and the date of this report.

Brief biographical notes on the directors are given on page 4. Mr C J Fleetwood and Mr J R Hustler retire from the board by rotation in accordance with the articles of association and offer themselves for re-election. Mr J M O Waddell, having been appointed since the last annual general meeting, retires in accordance with the articles of association and offers himself for re-election. Mr T R Levett, who is a director and employee of the company's investment manager, is required to seek annual re-election by shareholders in accordance with the provisions of the AIC Code.

**Table 1: Directors' interests in ordinary shares**

	31 March 2008	1 October 2006 or date of appointment
J R Hustler (Chairman)	25,100	25,100
J G D Ferguson	102,800	102,800
C J Fleetwood	15,300	15,300
T R Levett	106,500	106,500
B E Sealey (retired 26 September 2007)	–	46,100
J M O Waddell (appointed 26 September 2007)	5,000	–

None of the directors has a contract of service with the company and, except as mentioned below under the heading "Management", no contract or arrangement subsisted during or at the end of the period in which any director was materially interested and which was significant in relation to the company's business.

#### Directors' and officers' liability insurance

The company has, as permitted by the Companies Acts 1985 and 2006, maintained insurance cover on behalf of the directors and secretary indemnifying them against certain liabilities which may be incurred by them in relation to the company.

#### Creditor payment policy

The company's payment policy for the forthcoming financial year is to agree terms of payment before business is transacted and to settle accounts in accordance with those terms. There were no amounts owing to trade creditors at 31 March 2008.

#### Management

NVM Private Equity Limited (NVM) has acted as investment adviser and manager to the company since incorporation. The principal terms of the company's management agreement with NVM are set out in Note 3 to the financial statements. Mr T R Levett is an executive director of NVM and a shareholder in its ultimate parent company, NVM Group Limited.

The company has established a performance incentive scheme whereby investment executives employed by NVM are required to invest personally (and on the same terms as Northern 3 VCT and other funds managed by NVM) in the ordinary share capital of investee companies in which the company invests. The co-investing executives are required to subscribe as follows:

- where the investment comprises a mixture of ordinary shares and loans or redeemable preference shares, 5% of the aggregate amounts invested in ordinary shares at the same time by the funds; or
- where the investment is structured entirely as ordinary shares (including investments quoted on AIM), 1% of the aggregate amount invested at the same time by the funds; or

- where a further investment is made in an existing portfolio company, 1% of the entire investment "strip" (i.e. ordinary shares and any other investment instruments) invested at the same time by the funds.

All investments in unquoted companies made by executives under the scheme will be realised at the same time as, and on the same terms as, the corresponding investments made by the funds. Investments quoted on AIM may be realised after not less than 12 months or, if earlier, when the funds' corresponding investments have been realised.

#### Share capital

During the period the company purchased for cancellation 1,317,381 of its own shares, representing 4.3% of the called-up share capital of the company, for a consideration of £1,142,000. 310,157 new ordinary shares of 5p were issued for a cash consideration of £293,000 through the company's dividend investment scheme. Details of allotments during the period are given in Note 14 to the financial statements.

At the 2007 annual general meeting shareholders authorised the company to purchase in the market up to 3,075,631 ordinary shares (equivalent to approximately 10% of the then issued ordinary share capital) at a minimum price of 5p per share and a maximum price per share of not more than 105% of the average market value for the ordinary shares in the company for the five business days prior to the date on which the ordinary shares were purchased. As at 31 March 2008 879,363 shares had been purchased under this authority, which at that date remained effective in respect of 2,196,268 shares; the authority is expected to lapse at the conclusion of the 2008 annual general meeting of the company on 3 July 2008.

#### Fixed assets

Movements in fixed asset investments during the period are set out in Note 8 to the financial statements.

#### Substantial shareholdings

As at 20 May 2008 no disclosures of major shareholdings had been made to the company under Disclosure and Transparency Rule 5 (Vote Holder and Issuer Notification Rules).

#### Share capital, rights attaching to the shares and restrictions on voting and transfer

The company's share capital is £2,500,000 divided into 50,000,000 shares of 5p each, of which as at 31 March 2008 29,749,088 shares were in issue (as at that date none of the issued shares were held by the company as treasury shares). Subject to any suspension or abrogation of rights pursuant to relevant law or the company's articles of association, the shares confer on their holders (other than the company in respect of any treasury shares) the following principal rights:

- the right to receive out of profits available for distribution such dividends as may be agreed to be paid (in the case of a final dividend in an amount not exceeding the amount recommended by the board as approved by shareholders in general meeting or in the case of an interim dividend in an amount determined by the board). All dividends unclaimed for a period of 12 years after having become due for payment are forfeited automatically and cease to remain owing by the company;
- the right, on a return of assets on a liquidation, reduction of capital or otherwise, to share in the surplus assets of the company remaining after payment of its liabilities *pari passu* with the other holders of ordinary shares; and
- the right to receive notice of and to attend and speak and vote in person or by proxy at any general meeting of the company. On a show of hands every member present or represented and voting has one vote and on a poll every member present or represented and voting has one vote for every share of which that member is the holder; the appointment of a proxy must be received not less than 48 hours before the time of the holding of the relevant meeting or adjourned meeting or, in the case of a poll taken otherwise than at or on the same day as the relevant meeting or adjourned meeting, be received after the poll has been demanded and not less than 24 hours before the time appointed for the taking of the poll.

# Directors' Report

These rights can be suspended. If a member, or any other person appearing to be interested in shares held by that member, has failed to comply within the time limits specified in the company's articles of association with a notice pursuant to Section 793 of the Companies Act 2006 (notice by company requiring information about interests in its shares), the company can until the default ceases suspend the right to attend and speak and vote at a general meeting and if the shares represent at least 0.25% of their class the company can also withhold any dividend or other money payable in respect of the shares (without any obligation to pay interest) and refuse to accept certain transfers of the relevant shares.

Shareholders, either alone or with other shareholders, have other rights as set out in the company's articles of association and in company law (principally the Companies Act 2006 and, so far as still applicable, the Companies Act 1985).

A member may choose whether his shares are evidenced by share certificates (certificated shares) or held in electronic (uncertificated) form in CREST (the UK electronic settlement system). Any member may transfer all or any of his shares, subject in the case of certificated shares to the rules set out in the company's articles of association or in the case of uncertificated shares to the regulations governing the operation of CREST (which allow the directors to refuse to register a transfer as therein set out); the transferor remains the holder of the shares until the name of the transferee is entered in the register of members. The directors may refuse to register a transfer of certificated shares in favour of more than four persons jointly or where there is no adequate evidence of ownership or the transfer is not duly stamped (if so required). The directors may also refuse to register a share transfer if it is in respect of a certificated share which is not fully paid up or on which the company has a lien provided that, where the share transfer is in respect of any share admitted to the Official List maintained by the UK Listing Authority, any such discretion may not be exercised so as to prevent dealings taking place on an open and proper basis, or if in the opinion of the directors (and with the concurrence of the UK Listing Authority) exceptional

circumstances so warrant, provided that the exercise of such power will not disturb the market in those shares. Whilst there are no squeeze-out and sell out rules relating to the shares in the company's articles of association, shareholders are subject to the compulsory acquisition provisions in Sections 974 to 991 of the Companies Act 2006.

## Amendment of articles of association

The company's articles of association may be amended by the members of the company by special resolution (requiring a majority of at least 75% of the persons voting on the relevant resolution).

## Appointment and replacement of directors

A person may be appointed as a director of the company by the shareholders in general meeting by ordinary resolution (requiring a simple majority of the persons voting on the relevant resolution) or by the directors; no person, other than a director retiring by rotation or otherwise, shall be appointed or re-appointed a director at any general meeting unless he is recommended by the directors or, not less than seven nor more than 42 clear days before the date appointed for the meeting, notice is given to the company of the intention to propose that person for appointment or re-appointment in the form and manner set out in the company's articles of association.

Each director who is appointed by the directors (and who has not been elected as a director of the company by the members at a general meeting held in the interval since his appointment as a director of the company) is to be subject to election as a director of the company by the members at the first annual general meeting of the company following his appointment. At each annual general meeting of the company one third of the directors for the time being, or if their number is not three or an integral multiple of three the number nearest to but not exceeding one-third, are to be subject to re-election.

The Companies Act allows shareholders in general meeting by ordinary resolution (requiring a simple majority of the persons voting on the relevant resolution) to remove any director before the expiration of his or her period of office, but without

prejudice to any claim for damages which the director may have for breach of any contract of service between him or her and the company.

A person also ceases to be a director if he or she resigns in writing, ceases to be a director by virtue of any provision of the Companies Act, becomes prohibited by law from being a director, becomes bankrupt or is the subject of a relevant insolvency procedure, or becomes of unsound mind, or if the board so decides following at least six months' absence without leave or if he or she becomes subject to relevant procedures under the mental health laws, as set out in the company's articles of association.

## Powers of the directors

Subject to the provisions of the Companies Acts, the memorandum and articles of association of the company and any directions given by shareholders by special resolution, the articles of association specify that the business of the company is to be managed by the directors, who may exercise all the powers of the company, whether relating to the management of the business or not. In particular the directors may exercise on behalf of the company its powers to purchase its own shares to the extent permitted by shareholders. Authority was given at the company's 2007 annual general meeting to make market purchases of up to 3,075,631 ordinary shares at any time up to the 2008 annual general meeting and otherwise on the terms set out in the relevant resolution, and authority is being sought at the 2008 general meeting as set out below in the description of the business of the meeting.

## Annual general meeting

Notice of the 2008 annual general meeting is set out on pages 44 to 46.

### *Re-election of retiring directors (Resolutions 3 to 6)*

Mr C J Fleetwood and Mr J R Hustler retire from the board by rotation at the annual general meeting and seek re-election. Mr J M O Waddell was appointed as a director on 26 September 2007 and, in accordance with the articles of association, seeks re-election at the next annual general meeting following his appointment. Mr T R Levett, being a director and employee of the company's investment

manager, retires in accordance with the AIC Code and seeks re-election. The board believes that each of the directors seeking re-election makes a relevant and significant contribution to the operation of the board and displays an appropriate level of knowledge and experience.

#### *Renewal of directors' authority to allot shares (Resolution 9)*

Resolution 9 in the notice of meeting, which will be proposed as an ordinary resolution, is to renew the general authority granted to the directors at the annual general meeting held on 4 April 2007 to allot equity shares in the company. This resolution, if passed, gives the directors authority to allot shares up to a maximum nominal value of £1,012,545 (representing 68.07% of the issued share capital of the company at the date of the notice convening the annual general meeting).

This authority will be effective until the conclusion of the next annual general meeting of the company (expected to be held in July 2009) or, if earlier, on 30 September 2009, when the authority will lapse except insofar as commitments to allot shares have been entered into before that date. The directors have no present intention of exercising the authority granted by Resolution 9 except in connection with the issue of ordinary shares pursuant to the dividend investment scheme.

#### *Disapplication of pre-emption rights (Resolution 10)*

Resolution 10, which will be proposed as a special resolution, supplements the directors' authority to allot shares in the company given to them by Resolution 9. The resolution, if passed, is in substitution for any power previously conferred upon the directors (save to the extent relied upon prior to the passing of Resolution 10) and authorises the directors to allot equity shares for cash otherwise than pro rata to existing shareholders and pursuant to the authority granted to the directors by Resolution 9 up to a total nominal value of £148,745 (representing 10% of the company's issued share capital at the date of the notice convening the annual general meeting).

The authority will be effective until the conclusion of the next annual general meeting of the company (expected to be held in July 2009) or, if earlier, on 30 September 2009.

#### *Purchase of ordinary shares by the company (Resolution 11)*

Resolution 11, which will be proposed as a special resolution, will, if passed, authorise the company to purchase in the market up to 2,974,908 ordinary

shares (equivalent to approximately 10% of the issued ordinary share capital), at a minimum price of 5p per share and a maximum price per share of not more than the higher of 105% of the average market value for the ordinary shares in the company for the five business days prior to the date on which the ordinary shares are purchased. Unless previously renewed, varied or revoked, the authority will be effective until the conclusion of the next annual general meeting of the company (expected to be held in July 2009) or, if earlier, on 30 September 2009.

Purchases of ordinary shares will be made only within the guidelines established and to be reviewed from time to time by the directors, and where it is considered that such purchases would be to the advantage of the company and its shareholders as a whole. It is the directors' intention that purchases will be made in the market for cash only at prices below the prevailing net asset value per share, thereby enhancing the net asset value per share for the company's remaining shareholders. Purchases will be financed from the company's own cash resources or, if appropriate, from short term borrowings.

There are no existing ordinary shares covered by options or warrants at the date of publication of this document.

#### *Procedures for the directors to authorise conflicts of interest (Resolution 12)*

The Companies Act 2006 sets out directors' general duties which largely codify the existing law but with some changes. From 1 October 2008 a director must avoid a situation where he or she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision to this effect. The Companies Act 2006 also allows the articles of association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. It is proposed to amend the company's articles of association by adding a new article 18A to give the directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position and by making associated changes to part of article 18.

The existing article 18 contains a requirement to disclose interests in any contract, arrangement, transaction or proposal with the company which closely follows the statutory requirement in Section 317 of the Companies Act 1985, which is to be restated in Sections 177 and 182 of the Companies Act 2006. As the requirements of the existing and future law apply in any event, it is proposed that that part of article 18 in its current form be deleted.

There are safeguards that will apply when directors decide whether to authorise a conflict or potential conflict. First, the proposed alteration to the articles of association provides that only directors who have no interest in the matter being considered will be able to take the relevant decision, and second, the general duties of directors apply including the duty on each director in taking the decision to act in a way he or she considers, in good faith, will be most likely to promote the company's success for the benefit of its members as a whole. The proposed alteration to the company's articles of association will allow the directors to impose limits or conditions when giving authorisation if they think this is appropriate.

The proposed alteration to the company's articles of association contains provisions relating to confidential information, attendance at board meetings and availability of board papers, to protect a director being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the directors.

This resolution is proposed as a special resolution and will require the approval of 75% of the votes cast at the meeting.

The board intends to keep the company's articles of association under review and to recommend to shareholders further changes following the full implementation of the Companies Act 2006.

#### **Independent auditors**

KPMG Audit Plc have indicated their willingness to continue as auditors of the company and resolutions to re-appoint them and to authorise the directors to fix their remuneration will be proposed at the annual general meeting.

By order of the Board

**C D MELLOR**  
Secretary

20 May 2008

# Directors' Remuneration Report

## The board comprises five directors, all of whom are non-executive.

This report has been prepared by the directors in accordance with the requirements of Schedule 7A to the Companies Act 1985. A resolution to approve the report will be proposed at the annual general meeting.

The company's independent auditors, KPMG Audit Plc, are required to give their opinion on certain information included in this report, as indicated below. Their report on these and other matters is set out on page 28.

### Board of directors

The board comprises five directors, all of whom are non-executive. The board does not have a separate remuneration committee, as the company has no employees or executive directors. The board has established a nomination committee, chaired by Mr J R Hustler and comprising all the directors, which considers the selection and appointment of directors and makes recommendations to the board as to the level of directors' fees. The board has not retained external advisors in relation to remuneration matters but has access to information about directors' fees paid by other companies of a similar size and type.

### Remuneration policy

The board considers that directors' fees should reflect the time

commitment required and the high level of responsibility borne by directors, and should be broadly comparable to those paid by similar companies. It is not considered appropriate that directors' remuneration should be performance-related, and none of the directors is eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits in respect of their services as non-executive directors of the company. Mr T R Levett is entitled to participate in performance incentive arrangements established for the benefit of certain executives of NVM, as described in the directors' report on page 19.

Directors' fees were reviewed by the nomination committee during its meeting in March 2008, when it was recommended that fees should be increased to £18,000 per annum (previously £17,500) for the chairman and £13,500 (previously £13,000) for other directors for the year ending 31 March 2009. The articles of association place an overall limit (currently £100,000 per annum) on directors' remuneration.

### Directors' fees (audited information)

The fees paid to individual directors in respect of the 18 months ended 31 March 2008 and the year ended 30 September 2006 are shown in table 1.

**Table 1: Directors' fees**

	18 months ended 31 March 2008 £	Year ended 30 September 2006 £
J R Hustler (Chairman)	26,250	15,000
J G D Ferguson	19,500	12,500
C J Fleetwood	19,500	12,500
T R Levett	–	–
B E Sealey (retired 26 September 2007)	13,000	12,500
J M O Waddell (appointed 26 September 2007)	6,500	–

Mr T R Levett waived his entitlement to directors' fees in respect of both periods. Mr B E Sealey's fees were paid to Morago Limited in consideration for his services.



### Terms of appointment

The articles of association provide that directors shall retire and be subject to re-election at the first annual general meeting after their appointment and at least every three years thereafter. None of the directors has a service contract with the company. On being appointed or re-elected, directors receive a letter from the company setting out the terms of their appointment and their specific duties and responsibilities. A director's appointment may be terminated on three months' notice being given by the company and in certain other circumstances.

### Company performance

The graph opposite compares the total return (assuming all dividends are re-invested) to ordinary shareholders in the company over the five years ended 31 March 2008 with the total return from a notional investment in the FTSE All-Share index over the same period. This index is considered to be the most appropriate broad equity market index for comparative purposes.

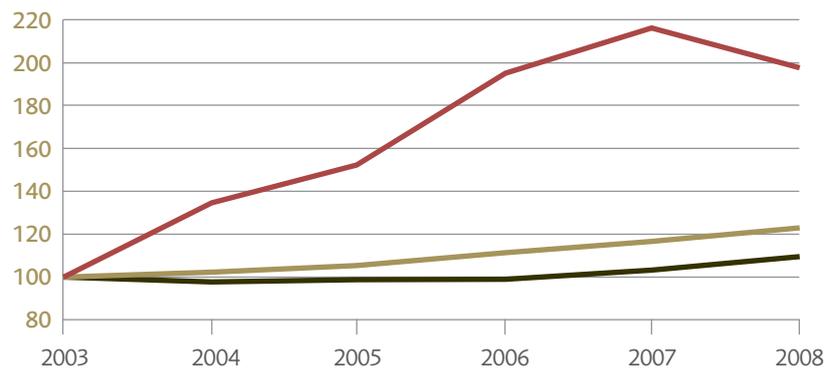
By order of the Board

**C D MELLOR**  
Secretary

20 May 2008

### Return to shareholders in Northern 3 VCT PLC

Five years to 31 March 2008 (March 2003 = 100)



- Northern 3 VCT NAV total return
- Northern 3 VCT share price total return
- FTSE All-share index total return

# Corporate Governance

The company is committed to maintaining high standards in corporate governance and has complied with the recommendations of the AIC Code.

The board of Northern 3 VCT PLC has considered the principles and recommendations of the Association of Investment Companies Code of Corporate Governance (AIC Code) by reference to the Association of Investment Companies Corporate Governance Guide for Investment Companies (AIC Guide). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in Section 1 of the Combined Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the company.

The board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the Combined Code), will provide better information to shareholders.

The company is committed to maintaining high standards in corporate governance and has complied with the recommendations of the AIC Code and the relevant provisions of Section 1 of the Combined Code, except as set out below.

The Combined Code includes provisions relating to the role of the chief executive, executive directors' remuneration and the need for an internal audit function. For the reasons set out in the AIC Guide, and in the preamble to the Combined Code, the board considers these provisions are not relevant to the position of Northern 3 VCT PLC, which is an externally managed venture capital trust. The company has therefore not reported further in respect of these provisions.

## Board of directors

The company has a board of five non-executive directors, the majority of whom are considered to be independent of the company's

investment manager, NVM. The board meets regularly on a quarterly basis, and on other occasions as required. The board is responsible to shareholders for the effective stewardship of the company's affairs and has a formal schedule of matters specifically reserved for its decision which include:

- consideration of long-term strategic issues;
- valuation of the unquoted investment portfolio; and
- ensuring the company's compliance with good practice in corporate governance matters.

A brief biographical summary of each director is given on page 4.

The chairman (Mr J R Hustler) leads the board in the determination of its strategy and in the achievement of its objectives. The chairman is responsible for organising the business of the board, ensuring its effectiveness and setting its agenda, and has no involvement in the day to day business of the company. He facilitates the effective contribution of the directors and ensures that they receive accurate, timely and clear information and that they communicate effectively with shareholders.

The board has established a formal process, led by the chairman, for the annual evaluation of the performance of the board, its principal committees and individual directors. The directors are made aware on appointment that their performance will be subject to regular evaluation. The performance of the chairman is evaluated by a meeting of the other board members under the leadership of Mr C J Fleetwood.

The company secretary, Mr C D Mellor, is responsible for advising the board through the chairman on all governance matters. All of the

directors have access to the advice and services of the company secretary, who has administrative responsibility for the meetings of the board and its committees. Directors may also take independent professional advice at the company's expense where necessary in the performance of their duties. As all of the directors are non-executive, it is not considered appropriate to identify a member of the board as the senior non-executive director of the company.

The company's articles of association and the schedule of matters reserved to the board for decision provide that the appointment and removal of the company secretary is a matter for the full board.

The company's articles of association require that one third of the directors should retire by rotation each year and seek re-election at the annual general meeting, and that directors newly appointed by the board should seek re-appointment at the next annual general meeting. The board complies with the requirement of the Combined Code that all directors are required to submit themselves for re-election at least every three years.

## Independence of directors

The board regularly reviews the independence of its members and is satisfied that (with the exception of Mr T R Levett who is a director and employee of NVM, the company's investment manager) the company's directors are independent in character and judgement and there are no relationships or circumstances which could affect their objectivity. Mr J R Hustler is a non-executive director of Northern Venture Trust PLC, which is also managed by NVM, but after careful consideration the board has concluded that Mr Hustler's independence is not affected by this relationship.

### Board committees

The board has appointed three standing committees to make recommendations to the board in specific areas:

### Audit Committee

During the period the audit committee comprised:

Mr C J Fleetwood (Chairman)  
Mr J G D Ferguson  
Mr B E Sealey  
(until 26 September 2007)  
Mr J M O Waddell  
(from 26 September 2007)

The audit committee's terms of reference include the following roles and responsibilities:

- reviewing and making recommendations to the board in relation to the company's published financial statements and other formal announcements relating to the company's financial performance;
- reviewing and making recommendations to the board in relation to the company's internal control (including internal financial control) and risk management systems;
- periodically considering the need for an internal audit function;
- making recommendations to the board in relation to the appointment, re-appointment and removal of the external auditors and approving the remuneration and terms of engagement of the external auditors;
- reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- monitoring the extent to which the external auditors are engaged to supply non-audit services; and
- ensuring that the investment manager has arrangements in place for the investigation and follow-up of any concerns raised confidentially by staff in relation to the propriety of financial reporting or other matters.

The committee reviews its terms of reference and its effectiveness annually and recommends to the board any changes required as a result of the review. The terms of reference are available on request from the company secretary. The audit committee meets three times per year and has direct access to KPMG Audit Plc, the company's external auditors. The board considers that the members of the committee are independent and have collectively the skills and experience required to discharge their duties effectively, and that the chairman of the committee meets the requirements of the Combined Code as to recent and relevant financial experience.

The company does not have an independent internal audit function as it is not deemed appropriate given the size of the company and the nature of the company's business. However, the committee considers annually whether there is a need for such a function and if so would recommend this to the board.

During the 18 months ended 31 March 2008 the audit committee discharged its responsibilities by:

- reviewing and approving the external auditors' terms of engagement and remuneration;
- reviewing the external auditors' plan for the audit of the company's financial statements, including identification of key risks and confirmation of auditor independence;
- reviewing NVM's statement of internal controls operated in relation to the company's business and assessing the effectiveness of those controls in minimising the impact of key risks;
- reviewing periodic reports on the effectiveness of NVM's compliance procedures;
- reviewing the appropriateness of the company's accounting policies;
- reviewing the company's draft annual financial statements, half-yearly results statements and interim management statements prior to board approval; and

- reviewing the external auditors' detailed reports to the committee on the annual financial statements.

### Nomination Committee

During the period the nomination committee comprised:

Mr J R Hustler (Chairman)  
Mr J G D Ferguson  
Mr C J Fleetwood  
Mr T R Levett  
Mr B E Sealey  
(until 26 September 2007)  
Mr J M O Waddell (from  
26 September 2007)

The nomination committee considers the selection and appointment of directors and makes annual recommendations to the board as to the level of directors' fees. The committee monitors the balance of skills, knowledge and experience offered by board members, and satisfies itself that they are able to devote sufficient time to carry out their role efficiently and effectively. When recommending new appointments to the board the committee draws on its members' extensive business experience and range of contacts to identify suitable candidates; the use of formal advertisements and external consultants is not considered cost-effective given the company's size. New directors are provided with briefing material relating to the company, its investment managers and the venture capital industry as well as to their own legal responsibilities as directors. The committee has written terms of reference which are reviewed annually and are available on request from the company secretary.

The board does not have a separate remuneration committee, as the company has no employees or executive directors. Detailed information relating to the remuneration of directors is given in the directors' remuneration report on pages 22 and 23.

### Management Engagement Committee

During the period the management engagement committee comprised:

Mr J R Hustler (Chairman)  
Mr J G D Ferguson  
Mr C J Fleetwood

# Corporate Governance

Mr B E Sealey  
(until 26 September 2007)  
Mr J M O Waddell  
(from 26 September 2007)

The management engagement committee undertakes a periodic review of the performance of the investment manager, NVM, and of the terms of the management agreement including the level of fees payable and the length of the notice period. The principal terms of the agreement are set out in Note 3 to the financial statements on page 34.

Following the latest review by the committee, the board concluded that the continuing appointment of NVM was in the interests of the company and its shareholders as a whole. NVM has demonstrated its commitment to and expertise in venture capital investment over an extended period, as a result of which the company has established a strong long-term performance record. NVM has also performed its company secretarial and accounting duties efficiently and effectively.

## Attendance at board and committee meetings

Table 1 sets out the number of formal board and committee meetings held during the 18 months ended 31 March 2008 and the number attended by each director compared with the maximum possible attendance.

## Investor relations

In fulfilment of the chairman's obligations under the Combined Code, the chairman gives feedback to the board on issues raised with him by shareholders. The board recognises the value of maintaining regular communications with shareholders. Formal reports are sent to shareholders at the half-year and year-end stages, and an opportunity is given to shareholders at the annual

general meeting to question the board and the investment manager on matters relating to the company's operation and performance. Proxy voting figures for each resolution are announced at the annual general meeting.

Further information can also be obtained via the NVM website at [www.nvm.co.uk](http://www.nvm.co.uk).

## Internal control

The directors have overall responsibility for ensuring that there are in place systems of internal control, both financial and non-financial, and for reviewing their effectiveness. The purpose of the internal financial controls is to ensure that proper accounting records are maintained, the company's assets are safeguarded and the financial information used within the business and for publication is accurate and reliable; such a system can provide only reasonable and not absolute assurance against material misstatement or loss. The board regularly reviews financial performance and results with the investment manager. Responsibility for accounting, secretarial services and physical custody of documents of title relating to venture capital investments has been contractually delegated to NVM under the management agreement. NVM has established its

own system of internal controls in relation to these matters, details of which have been reviewed by the audit committee.

Non-financial internal controls include the systems of operational and compliance controls maintained by the investment manager in relation to the company's business as well as the management of key risks as referred to in the section headed "Risk management" below.

The directors confirm that by means of the procedures set out above, and in accordance with "Internal Controls: Guidance for Directors on the Combined Code", published by the Institute of Chartered Accountants in England and Wales, they have established a continuing process for identifying, evaluating and managing the significant potential risks faced by the company and have reviewed the effectiveness of the internal control systems. This process has been in place throughout and subsequent to the accounting period under review.

## Risk management

Risk management is discussed in the Business Review on page 10.

By order of the Board

C D MELLOR  
Secretary

20 May 2008

**Table 1: Directors' attendance at meetings**

	Board	Audit Committee	Nomination Committee	Management Engagement Committee
Number of meetings held	9	4	2	1
Attendance (actual/possible):				
J R Hustler (Chairman)	9/9	N/A	2/2	1/1
J G D Ferguson	9/9	4/4	2/2	1/1
C J Fleetwood	8/9	4/4	2/2	1/1
T R Levett	8/9	N/A	2/2	N/A
B E Sealey (retired 26 September 2007)	5/5	2/2	0/0	0/0
J M O Waddell (appointed 26 September 2007)	4/4	2/2	2/2	1/1

# Directors' Responsibility Statement

The annual report includes a fair review of the development and performance of the business.

The directors are responsible for preparing the annual report and the 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 the directors have elected to prepare the financial statements in accordance with UK Accounting Standards (UK GAAP).

The financial statements are required by law to give a true and fair view of the state of affairs of the company at the end of the financial period and of the return of the company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards (UK GAAP) have been followed, subject to any material departures disclosed and explained in the financial statements; and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that to the best of their knowledge the financial statements for the 18 months ended 31 March 2008 comply with the requirements set out above and that suitable accounting policies, consistently applied and supported by reasonable and prudent judgement, have been used in their preparation. They also confirm that the annual report includes a fair review of the development and performance of the business together with a description of the principal risks and uncertainties faced by the company.

The directors are responsible for keeping proper accounting records that 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 1985. They 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 directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations.

The company's financial statements are published on the NVM website, [www.nvm.co.uk](http://www.nvm.co.uk). The maintenance and integrity of this website is the responsibility of NVM and not of the company. The work carried out by KPMG Audit Plc as independent auditors of the company does not involve consideration of the maintenance and integrity of the website and accordingly they accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website should be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdiction.

By order of the Board

**C D MELLOR**  
Secretary

20 May 2008

# Independent Auditors' Report

## To the members of NORTHERN 3 VCT PLC

We have audited the financial statements of Northern 3 VCT PLC for the 18 months ended 31 March 2008 which comprise the Income Statement, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds, the Cash Flow Statement, and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Directors' Responsibility Statement on page 27.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of

the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report (including the Business Review) is consistent with the financial statements. The information given in the Directors' Report (including the Business Review) includes that specific information presented in the Investment Portfolio and the Fifteen Largest Venture Capital Investments that is cross-referenced from the Business Review section of the Directors' Report. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing

Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

### Opinion

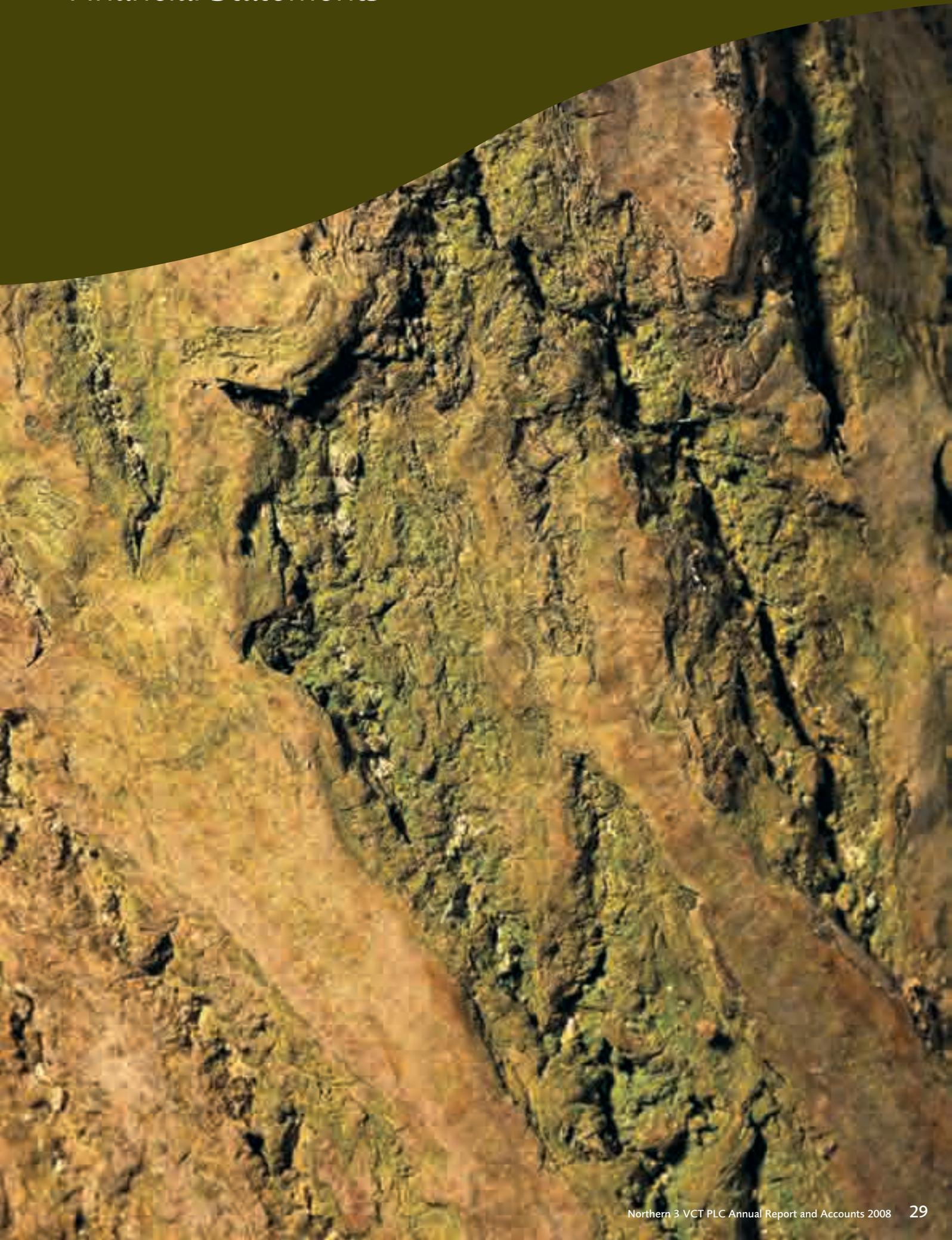
In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2008 and of its total return for the period then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
Edinburgh

20 May 2008

# Financial Statements



# Income Statement

for the 18 months ended 31 March 2008

	Notes	18 months ended 31 March 2008			Year ended 30 September 2006		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Gain/(loss) on disposal of investments	8	–	85	85	–	(106)	(106)
Changes in fair value of investments	8	–	1,969	1,969	–	605	605
		–	2,054	2,054	–	499	499
Income	2	2,228	–	2,228	1,372	–	1,372
Investment management fee	3	(259)	(903)	(1,162)	(167)	(502)	(669)
Other expenses	4	(295)	–	(295)	(180)	–	(180)
<b>Return on ordinary activities before tax</b>		<b>1,674</b>	<b>1,151</b>	<b>2,825</b>	<b>1,025</b>	<b>(3)</b>	<b>1,022</b>
Tax on return on ordinary activities	5	(441)	271	(170)	(265)	160	(105)
<b>Return on ordinary activities after tax</b>		<b>1,233</b>	<b>1,422</b>	<b>2,655</b>	<b>760</b>	<b>157</b>	<b>917</b>
<b>Return per share</b>	<b>7</b>	<b>4.1p</b>	<b>4.7p</b>	<b>8.8p</b>	<b>2.4p</b>	<b>0.5p</b>	<b>2.9p</b>

- 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.
- The accompanying notes are an integral part of this statement.

# Reconciliation of Movements in Shareholders' Funds

for the 18 months ended 31 March 2008

	Notes	18 months ended 31 March 2008 £000	Year ended 30 September 2006 £000
Equity shareholders' funds at 1 October 2006		29,281	30,136
Return on ordinary activities after tax		2,655	917
Dividends recognised in the period	6	(2,418)	(1,153)
Net proceeds of share issues	14	287	126
Shares purchased for cancellation	14	(1,142)	(745)
Expenses charged to capital reserve		(18)	–
<b>Equity shareholders' funds at 31 March 2008</b>		<b>28,645</b>	<b>29,281</b>

- The accompanying notes are an integral part of this statement.

# Balance Sheet

as at 31 March 2008

	Notes	31 March 2008 £000	30 September 2006 £000
<b>Fixed assets</b>			
Investments	8	27,200	25,238
<b>Current assets</b>			
Debtors	12	265	600
Cash at bank		1,526	3,606
		1,791	4,206
<b>Creditors (amounts falling due within one year)</b>	13	(346)	(163)
<b>Net current assets</b>		1,445	4,043
<b>Net assets</b>		28,645	29,281
<b>Capital and reserves</b>			
Called-up equity share capital	14	1,487	1,538
Share premium	15	8,031	22,759
Capital redemption reserve	15	143	77
Capital reserve – realised	15	15,997	3,703
Capital reserve – unrealised	15	2,749	629
Revenue reserve	15	238	575
<b>Total equity shareholders' funds</b>		28,645	29,281
<b>Net asset value per share</b>	16	96.3p	95.2p

• The accompanying notes are an integral part of this statement.

The financial statements on pages 30 to 43 were approved by the directors on 20 May 2008 and are signed on their behalf by:

**J R Hustler**  
Director

**C J Fleetwood**  
Director

# Cash Flow Statement

for the 18 months ended 31 March 2008

	18 months ended 31 March 2008		Year ended 30 September 2006	
	£000	£000	£000	£000
<b>Net cash inflow from operating activities</b>		1,206		525
<b>Taxation</b>				
Corporation tax paid		(105)		(81)
<b>Financial investment</b>				
Purchase of investments	(16,041)		(9,740)	
Sale/repayment of investments	16,133		9,043	
<b>Net cash inflow/(outflow) from financial investment</b>		92		(697)
<b>Equity dividends paid</b>		(2,418)		(1,153)
<b>Net cash outflow before financing</b>		(1,225)		(1,406)
<b>Financing</b>				
Issue of ordinary shares	293		145	
Share issue expenses	(6)		(19)	
Purchase of ordinary shares for cancellation	(1,142)		(745)	
<b>Net cash outflow from financing</b>		(855)		(619)
<b>Decrease in cash at bank</b>		(2,080)		(2,025)
<b>Reconciliation of return before tax to net cash flow from operating activities</b>				
Return on ordinary activities before tax		2,825		1,022
(Gain)/loss on disposal of investments		(85)		106
Changes in fair value of investments		(1,969)		(605)
Decrease in debtors		335		17
Increase/(decrease) in creditors		118		(15)
Expenses charged to capital reserve		(18)		–
<b>Net cash inflow from operating activities</b>		1,206		525

Analysis of movement in net funds	1 October 2006	Cash flows	31 March 2008
	£000	£000	£000
Cash at bank	3,606	(2,080)	1,526

# Notes to the Financial Statements

for the 18 months ended 31 March 2008

## 1 Accounting policies

A summary of the principal accounting policies, all of which have been consistently applied throughout the period and the preceding year, is set out below.

### a Basis of accounting

The financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments, and in accordance with UK Generally Accepted Accounting Practice (UK GAAP). Where presentational guidance set out in the Statement of Recommended Practice (SORP) "Financial Statements of Investment Trust Companies", revised in December 2005, is consistent with the requirements of UK GAAP, the directors have sought to prepare the financial statements on a consistent basis compliant with the recommendations of the SORP.

### b Valuation of investments

Purchases and sales of investments are recognised in the financial statements at the date of transaction (trade date).

The company's investments have been designated by the directors as fair value through profit and loss at the time of acquisition and are measured at subsequent reporting dates at fair value. In the case of investments quoted on a recognised stock exchange, fair value is established by reference to the closing bid price on the relevant date or the last traded price, depending on the convention of the exchange on which the investment is quoted. In the case of unquoted investments, fair value is established in accordance with industry guidelines by using measurements of value such as price of recent transaction, earnings multiple and net assets; where no reliable fair value can be estimated using such techniques, unquoted investments are carried at cost subject to provision for impairment where necessary.

Gains and losses arising from changes in fair value of investments are recognised as part of the capital return within the income statement and allocated to the realised or unrealised capital reserve as appropriate. Transaction costs attributable to the acquisition or disposal of investments are charged to capital return within the income statement.

Those venture capital investments that may be termed associated undertakings are carried at fair value as determined by the directors in accordance with the company's normal policy and are not equity accounted as required by the Companies Act 1985. The directors consider that, as these investments are held as part of the company's portfolio with a view to the ultimate realisation of capital gains, equity accounting would not give a true and fair view of the company's interests in these investments. Quantification of the effect of this departure is not practicable. Carrying investments at fair value is specifically permitted under Financial Reporting Standard 9 "Associates and Joint Ventures", where venture capital entities hold investments as part of a portfolio.

### c Income

Dividends receivable on quoted equity shares are brought into account on the ex-dividend date. Dividends receivable on unquoted equity shares are brought into account when the company's right to receive payment is established and there is no reasonable doubt that payment will be received. Fixed returns on non-equity shares and debt securities are recognised on an effective interest rate basis, provided there is no reasonable doubt that payment will be received in due course.

### d Expenses

All expenses are accounted for on an accruals basis. Expenses are charged to revenue return within the income statement except that:

- expenses which are incidental to the acquisition or disposal of an investment are allocated to capital return as incurred; and
- expenses are split and allocated partly to capital return where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated, and accordingly the basic element of the investment management fee has been allocated 25% to revenue return and 75% to capital return, in order to reflect the directors' expected long-term view of the nature of the investment returns of the company. The performance-related element of the investment management fee has been charged 100% to capital return.

### e Revenue and capital

The revenue column of the income statement includes all income and revenue expenses of the company. The capital column includes realised and unrealised gains and losses on investments and that part of the investment management fee which is allocated to capital return. Gains and losses arising from changes in fair value are considered to be realised only to the extent that they are readily convertible to cash in full at the balance sheet date.

### f Taxation

UK corporation tax payable is provided on taxable profits at the current rate. The tax charge for the period is allocated between revenue return and capital return on the "marginal basis" as recommended in the SORP.

Provision is made for deferred taxation on all timing differences calculated at the current rate of tax relevant to the benefit or liability.

### g Dividends payable

Dividends payable are recognised as distributions in the financial statements when the company's liability to make payment has been established.

# Notes to the Financial Statements

for the 18 months ended 31 March 2008

## 2 Income

	18 months ended 31 March 2008 £000	Year ended 30 September 2006 £000
Franked investment income:		
Unquoted companies	183	97
Quoted companies	20	9
Interest receivable:		
Bank deposits*	118	84
Loans to unquoted companies	1,045	455
Listed fixed-interest investments	862	727
	2,228	1,372

\* Denotes income arising from investments not designated as fair value through profit or loss at the time of acquisition.

## 3 Investment management fee

	18 months ended 31 March 2008			Year ended 30 September 2006		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Investment management fee:						
Basic	220	662	882	142	427	569
Performance-related	–	106	106	–	–	–
Irrecoverable VAT thereon	39	135	174	25	75	100
	259	903	1,162	167	502	669

NVM Private Equity Limited (NVM) provides investment management and secretarial services to the company under an agreement dated 24 September 2001. The agreement ran for an initial period of three years and may now be terminated at any time by not less than twelve months' notice being given by either party.

NVM's management fee comprises a fixed basic element of 2.0% per annum of net assets, calculated half-yearly as at 31 March and 30 September and payable quarterly in advance, plus a performance-related fee which is payable if the company's total return per share (net asset value growth plus dividends paid) in a financial period exceeds a target set by the board, expressed as a percentage of opening net asset value per share. The maximum performance-related fee is 1.0% of net assets if the total return is two or more times the target, reducing on a predetermined scale to nil if the total return is equal to or less than the target. The return targets which have been set by the board are as follows:

Year ended 30 September 2006	3.50%
18 months ended 31 March 2008	7.25%
Year ending 31 March 2009	6.25%

The total running costs of the company, excluding performance-related management fees and any irrecoverable VAT thereon, are capped at 3.5% of its net assets and NVM has agreed that any excess will be refunded by way of a reduction in its fees. NVM bears the cost of Sarasin & Partners' fees for managing the listed fixed-interest portfolio.

NVM also provides administrative and secretarial services to the company for a fee of £42,000 per annum (linked to the movement in the RPI). This fee, which is subject to VAT, is included in other expenses (see Note 4).

The Chancellor of the Exchequer announced in his Budget statement on 12 March 2008 that the Finance Bill 2008 would contain draft legislation exempting VCTs from VAT on management fees with effect from 1 October 2008.

#### 4 Other expenses

	18 months ended 31 March 2008 £000	Year ended 30 September 2006 £000
Administrative and secretarial services	60	38
Directors' remuneration	85	52
Auditors' remuneration – audit services	15	11
Legal and professional expenses	11	–
Irrecoverable VAT	24	15
Other expenses	100	64
	295	180

Information on directors' remuneration is given in the directors' remuneration report on pages 22 and 23.

#### 5 Tax on return on ordinary activities

	18 months ended 31 March 2008			Year ended 30 September 2006		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
<b>(a) Analysis of charge/(credit) for the period</b>						
UK corporation tax payable/(recoverable) on the return for the year	441	(271)	170	265	(160)	105
<b>(b) Tax reconciliation</b>						
Return on ordinary activities before tax	1,674	1,151	2,825	1,025	(3)	1,022
Return on ordinary activities multiplied by the standard rate of UK corporation tax of 30% (2006 30%)	502	345	847	308	(1)	307
Effect of:						
UK dividends not subject to tax	(61)	–	(61)	(32)	–	(32)
Capital returns not subject to tax	–	(26)	(26)	–	32	32
Unrealised adjustments to fair value	–	(590)	(590)	–	(182)	(182)
Marginal relief	–	–	–	(11)	(9)	(20)
Current tax charge/(credit) for the period	441	(271)	170	265	(160)	105

#### (c) Factors which may affect future tax charges

The directors are not aware of any matters which may affect the tax charges in future periods. There is no provided or unprovided deferred tax as at 31 March 2008.

Approved venture capital trusts are exempt from tax on capital gains within the company. Since the directors intend that the company will continue to conduct its affairs so as to maintain its approval as a venture capital trust, no current or deferred tax has been provided in respect of any capital gains or losses arising on the revaluation or disposal of investments.

# Notes to the Financial Statements

for the 18 months ended 31 March 2008

## 6 Dividends

	18 months ended 31 March 2008			Year ended 30 September 2006		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
<b>(a) Recognised as distributions in the financial statements for the year</b>						
Previous year's second interim dividend	308	307	615	409	126	535
Current period's interim dividends	1,262	541	1,803	309	309	618
	1,570	848	2,418	718	435	1,153
<b>(b) Paid and proposed in respect of the period</b>						
First interim paid – 2.0p (2006 2.0p) per share	422	182	604	309	309	618
Second interim paid – 2.0p (2006 2.0p) per share	421	180	601	308	308	616
Third interim paid – 2.0p (2006 nil) per share	419	179	598	–	–	–
Final proposed – nil (2006 nil) per share	–	–	–	–	–	–
	1,262	541	1,803	617	617	1,234

The revenue dividends paid and proposed in respect of the period form the basis for determining whether the company has complied with the requirements of Section 274 of the Income Tax Act 2007 as to the distribution of investment income.

## 7 Return per share

The calculation of the return per share is based on the return on ordinary activities after tax for the period of £2,655,000 (2006 £917,000) and on 30,321,656 (2006 31,170,737) shares, being the weighted average number of shares in issue during the period.

## 8 Investments

	31 March 2008 £000	30 September 2006 £000
Venture capital investments:		
Unquoted	17,852	10,012
Quoted	1,851	1,997
Listed fixed-interest investments	7,497	13,229
	27,200	25,238

## 8 Investments continued

Movements in investments during the period are summarised as follows:

	Venture capital – unquoted £000	Venture capital – quoted £000	Listed fixed-interest £000	Total £000
Book cost at 1 October 2006	9,328	1,933	13,348	24,609
Fair value adjustment at 1 October 2006	684	64	(119)	629
Fair value at 1 October 2006	10,012	1,997	13,229	25,238
Movements in the period:				
Purchases at cost	8,160	1,051	6,830	16,041
Disposals – proceeds	(3,003)	(735)	(12,395)	(16,133)
– net realised gains/(losses)	19	201	(135)	85
Changes in fair value	2,664	(663)	(32)	1,969
Fair value at 31 March 2008	17,852	1,851	7,497	27,200
Comprising:				
Book cost at 31 March 2008	14,313	2,641	7,591	24,545
Fair value adjustment at 31 March 2008	3,539	(790)	(94)	2,655
	17,852	1,851	7,497	27,200
Equity shares	6,879	1,851	–	8,730
Preference shares	250	–	–	250
Interest-bearing securities	10,723	–	7,497	18,220
	17,852	1,851	7,497	27,200

All investments are designated as fair value through profit or loss at the time of acquisition, and all capital gains or losses arise on investments so designated. Given the nature of the company's venture capital investments, the changes in fair value of such investments recognised in these financial statements are not considered to be readily convertible to cash in full at the balance sheet date and accordingly these gains are treated as unrealised. Changes in fair value of listed fixed-interest investments are treated as realised as these holdings are considered to be readily convertible into cash.

At 31 March 2008 there were commitments totalling £208,000 (30 September 2006 £2,612,000) in respect of investments approved by the manager but not yet completed.

# Notes to the Financial Statements

for the 18 months ended 31 March 2008

## 9 Investment disposals

Disposals of venture capital investments during the period were as follows:

	Original cost £000	Directors' value prior to disposal £000	Disposal proceeds £000	Realised gain/(loss) against carrying value £000
Arrow Industrial Group	245	344	364	20
Computer Software Group	135	270	353	83
Daniolabs	75	75	122	47
Develop Training	362	362	526	164
GB Industries*	148	–	–	–
Inspicio	100	130	225	95
Ithaca Holdings	307	307	816	509
KCS Global Holdings	338	338	898	560
Nightingales Holdings	1,191	1,191	–	(1,191)
PM Group	107	133	157	24
RBF Industries	251	251	131	(120)
Other	259	117	146	29
	3,518	3,518	3,738	220

\* Part disposal

## 10 Unquoted investments

The cost and carrying value of material investments in unquoted companies held at 31 March 2008 are shown below. For this purpose any investment included in the table of the fifteen largest venture capital investments on pages 12 to 15, or in the corresponding table in the previous year's annual report, is regarded as material.

	31 March 2008		30 September 2006	
	Total cost £000	Carrying value £000	Total cost £000	Carrying value £000
<b>Product Support (Holdings) Limited</b>				
Ordinary shares	101	648	–	–
Loan stock	899	899	–	–
	1,000	1,547	–	–
<b>Paladin Group Limited (formerly Touchstone Asset Management Limited)</b>				
Ordinary shares	256	631	122	122
Loan stock	605	605	471	471
	861	1,236	593	593
<b>Britspace Holdings Limited</b>				
Ordinary shares	588	1,058	–	–
<b>Astbury Marsden Holdings Limited</b>				
Ordinary shares	181	181	–	–
Loan stock	819	819	–	–
	1,000	1,000	–	–
<b>Axial Systems Holdings Limited</b>				
Ordinary shares	141	141	–	–
Loan stock	859	859	–	–
	1,000	1,000	–	–
<b>Foreman Roberts Group Limited</b>				
Ordinary shares	100	100	–	–
Loan stock	900	900	–	–
	1,000	1,000	–	–
<b>Optilan Group Limited</b>				
Ordinary shares	179	179	–	–
Loan stock	821	821	–	–
	1,000	1,000	–	–
<b>Promanex Group Holdings Limited</b>				
Ordinary shares	100	100	–	–
Loan stock	900	900	–	–
	1,000	1,000	–	–
<b>Pivotal Laboratories Holdings Limited</b>				
Ordinary shares	68	297	68	68
Loan stock	611	611	611	611
	679	908	679	679
<b>Envirotec Limited</b>				
Ordinary shares	106	462	105	308
Loan stock	350	350	350	350
	456	812	455	658
<b>Crantock Bakery Limited</b>				
Ordinary shares	90	410	90	90
Loan stock	352	352	352	352
	442	762	442	442
<b>Promatic Group Limited</b>				
Ordinary shares	57	57	–	–
Loan stock	511	511	–	–
	568	568	–	–

# Notes to the Financial Statements

for the 18 months ended 31 March 2008

## 10 Unquoted investments continued

	31 March 2008		30 September 2006	
	Total cost £000	Carrying value £000	Total cost £000	Carrying value £000
<b>DxS Limited</b>				
Ordinary shares	30	266	30	30
Loan stock	295	295	233	233
	325	561	263	263
<b>Frontier Foods Limited</b>				
Ordinary shares	157	157	–	–
Loan stock	385	385	–	–
	542	542	–	–
<b>John Laing Partnership Limited</b>				
Ordinary shares	21	279	21	730
Irredeemable preference shares	44	3	44	44
Loan stock	240	240	240	240
	305	522	305	1,014
<b>Nightingales Holdings Limited</b>				
Ordinary shares	–	–	142	142
Loan stock	–	–	850	850
	–	–	992	992
<b>IG Doors Limited</b>				
Ordinary shares	50	50	50	233
Loan stock	450	450	450	450
	500	500	500	683
<b>Longhirst Group Limited</b>				
Ordinary shares	–	–	150	217
Redeemable preference shares	–	–	150	150
Loan stock	–	–	180	180
	–	–	480	547
<b>Abermed Limited</b>				
Ordinary shares	38	130	38	38
Loan stock	337	337	337	337
	375	467	375	375
<b>Arleigh International Limited</b>				
Ordinary shares	21	293	21	157
Loan stock	189	189	189	189
	210	482	210	346
<b>Arrow Industrial Group Limited</b>				
Ordinary shares	–	–	35	134
Loan stock	–	–	210	210
	–	–	245	344
<b>KCS Global Holdings Limited</b>				
Ordinary shares	–	–	78	78
Loan stock	–	–	260	260
	–	–	338	338
<b>Direct Valeting Limited</b>				
Ordinary shares	43	43	43	–
Redeemable preference shares	210	210	210	146
Loan stock	117	117	174	174
	370	370	427	320
<b>Ithaca Holdings Limited</b>				
Ordinary shares	–	–	31	31
Loan stock	–	–	276	276
	–	–	307	307

Additional information relating to material investments in unquoted companies is given on pages 12 to 15.

## 11 Significant interests

There are no shareholdings in companies where the company's holding at 31 March 2008 represents (1) more than 20% of the allotted equity share capital of any class, (2) more than 20% of the total allotted share capital or (3) more than 20% of the assets of the company itself.

## 12 Debtors

	31 March 2008 £000	30 September 2006 £000
Prepayments and accrued income	265	600

## 13 Creditors (amounts falling due within one year)

	31 March 2008 £000	30 September 2006 £000
Accruals and deferred income	176	58
Corporation tax payable	170	105
	346	163

## 14 Called-up equity share capital

	31 March 2008 £000	30 September 2006 £000
Authorised: 50,000,000 (2006 50,000,000) ordinary shares of 5p	2,500	2,500
Allotted and fully paid: 29,749,088 (2006 30,756,312) ordinary shares of 5p	1,487	1,538

The capital of the company is managed in accordance with its investment policy with a view to the achievement of its investment objective, as set out on pages 6 and 7. The company is not subject to externally imposed capital requirements.

During the period the company issued 310,157 ordinary shares of 5p for cash at an average premium of 89.5p per share in connection with the dividend investment scheme. 1,317,381 shares were re-purchased for cancellation at a cost of £1,142,000.

## 15 Reserves

	Share premium £000	Capital redemption reserve £000	Capital reserve – realised £000	Capital reserve – unrealised £000	Revenue reserve £000
At 1 October 2006	22,759	77	3,703	629	575
Transfer between reserves (see below)	–	–	(119)	119	–
Cancellation of share premium	(15,000)	–	15,000	–	–
Premium on issue of ordinary shares	278	–	–	–	–
Share issue expenses	(6)	–	–	–	–
Shares purchased for cancellation	–	66	(1,142)	–	–
Gain on disposal of investments	–	–	85	–	–
Changes in fair value of investments	–	–	(32)	2,001	–
Previously recognised losses now realised	–	–	–	–	–
Management fee capitalised net of associated tax	–	–	(632)	–	–
Expenses charged to capital reserve	–	–	(18)	–	–
Revenue return on ordinary activities after tax	–	–	–	–	1,233
Dividends recognised in the period	–	–	(848)	–	(1,570)
At 31 March 2008	8,031	143	15,997	2,749	238

With effect from 1 October 2006, changes in fair value of investments which are readily convertible to cash at the balance sheet date are included in the realised, rather than the unrealised, capital reserve. The balances on both reserves at 1 October 2006 have been amended by a reserve transfer to reflect this change.

The realised capital reserve and the revenue reserve are distributable reserves.

# Notes to the Financial Statements

for the 18 months ended 31 March 2008

## 16 Net asset value per share

The calculation of net asset value per share as at 31 March 2008 is based on net assets of £28,645,000 (2006 £29,281,000) divided by the 29,749,088 (2006 30,756,312) ordinary shares in issue at that date.

## 17 Financial instruments

The company's financial instruments comprise equity and fixed-interest investments, cash balances and liquid resources including debtors and creditors. The company holds financial assets in accordance with its investment policy of investing mainly in a portfolio of VCT-qualifying unquoted and AIM-quoted securities whilst holding a proportion of its assets in cash or near-cash investments in order to provide a reserve of liquidity.

Fixed asset investments (see note 8) are valued at fair value. For quoted investments this is either bid price or the latest traded price, depending on the convention of the exchange on which the investment is quoted. Unquoted investments are carried at fair value as determined by the directors in accordance with current venture capital industry guidelines. The fair value of all other financial assets and liabilities is represented by their carrying value in the balance sheet.

In carrying on its investment activities, the company is exposed to various types of risk associated in the financial instruments and markets in which it invests. The most significant types of financial risk facing the company are market risk, credit risk and liquidity risk. The company's approach to managing these risks is set out below together with a description of the nature and amount of the financial instruments held at the balance sheet date.

### Market risk

The company's strategy for managing investment risk is determined with regard to the company's investment objective, as outlined in the business review on pages 6 and 7. The management of market risk is part of the investment management process and is a central feature of venture capital investment. The company's portfolio is managed in accordance with the policies and procedures described in the corporate governance statement on pages 24 to 26, having regard to the possible effects of adverse price movements, with the objective of maximising overall returns to shareholders. Investments in unquoted companies, by their nature, usually involve a higher degree of risk than investments in companies quoted on a recognised stock exchange, though the risk can be mitigated to a certain extent by diversifying the portfolio across business sectors and asset classes. The overall disposition of the company's assets is monitored by the board on a quarterly basis.

Details of the company's investment portfolio at the balance sheet date are set out on page 11. An analysis of investments between debt and equity instruments is given in Note 8.

6.5% (30 September 2006 6.8%) by value of the company's net assets comprise equity securities listed on the London Stock Exchange or quoted on AiM. A 5% increase in the bid price of these securities as at 31 March 2008 would have increased net assets and the total return for the period by £93,000 (30 September 2006 £100,000); a corresponding fall would have reduced net assets and the total return for the period by the same amount.

62.3% (30 September 2006 34.2%) by value of the company's net assets comprise investments in unquoted companies held at fair value. The valuation methods used by the company include the application of a price/earnings ratio derived from listed companies with similar characteristics, and consequently the value of the unquoted element of the portfolio can be indirectly affected by price movements on the London Stock Exchange. A 5% overall increase in the valuation of the unquoted investments at 31 March 2008 would have increased net assets and the total return for the period by £893,000 (30 September 2006 £501,000); an equivalent change in the opposite direction would have reduced net assets and the total return for the period by the same amount.

### Interest rate risk

Some of the company's financial assets are interest-bearing, of which some are at fixed rates and some variable. As a result, the company is exposed to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates.

#### (a) Fixed rate investments

The table below summarises weighted average effective interest rates for the company's fixed rate interest-bearing financial instruments:

	31 March 2008			30 September 2006		
	Total fixed rate portfolio £000	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Total fixed rate portfolio £000	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Listed fixed-interest investments	7,497	5.8%	1.6	13,229	5.8%	2.4
Fixed-rate investments in unquoted companies	1,413	9.8%	1.9	1,752	9.8%	3.0
	8,910			14,981		

## 17 Financial instruments continued

Due to the relatively short period to maturity of the fixed rate investments held within the portfolio, it is considered that an increase or decrease of 25 basis points in interest rates as at the reporting date would not have had a significant effect on the company's net assets or total return for the period.

### (b) Floating rate investments

The company's floating rate investments comprise floating-rate loans to unquoted companies and cash held in interest-bearing deposit accounts. The benchmark rate which determines the rate of interest receivable on such investments is the UK bank base rate, which was 5.25% at 31 March 2008 (30 September 2006 4.75%). The amounts held in floating rate investments at the balance sheet date were as follows:

	31 March 2008 £000	30 September 2006 £000
Floating rate loans to unquoted companies	9,310	4,662
Interest-bearing deposit accounts	1,526	3,606
	10,836	8,268

### Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the company. The investment manager and the board carry out a regular review of counterparty risk. The carrying values of financial assets represent the maximum credit risk exposure at the balance sheet date.

At 31 March 2008 the company's financial assets exposed to credit risk comprised the following:

	31 March 2008 £000	30 September 2006 £000
Listed fixed-interest investments	7,497	13,229
Fixed-rate investments in unquoted companies	1,413	1,752
Floating rate loans to unquoted companies	9,310	4,662
Interest-bearing deposit accounts	1,526	3,606
Accrued dividends and interest receivable	258	546
	20,004	23,795

Credit risk relating to listed fixed-interest investments is mitigated by investing in a portfolio of investment instruments of high credit quality, comprising securities issued by the UK Government, European Union governments and major UK and international companies and institutions. Credit risk relating to loans to and preference shares in unquoted companies is considered to be part of market risk.

Those assets of the company which are traded on recognised stock exchanges are held on the company's behalf by third party custodians (Bank of New York in the case of listed fixed-interest investments and Brewin Dolphin Limited in the case of quoted equity securities). Bankruptcy or insolvency of a custodian could cause the company's rights with respect to securities held by the custodian to be delayed or limited.

Credit risk arising on transactions with brokers relates to transactions in quoted securities awaiting settlement. Risk relating to unsettled transactions is considered to be low due to the short settlement period involved and the high credit quality of the brokers used. The board further mitigates the risk by monitoring the quality of service provided by the brokers.

The company's interest-bearing deposit accounts are maintained with major UK clearing banks.

There were no significant concentrations of credit risk to counterparties at 31 March 2008 or 30 September 2006. No individual investment exceeded 5.4% of the company's net assets at 31 March 2008 (30 September 2006 3.5%).

### Liquidity risk

The company's financial assets include investments in unquoted equity securities which are not traded on a recognised stock exchange and which generally may be illiquid. As a result, the company may not be able to realise some of its investments in these instruments quickly at an amount close to their fair value in order to meet its liquidity requirements, or to respond to specific events such as a deterioration in the creditworthiness of any particular issuer.

The company's listed fixed-interest investments are considered to be readily realisable as they are of high credit quality as outlined above.

The company's liquidity risk is managed on a continuing basis by the investment manager in accordance with policies and procedures laid down by the board. The company's overall liquidity risks are monitored on a quarterly basis by the board.

The company maintains sufficient investments in cash and readily realisable securities to pay accounts payable and accrued expenses. At 31 March 2008 these investments were valued at £9,023,000 (30 September 2006 £16,835,000).

# Notice of Annual General Meeting

Notice is hereby given that the sixth annual general meeting of Northern 3 VCT PLC will be held at The Balmoral, Princes Street, Edinburgh EH2 2EQ at 11.30 am on Thursday 3 July 2008 for the following purposes:

- 1 To receive the financial statements for the 18 months ended 31 March 2008 and the directors' and independent auditors' reports thereon.
- 2 To approve the directors' remuneration report in respect of the 18 months ended 31 March 2008.
- 3 To re-elect as a director Mr C J Fleetwood, who retires by rotation in accordance with the articles of association and offers himself for re-election.
- 4 To re-elect as a director Mr J R Hustler, who retires by rotation in accordance with the articles of association and offers himself for re-election.
- 5 To re-elect as a director Mr J M O Waddell, who retires in accordance with the articles of association and offers himself for re-election.
- 6 To re-elect as a director Mr T R Levett, who retires in accordance with the AIC Code and offers himself for re-election.
- 7 To re-appoint KPMG Audit Plc as independent auditors of the company until the conclusion of the next annual general meeting of the company.
- 8 To authorise the directors to fix the independent auditors' remuneration.
- 9 To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

That, in substitution for and to the exclusion of any power previously conferred upon the directors in this regard (save to the extent relied upon prior to the passing of this resolution), the directors be generally and unconditionally authorised for the purpose of Section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the company to allot relevant securities (within the meaning of Section 80(2) of the Act) up to an aggregate nominal amount of £1,012,545, provided that:

- (a) (except as provided in paragraph (b) below) this authority shall expire on the conclusion of the next annual general meeting of the company after the passing of this resolution or, if earlier, on 30 September 2009, but may be previously revoked or varied by an ordinary resolution of the company; and
  - (b) the company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired.
- 10 To consider and, if thought fit, to pass the following resolution as a special resolution:

That, in substitution for and to the exclusion of any power previously conferred upon the directors in this regard (save to the extent relied upon prior to the passing of this resolution), the directors be and are empowered to allot equity securities (as defined in Section 94(2) of the Companies Act 1985 ("the Act")) pursuant to the authority conferred by Resolution 9 in the notice convening the 2008 Annual General Meeting as if Section 89(1) of the Act did not apply to any such allotment provided that such power conferred by this resolution shall be limited to the allotment of equity securities up to an aggregate nominal value of £148,745 and this power shall expire on the conclusion of the next annual general meeting of the company after the passing of this resolution or, if earlier, on 30 September 2009 save that the company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

- 11 To consider and, if thought fit, to pass the following resolution as a special resolution:

That the company be and is hereby generally and unconditionally authorised in accordance with Section 166 of the Companies Act 1985 ("the Act") to make one or more market purchases (within the meaning of Section 163(3) of the Act) on the London Stock Exchange of ordinary shares of 5p each in the capital of the company provided that:

- (a) the maximum number of ordinary shares hereby authorised to be purchased is 2,974,908, representing 10% of the company's issued ordinary share capital;
  - (b) the minimum price which may be paid for an ordinary share shall be 5p per share;
  - (c) the maximum price which may be paid for an ordinary share shall not be more than 105% of the average market value for the ordinary shares of the company for the five business days prior to the date on which the ordinary shares are purchased; and
  - (d) unless previously renewed, varied or revoked, the authority hereby conferred shall expire on the conclusion of the next annual general meeting of the company or, if earlier, on 30 September 2009 save that the company may before such expiry enter into a contract to purchase ordinary shares which will or may be completed wholly or partly after such expiry.
- 12 To consider and, if thought fit, to pass the following resolution as a special resolution:

That the articles of association of the company be altered by deleting articles 18.1 to 18.5 and substituting for those articles the following new article 18.1, renumbering articles 18.6 to 18.12 as articles 18.2 to 18.8 accordingly and inserting the following new article 18A:

**"18 Directors' interests**

18.1 Subject to the provisions of the Act, a Director, notwithstanding his office:

- (a) may enter into or otherwise be interested in any contract, arrangement, transaction or proposal with the Company or in which the Company is otherwise interested, either in regard to his tenure of any office or place of profit or as vendor, purchaser or otherwise;
- (b) may act by himself or through his firm in a professional capacity (other than that of auditor) for the Company or any other body corporate promoted by the Company or in which the Company is otherwise interested; and
- (c) may be a director or other officer of, or employed by, or a party to any contract, arrangement, transaction or proposal with, or otherwise interested in, any body corporate promoted by the Company or in which the Company is otherwise interested or as regards which the Company has any power of appointment.

**18A Director's duty to avoid conflicts of interest - power of Board to authorise matters**

18A.1 If there is a situation (a "Relevant Situation") in which a Director is or may be either at the time or at some time in the future (or a person who if he was to be appointed as a director of the Company would or might be either at the time or at some time in the future) in breach of his duty under section 175 of the Companies Act 2006 to avoid conflicts of interest (but for any authorisation of the relevant matter(s) by the Board), the Board (other than the Director, and any other Director with a similar interest, who shall not be counted in the quorum at the meeting and shall not vote on the resolution) may authorise the matter or matters on such terms as it may determine, including terms regulating the continuing performance by the relevant Director of his duties as a director of the Company. Any authorisation of a matter pursuant to this Article shall extend to any actual or potential conflict of interest which may reasonably be expected to arise out of the matter so authorised. It is the responsibility of the Director who is or may be in breach or the other person who would or might be in breach of his duty under section 175 of the Companies Act 2006 to raise the matter(s) for consideration by the Board.

18A.2 Any terms determined by the Board under Article 18A.1 may be imposed at the time of authorisation or may be imposed or varied subsequently and may be terminated by the Board at any time, and may include (without limitation):

- (a) subject always to these Articles, whether the relevant Director(s) may vote (or be counted in the quorum at a meeting) in respect of any resolution connected with or relating to the relevant matter(s);
- (b) that relevant Director(s) should not receive from the Company information or participate in discussion by the Board or otherwise within the Company connected with or relating to the relevant matter(s); and
- (c) (without prejudice to any other obligations of confidentiality) the application to the relevant Director(s) of a strict duty of confidentiality to the Company in respect of any confidential information of the Company or any company in its group connected with or relating to the relevant matter(s).

18A.3 Except as specified in Article 18A.1, any proposal made to the Board and any authorisation by the Board in relation to a Relevant Situation shall be dealt with in the same way as any other matter may be proposed to and resolved upon by the Board.

18A.4 Any authorisation of a Relevant Situation given by the Board under Article 18A.1 may provide that, where the relevant Director obtains (other than through his position as a Director or employee of the Company or any member of its group) information that is confidential to a third party, he will not be obliged to disclose it to the Company or to use it in relation to the Company's affairs in circumstances where to do so would amount to a breach of that confidence or of his duty under section 175 of the Companies Act 2006 to avoid conflicts of interest.

18A.5 A Director, by reason of his holding office as a Director (or of the fiduciary relationship established by holding that office), shall not be liable to account to the Company for any remuneration, profit or other benefit connected with or resulting from:

- (a) any matter authorised under Article 18A.1; or
- (b) any interest permitted under Article 18;

and no contract, arrangement, transaction or proposal shall be liable to be avoided on the grounds of any matter authorised under Article 18A.1 or the Director having any interest permitted under Article 18."

By order of the Board

**C D MELLOR**  
Secretary

20 May 2008

Northumberland House  
Princess Square  
Newcastle upon Tyne NE1 8ER

# Notice of Annual General Meeting

## NOTES

- 1 A member entitled to attend and vote at this meeting is entitled to appoint another person as his or her proxy to exercise all or any of his or her rights to attend and, both on a show of hands and on a poll, to vote in his or her stead at the meeting. A proxy need not be a member of the company. The appointment of a proxy does not preclude a member from attending and voting in person at the meeting should he or she subsequently decide to do so.
- 2 A member may appoint more than one proxy in relation to a meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him or her.
- 3 To be valid, a form of proxy together with, if applicable, the power of attorney or other authority under which it is signed, or a certified copy thereof, must be received by Equiniti at Aspect House, Spencer Road, Lancing BN99 6ZR not later than 11.30 am on Tuesday 1 July 2008.
- 4 The company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the company as at 6.00pm on Tuesday 1 July 2008 shall be entitled to attend or vote (whether on a show of hands or on a poll) at the meeting in respect of the number of shares registered in their name at the time. Changes to entries on the register after 6.00pm on Tuesday 1 July 2008 (or after 6.00pm on the day which is two days before any adjourned meeting) shall be disregarded in determining the rights of any person to attend or vote at the meeting.
- 5 As at 19 May 2008 (being the last business day prior to the date of this notice) the company's issued share capital consisted of 29,749,088 ordinary shares, carrying one vote per share. Accordingly the total voting rights in the company as at 19 May 2008 were 29,749,088.
- 6 CREST members who wish to appoint a proxy or proxies for the meeting or any adjournment thereof by utilising the CREST electronic proxy appointment service may do so by following the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members and those CREST members who have appointed a voting service provider(s) should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (EUI) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 7RA01) by the latest time(s) for receipt of proxy appointments specified in this notice. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

- 7 The above statement as to proxy rights does not apply to a person who receives this notice of general meeting as a person nominated to enjoy "information rights" under Section 146 of the Companies Act 2006. If you have been sent this notice of meeting because you are such a nominated person, the following statements apply: (a) you may have a right under an agreement between you and the member of the company by whom you were nominated to be appointed or to have someone else appointed as a proxy for this general meeting; and (b) if you have no such right or do not wish to exercise it, you may have a right under such an agreement to give instructions to that member as to the exercise of voting rights.

# Form of Proxy

## NORTHERN 3 VCT PLC Annual General Meeting – 3 July 2008

I/We \_\_\_\_\_  
(block capitals please)

of \_\_\_\_\_  
being a member of Northern 3 VCT PLC, hereby appoint (see notes 1 and 2)

or failing him/her the chairman of the meeting to be my/our proxy and exercise all or any of my/our rights to attend, speak and vote for me/us in respect of my/our voting entitlement on my/our behalf at the sixth annual general meeting of the company to be held on 3 July 2008, notice of which was sent to shareholders with the annual report and accounts for the 18 months ended 31 March 2008, and at any adjournment thereof. The proxy will vote as indicated below in respect of the resolutions set out in the notice of meeting:

Resolution number	For	Against	Vote Withheld
1 To receive the financial statements for the 18 months ended 31 March 2008	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 To approve the directors' remuneration report in respect of the 18 months ended 31 March 2008	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 To re-elect Mr C J Fleetwood as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4 To re-elect Mr J R Hustler as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5 To re-elect Mr J M O Waddell as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6 To re-elect Mr T R Levett as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7 To re-appoint KPMG Audit Plc as independent auditors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8 To authorise the directors to fix the remuneration of the independent auditors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9 To authorise the directors to allot shares pursuant to Section 80 of the Companies Act 1985	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10 To disapply Section 89 of the Companies Act 1985 in relation to certain allotments of equity securities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11 To authorise the company to make market purchases of ordinary shares in accordance with Section 166 of the Companies Act 1985	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12 To amend the articles of association of the company	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please indicate by placing an X in this box if this proxy appointment is one of multiple appointments being made (see note 2 below).

Signed: \_\_\_\_\_ Date: \_\_\_\_\_ 2008

### NOTES

- Every member has the right to appoint some other person(s) of his/her choice, who need not be a member, as his/her proxy to exercise all or any of his/her rights to attend, speak or vote on his/her behalf at the meeting. A member wishing to appoint a person other than the chairman of the meeting as proxy should insert the name of such person in the space provided. If the proxy is being appointed in relation to less than your full voting entitlement, please enter alongside the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. If left blank your proxy will be deemed to be authorised in respect of your full voting entitlement (or if this proxy form has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account). Any alteration or deletion must be signed or initialled.
- A member may appoint more than one proxy in relation to a meeting, provided that the proxy is appointed to exercise the rights attached to a different share or shares held by him. To appoint more than one proxy, please contact Equiniti on 0871 384 2030 for (an) additional form(s), or you may photocopy this form. Please indicate alongside the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by placing an X in the box provided if the proxy instruction is one of multiple instructions being given. All forms must be signed and returned together in the same envelope.
- Use of the form of proxy does not preclude a member from attending and voting in person.
- Where the form of proxy is executed by an individual it must be signed by that individual or his or her attorney.
- Where the form of proxy is executed by joint shareholders it may be signed by any of the members, but the vote of the member whose name stands first in the register of members of the company will be accepted to the exclusion of the votes of the other joint holders.
- Where the form of proxy is executed by a corporation it must be either under its seal or under the hand of an officer or attorney duly authorised.
- If the form of proxy is signed and returned without any indication as to how the proxy shall vote, the proxy will exercise his/her discretion as to whether and how he/she votes, as he/she will on any other matters to arise at the meeting.
- To be valid, the form of proxy together with, if applicable, the power of attorney or other authority under which it is signed, or a certified copy thereof, must be received by Equiniti at Aspect House, Spencer Road, Lancing BN99 6ZR not later than 11.30 am on Tuesday 1 July 2008.
- The "vote withheld" option is provided to enable a member to abstain from voting on the resolution; however, it should be noted that a "vote withheld" is not a vote in law and will not be counted in the calculation of the proportion of the votes "for" and "against" the resolution.

### Attendance indication

Shareholders who intend to attend the annual general meeting are requested to place a tick in the box below in order to assist with administrative arrangements.

I/We intend to attend the annual general meeting at 11.30 am on Thursday 3 July 2008  
at The Balmoral, Princes Street, Edinburgh EH2 2EQ

Signed: \_\_\_\_\_ Date: \_\_\_\_\_ 2008

Third fold and tuck in

BUSINESS REPLY SERVICE  
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First fold

EQUINITI  
ASCOT HOUSE  
SPENCER ROAD  
LANCING  
BN99 6ZR

Second fold



**Northern 3 VCT PLC**

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