

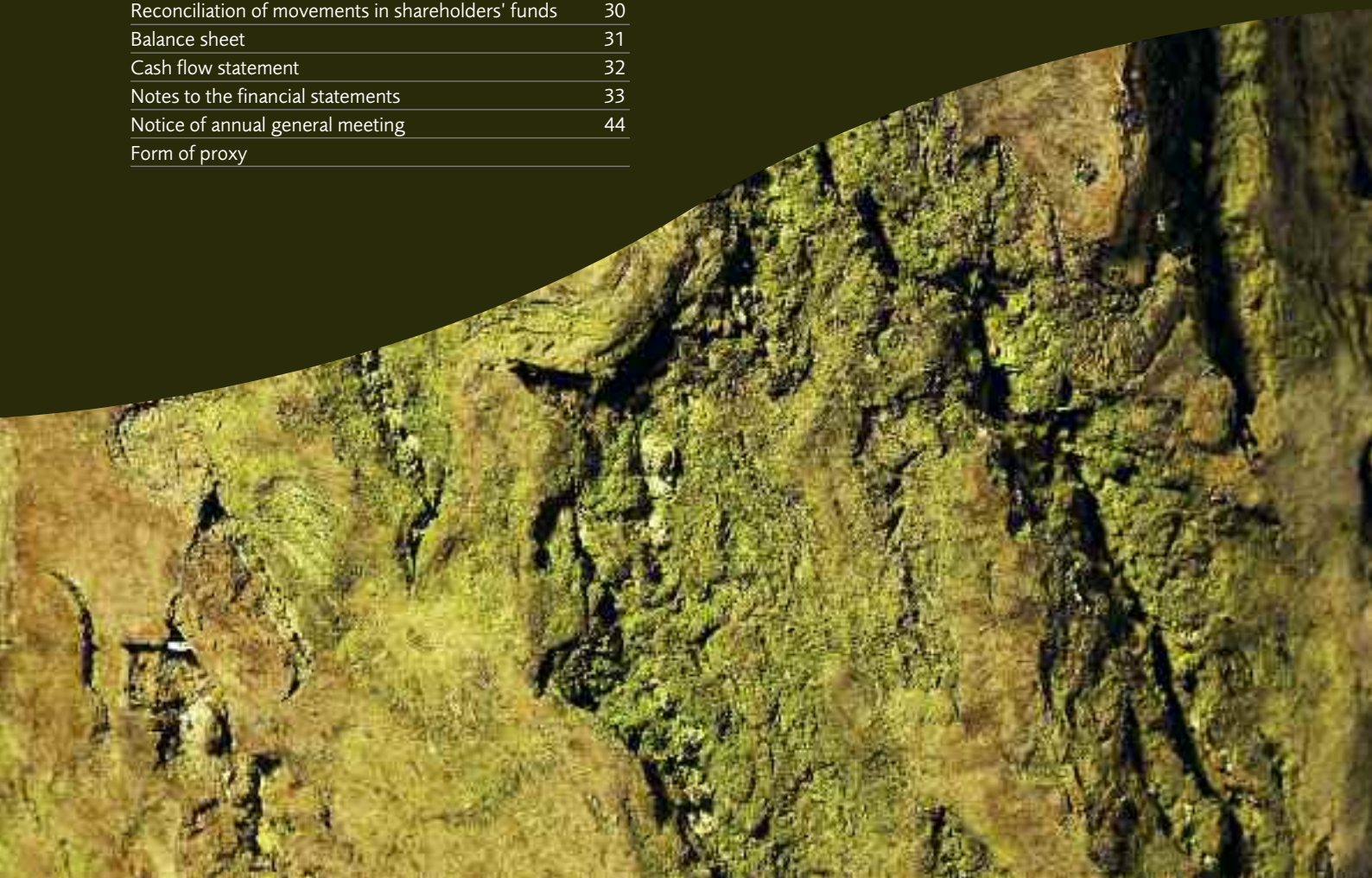
2009

Northern 3
VCT PLC

Annual Report and Accounts
31 March 2009

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

| | Year ended 31 March 2009 | 18 months ended 31 March 2008 |
|---|-----------------------------|----------------------------------|
| Net assets | £24.3m | £28.6m |
| Net asset value per share | 84.0p | 96.3p |
| Return per share | | |
| Revenue | 2.6p | 4.1p |
| Capital | (13.0)p | 4.7p |
| Total | (10.4)p | 8.8p |
| Dividend per share declared in respect of the period | | |
| Revenue | 2.5p | 4.2p |
| Capital | 1.5p | 1.8p |
| Total | 4.0p | 6.0p |
| Cumulative return to shareholders since launch | | |
| Net asset value per share | 84.0p | 96.3p |
| Dividends paid per share* | 20.9p | 18.9p |
| Net asset value plus dividends paid per share | 104.9p | 115.2p |
| Share price at end of period | 45.5p | 84.5p |

* Excluding proposed final dividend

Key dates

| | |
|--|---|
| Results announced | 18 May 2009 |
| Shares quoted ex dividend | 17 June 2009 |
| Annual general meeting | 2 July 2009 (11.30am, Vermont Hotel, Castle Garth, Newcastle upon Tyne NE1 1RQ) |
| Final dividend paid (to shareholders on register on 19 June 2009) | 10 July 2009 |

Chairman's Statement

We believe that opportunities will emerge to acquire good businesses with solid long-term prospects at attractive valuations.



The past year has seen investment companies operating in a severe environment, with extreme fluctuations in the financial markets accompanied by recession in the UK economy. The performance of many small companies has been adversely affected by low confidence, weak demand and restrictions on the availability of bank finance. The financial results of Northern 3 VCT inevitably reflect this unfavourable background.

Results and dividend

The net asset value (NAV) per share at 31 March 2009 was 84.0p, a fall of 12.8% from the corresponding figure of 96.3p as at 31 March 2008. The total return for the year as shown in the income statement was minus 10.4p, equivalent to 10.8% of the opening net asset value. Over the same period the FTSE All-Share index (on a total return basis) fell by 29.3%.

An interim dividend of 2.0p per share was paid in January 2009 and the directors propose a final dividend also of 2.0p per share, making a total of 4.0p for the year. On an annualised basis, this is at the same rate as the total dividend of 6.0p per share paid in respect of the 18 month period ended 31 March 2008 following the change in financial year end. The dividend per share for the year comprises a 2.5p revenue distribution and 1.5p paid out of capital gains realised from venture capital investments.

Your board continues to attach a high degree of importance to maintaining a satisfactory flow of dividends to shareholders. The achievability of this depends on the amount of revenue derived from our investments, which is likely to be affected over the coming year by the low level of interest rates as well as the inability of some investee companies to meet scheduled interest payments.

Investment portfolio

The business review on pages 6 to 10 gives details of recent developments in the investment portfolio. The level of new investment activity has been slow and a number of our companies have suffered from the prevailing business climate. Your board has as usual been realistic in its approach to valuing the portfolio and this is reflected in a number of downward adjustments to carrying values. However there have also been some successes, in particular the sales of our investments in Product Support (Holdings) and Pivotal Laboratories Holdings. DxS, which develops molecular diagnostic products to aid doctors and drug companies in selecting therapies for patients, has continued to make strong progress and is now our largest investment by value.

Corporate brokers

At the half-year stage we reported the failure of our corporate brokers and market-makers, Landsbanki Securities (UK), in October 2008. A successor



James Ferguson
Chairman



firm, Teathers, was appointed by your company but regrettably in March 2009 this firm in turn was obliged to cease trading due to the financial difficulties of its parent group. Following a further review of the provision of corporate broking services we are now pleased to announce the appointment of Singer Capital Markets, an independent UK-based firm which acts as corporate broker to a number of VCTs.

Share buy-backs

It has been the board's policy to buy back the company's ordinary shares in the market at a 10% discount to NAV, subject to market conditions and the terms of the authority granted by shareholders. During the year to 31 March 2009 the company purchased for cancellation 894,966 ordinary shares, equivalent to approximately 3.0% of the issued capital at the start of the year, at a total cost of £773,000. We have reviewed our policy in the light of recent developments and current market conditions and have concluded that whilst we should maintain our ability to re-purchase shares, for the time being it would not be appropriate to seek to maintain a fixed 10% discount. However we are highly conscious of the importance which shareholders attach to having a readily available means of realising their investment and we will, with our newly appointed brokers, be giving further consideration to this subject in the near future. Based on an annual dividend of 4.0p and the present

mid-market price of 45p, the company's shares yield 8.9% tax-free and we believe that the proposed increase in the higher rate of income tax next year will make VCT dividends even more attractive to investors in future.

VCT qualifying status

The company has continued to meet the qualifying conditions laid down by HM Revenue & Customs for maintaining its approval as a VCT. The board retains PricewaterhouseCoopers LLP as independent advisers on VCT taxation matters.

VAT on management fees

Following the Chancellor of the Exchequer's announcement in the 2008 Budget that investment management fees paid by VCTs were to become exempt from VAT, HM Revenue & Customs has acknowledged that under European Union VAT law this exemption should have applied from 1990 onwards. Our managers had already submitted a claim for repayment of VAT previously paid and your company has so far recovered £280,000, which has been recognised as a separate credit in the income statement. Our managers are in negotiation with HM Revenue & Customs with a view to pursuing a further repayment but this is not sufficiently certain or quantifiable to be recognised in the financial statements at this stage.

Board of directors

As previously reported, John Hustler retired as chairman of the company in January 2009 and I would like to thank him on behalf of shareholders and his board colleagues for his guidance since the formation of the company in 2001. We are delighted that he has agreed to continue as a non-executive director.

Future prospects

The present difficulties in the markets and the economy seem likely to persist for some time to come. We have retained a high level of cash and near-cash assets on the balance sheet, whilst remaining within the investment requirements of the VCT legislation, and we are in a good position to provide further support to our existing investee companies where appropriate, at a time when banks are reluctant to lend. For the time being the rate of new investment completions has slowed and we will continue to take a cautious approach to adding to the portfolio. We believe that opportunities will emerge to acquire good businesses with solid long-term prospects at attractive valuations.

James Ferguson
Chairman

Directors and Advisers

from left to right:
James Ferguson, Chris Fleetwood,
John Hustler, Tim Levett, John Waddell.



James Ferguson BA (Chairman)
aged 61

was chairman and managing director of Stewart Ivory Limited from 1989 until 2000. He is chairman of Value & Income Trust plc, The Monks Investment Trust PLC, Edinburgh US Tracker Trust plc and The Scottish Oriental Smaller Companies Trust plc, a non-executive director of Lloyds TSB Scotland 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 57

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 Darlington Building Society. He was appointed to the board in 2001.

John Hustler FCA MSI CF
aged 62

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 Northern Venture Trust PLC and Octopus Titan VCT 2 plc and a non-executive director of Hygea VCT plc. He was appointed to the board in 2001.

Tim Levett MBA
aged 60

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

John Waddell LLB
aged 53

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. He was appointed to the board in 2007.



Secretary and Registered Office

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One Hanover Street
London W1S 1YZ

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Newcastle upon Tyne NE99 1JP

Registrars

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Shareholder helpline: 0871 384 2030

Business Review

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 417 of the Companies Act 2006, 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 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 approximately 10% 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 £24 million, no single investment would normally represent in excess of 2.5% 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

£160 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 year

During the year under review the total return to ordinary shareholders, before dividends, was minus 10.4p per share, equivalent to 10.8% of the opening net asset value per share of 96.3p. The movement in total net assets and net asset value per share is summarised in table 2.

The net cash inflow from the venture capital portfolio was £1.2 million, comprising sale proceeds of £3.4 million less new investments of £2.2 million. Portfolio cash flow over the past five years is summarised in table 1.

After taking account of other cash flows, the company's total cash balances increased over the year by £1.3 million to £2.8 million. In addition the company holds listed fixed-interest investments valued at £5.7 million.

Dividends

The directors have declared dividends of 4.0p per share in respect of the year, comprising 2.5p revenue dividend and a 1.5p capital distribution.

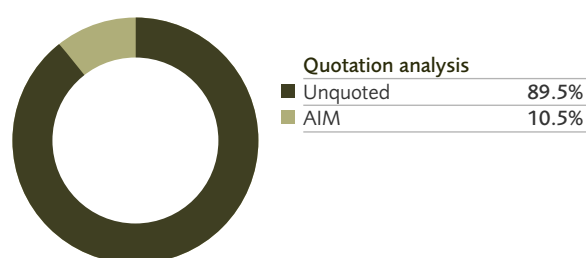
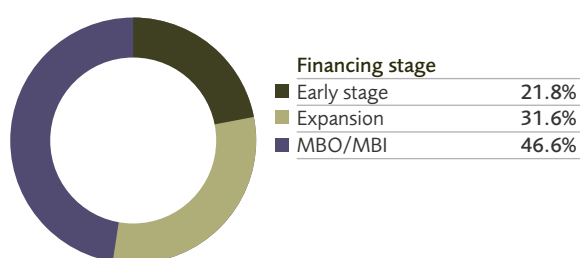
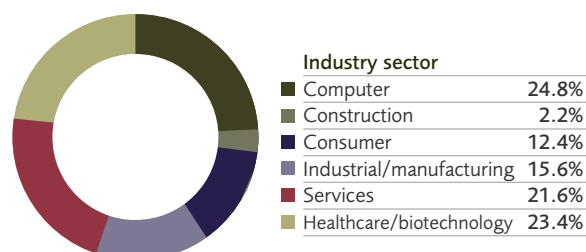
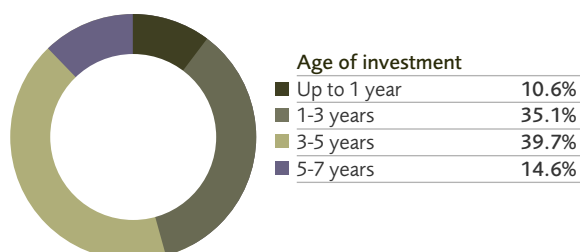
Table 1: Venture capital portfolio cash flow

| Year ended | New investment £000 | Disposal proceeds £000 | Net inflow/ (outflow) £000 |
|---------------------------------|------------------------|---------------------------|----------------------------------|
| 30 September 2004 | 2,207 | 1,028 | (1,179) |
| 30 September 2005 | 4,733 | 288 | (4,445) |
| 30 September 2006 | 2,867 | 1,183 | (1,684) |
| 31 March 2008 (18 month period) | 9,211 | 3,738 | (5,473) |
| 31 March 2009 | 2,237 | 3,404 | 1,167 |
| Total | 21,255 | 9,641 | (11,614) |

Table 2: Movement in net assets and net asset value per share

| | £000 | Pence per ordinary share |
|--|----------------|-----------------------------|
| Net asset value at 31 March 2008 | 28,645 | 96.3 |
| Net revenue (investment income less revenue expenses and tax) | 755 | 2.6 |
| Capital surplus/(deficit) arising on investments: | | |
| Realised net gains on disposals | 814 | 2.8 |
| Movements in fair value of investments | (4,460) | (15.3) |
| Management expenses allocated to capital account (net of tax relief) | (146) | (0.5) |
| Total return for the year as shown in income statement | (3,037) | (10.4) |
| Proceeds of issue of new shares (net of expenses) | 63 | – |
| Shares re-purchased for cancellation | (773) | 0.1 |
| Net movement for the year before dividends | (3,747) | (10.3) |
| Net asset value at 31 March 2009 before dividends recognised | 24,898 | 86.0 |
| Dividends recognised in the financial statements for the year | (575) | (2.0) |
| Net asset value at 31 March 2009 | 24,323 | 84.0 |

Business Review



Investment portfolio

During the year ended 31 March 2009, three new holdings were added to the venture capital portfolio at a cost of £1.5 million, and additional investments totalling £0.7 million were made in existing portfolio companies. The portfolio at 31 March 2009 comprised 42 holdings with an aggregate value of £15.2 million.

A summary of the venture capital holdings at 31 March 2009 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 year were:

- **Advanced Computer Software (£429,000)** – AIM-quoted health service software provider, London
- **CloserStill Holdings (£743,000)** – business-to-business exhibition management, London
- **Ingleby (1804) (£362,000)** – acquisition vehicle for software and IT services businesses, Birmingham

Investment realisations

Details of investment sales during the year are given in Note 10 on page 37. The most significant realisations (original cost or sales proceeds in excess of £0.5m) in the year are summarised in table 3.

Satisfactory exits were achieved from the unquoted investments in **Pivotal Laboratories Holdings** which was sold to the US-based clinical research services firm ACM and **Product Support (Holdings)** which was acquired by Wincanton plc, in each case for an all cash consideration.

Portfolio composition

The pie charts above show the composition of the investment portfolio at 31 March 2009 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.

The current economic conditions are presenting significant challenges to some of our investee companies and valuations have been reduced where necessary to reflect this. The fair value of our portfolio of unquoted

investments has been determined against a background of declining stock market price/earnings ratios and, in some cases, downward pressure on profitability. This has resulted in significant reductions during the year in the carrying value of the investments in **Astbury Marsden Holdings**, **Britspace Holdings**, **Foreman Roberts Group**, **John Laing Partnership** and **Promanex Group Holdings**. These companies and others continue to face difficult trading conditions and it is by no means certain that all will make a satisfactory recovery in due course. However we are willing to consider providing further financial backing to those companies where a strong business case exists.

Several companies have out-performed despite the economic conditions and we are particularly pleased with the progress of **DxS**, which has won a number of new contracts for its innovative diagnostic products. The new investments acquired during the past 12 months appear to have made a satisfactory start.

Table 3: Significant investment realisations

| Company | Date of original investment | Original cost £000 | Sales proceeds £000 | Realised surplus £000 |
|-------------------------------|-----------------------------|--------------------|---------------------|-----------------------|
| Pivotal Laboratories Holdings | 2005 | 679 | 1,239 | 560 |
| Product Support (Holdings) | 2006 | 1,000 | 2,007 | 1,007 |

Listed fixed-interest portfolio

The fixed-income portfolio managed by Sarasin & Partners LLP has suffered some effect from the unprecedented conditions in the financial markets. At a time of falling interest rates the portfolio has benefited from having locked in to fixed yields, but there has also been a significant fall in the bid price of one corporate bond where the market has become extremely cautious about future prospects for the issuing institution. As a result, our balance sheet at 31 March 2009 includes an unrealised valuation deficit of £0.4 million relating to the listed fixed-interest portfolio. Our fixed-income managers have advised against a premature sale of the underperforming holding and we will continue to monitor the position closely. The market value of the portfolio at 31 March 2009 represented approximately 23% of the company's net assets.

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.

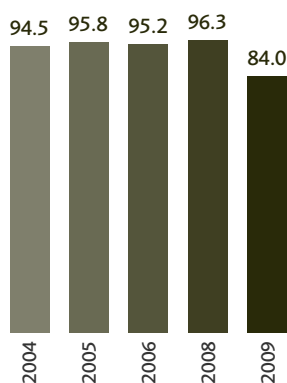
As at 31 March 2009 the number of investments falling into each valuation category was as shown in table 4.

| Category | Number of investments | Valuation £000 | % of portfolio by value |
|---|-----------------------|----------------|-------------------------|
| Unquoted investments at directors' valuation | | | |
| Earnings multiple | 12 | 9,714 | 63.9 |
| Original cost | 3 | 1,647 | 10.8 |
| Original cost less provision | 10 | 1,652 | 10.9 |
| Net assets | 1 | 305 | 2.0 |
| Sale price | 1 | 288 | 1.9 |
| Quoted investments at bid price | | | |
| Listed on London Stock Exchange | 1 | 3 | – |
| Quoted on AIM | 14 | 1,600 | 10.5 |
| Total | 42 | 15,209 | 100.0 |

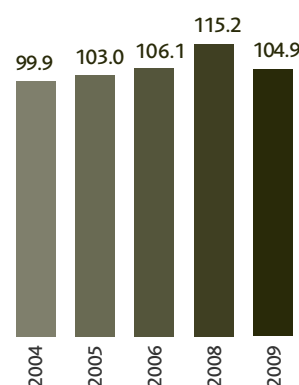
Key performance indicators

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 total return (net asset value plus cumulative dividends) per share over the past five years:



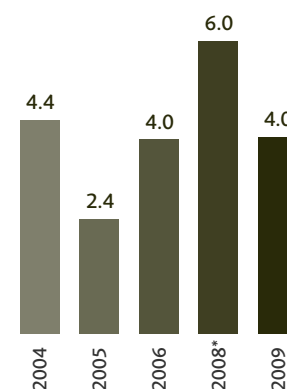
Net asset value (p)



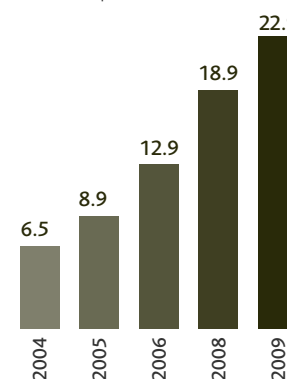
Net asset value plus cumulative dividends paid per share (p)

Dividend distributions:

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

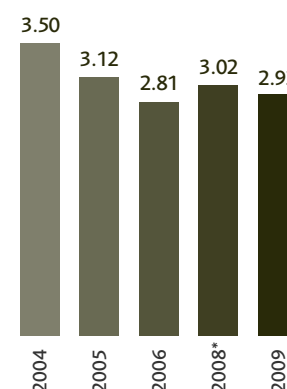


Dividend per share (p)
*18 month period



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

Business Review



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.

Economic risk: events such as economic recession or general fluctuations in stock markets and interest rates may affect the valuation of investee companies and their ability to access adequate financial resources, as well as affecting the company's own share price and discount to net asset value.

Liquidity risk: the company's investments may be difficult to realise. The fact that a stock is quoted on AIM does not guarantee its liquidity and there may be a large spread between bid and offer prices. Unquoted investments are not traded on a recognised stock exchange and are inherently illiquid.

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

After the recent sharp decline in the level of activity in the UK economy, it will take time to establish whether the radical restorative measures taken by the Government will have a beneficial effect. It seems likely that recovery will be slow in coming, and for the time being some of our investee companies will find conditions very challenging. Past experience suggests that when the economy begins to emerge from recession, there will be good commercial opportunities for well-managed businesses and we hope to participate in these opportunities both through our existing investments and through acquiring new holdings on a highly selective basis.

By order of the Board

C D Mellor
Secretary

18 May 2009

Investment Portfolio

as at 31 March 2009

| | Cost £000 | Valuation £000 | % of net assets by value |
|---|---------------|-------------------|-----------------------------|
| Fifteen largest venture capital investments (see pages 12 to 15) | | | |
| DxS | 327 | 2,587 | 10.6 |
| Paladin Group | 861 | 1,127 | 4.6 |
| Axial Systems Holdings | 1,004 | 1,101 | 4.5 |
| Envirotec | 456 | 822 | 3.4 |
| Optilan Group | 1,000 | 821 | 3.4 |
| CloserStill Holdings | 743 | 743 | 3.1 |
| Britspace Holdings | 1,201 | 735 | 3.0 |
| Crantock Bakery | 442 | 557 | 2.3 |
| Frontier Foods | 542 | 542 | 2.2 |
| Abermed | 375 | 527 | 2.2 |
| Advanced Computer Software* | 429 | 505 | 2.1 |
| Promanex Group Holdings | 1,000 | 500 | 2.0 |
| Arleigh International | 210 | 405 | 1.7 |
| Wear Inns | 386 | 384 | 1.6 |
| IDOX* | 298 | 367 | 1.5 |
| | 9,274 | 11,723 | 48.2 |
| Other venture capital investments | | | |
| Ingleby (1804) | 362 | 362 | 1.5 |
| S&P Coil Products | 240 | 343 | 1.4 |
| e-know.net | 225 | 306 | 1.3 |
| Longhirst Venues | 118 | 305 | 1.3 |
| Liquidlogic | 49 | 288 | 1.2 |
| Promatic Group | 568 | 284 | 1.2 |
| Direct Valeting | 345 | 258 | 1.1 |
| IG Doors | 500 | 250 | 1.0 |
| IS Pharma* | 277 | 243 | 1.0 |
| Gentronix | 238 | 178 | 0.7 |
| Andor Technology* | 201 | 145 | 0.6 |
| Brulines (Holdings)* | 184 | 137 | 0.6 |
| Leda Holdings | 385 | 96 | 0.4 |
| Warmseal Windows (Newcastle) | 339 | 85 | 0.3 |
| Cello Group* | 251 | 78 | 0.3 |
| Shieldtech* | 247 | 39 | 0.2 |
| Fountains* | 84 | 27 | 0.1 |
| Adept Telecom* | 235 | 23 | 0.1 |
| Twenty* | 198 | 15 | 0.1 |
| Intercytex Group* | 250 | 8 | – |
| Spectrum Interactive* | 163 | 5 | – |
| Oxonica* | 45 | 5 | – |
| Summit Corporation* | 122 | 3 | – |
| Alizyme** | 15 | 3 | – |
| Astbury Marsden Holdings | 1,000 | – | – |
| Foreman Roberts Group | 1,000 | – | – |
| John Laing Partnership | 305 | – | – |
| Total venture capital investments | 17,220 | 15,209 | 62.6 |
| Total listed fixed-interest investments | 6,113 | 5,700 | 23.4 |
| Total fixed asset investments | 23,333 | 20,909 | 86.0 |
| Net current assets | | 3,414 | 14.0 |
| Net assets | | 24,323 | 100.0 |

* Quoted on AIM

** Listed on London Stock Exchange

Fifteen Largest Venture Capital Investments



DxS LIMITED

| | |
|---------------------------|--|
| Cost | £327,000 |
| Valuation | £2,587,000 |
| Basis of valuation | Earnings multiple |
| Equity held | 8.3% |
| Business/location | Provider of molecular diagnostics to the healthcare industry, Manchester |
| History | Start-up investment in 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 £20,000 |

Audited financial information:

| Year ended 30 June | 2008 £m | 2007 £m |
|--------------------------|------------|------------|
| Sales | 3.3 | 1.1 |
| Profit/(loss) before tax | 0.4 | (0.8) |
| Profit/(loss) after tax | 0.9 | (0.7) |
| Net liabilities | (2.8) | (3.7) |



PALADIN GROUP LIMITED

| | |
|---------------------------|--|
| Cost | £861,000 |
| Valuation | £1,127,000 |
| 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 £53,000 |

Audited financial information:

| Year ended 31 March | 2008 £m | 2007 £m |
|---------------------|------------|------------|
| Sales | 15.7 | 11.5 |
| Profit before tax | 0.7 | 0.6 |
| Profit after tax | 0.4 | 0.3 |
| Net assets | 5.8 | 2.8 |



AXIAL SYSTEMS HOLDINGS LIMITED

| | |
|---------------------------|--|
| Cost | £1,004,000 |
| Valuation | £1,101,000 |
| Basis of valuation | Earnings multiple |
| Equity held | 8.2% |
| 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 | Dividends nil, loan stock interest £79,000 |

Audited financial information:

First audited accounts will be for the period to 31 May 2009



ENVIROTEC LIMITED

| | |
|---------------------------|--|
| Cost | £456,000 |
| Valuation | £822,000 |
| 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 3 VCT |
| Income in year | Dividends £12,000, loan stock interest £26,000 |

Audited financial information:

| Year ended 28 February | 2008 £m | 2007 £m |
|------------------------|------------|------------|
| Sales | 16.7 | 8.1 |
| Profit before tax | 2.6 | 1.6 |
| Profit after tax | 1.7 | 1.1 |
| Net assets | 3.3 | 1.9 |



OPTILAN GROUP LIMITED

| | |
|---------------------------|--|
| Cost | £1,000,000 |
| Valuation | £821,000 |
| Basis of valuation | Earnings multiple |
| Equity held | 7.2% |
| 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

CLOSERSTILL HOLDINGS LIMITED

CLOSERSTILL HOLDINGS LIMITED

| | |
|---------------------------|--|
| Cost | £743,000 |
| Valuation | £743,000 |
| Basis of valuation | Cost |
| Equity held | 8.9% |
| Business/location | Business-to-business exhibition management, London |
| History | Acquisition capital financing in September 2008, led by NVM |
| Other NVM funds investing | Northern Investors Company, Northern Venture Trust, Northern 2 VCT |
| Income in year | Dividends nil, loan stock interest £13,000 |

Audited financial information:

First audited accounts will be for the period to 31 August 2009



BRITSPACE HOLDINGS LIMITED

| | |
|---------------------------|--|
| Cost | £1,201,000 |
| Valuation | £735,000 |
| Basis of valuation | Earnings multiple |
| Equity held | 12.4% |
| 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 AIM VCT, Northern 2 VCT |
| Income in year | Nil |

Audited financial information:

| Year ended 31 March | 2008 £m | 2007 £m |
|--------------------------|------------|------------|
| Sales | 41.7 | 46.2 |
| Profit/(loss) before tax | (0.3) | 0.7 |
| Profit after tax | 0.5 | 0.7 |
| Net liabilities | (4.4) | (4.9) |



CRANTOCK BAKERY LIMITED

| | |
|---------------------------|--|
| Cost | £442,000 |
| Valuation | £557,000 |
| Basis of valuation | Earnings multiple |
| Equity held | 6.2% |
| Business/location | Manufacture of premium hand-made Cornish pasties, Newquay |
| History | Management buy-out/buy-in from private ownership, October 2002, led by NVM |
| Other NVM funds investing | Northern Investors Company, Northern AIM VCT, Northern 2 VCT |
| Income in year | Dividends nil, loan stock interest £26,000 |

Audited financial information:

| Year ended 30 September | 2007 £m | 2006 £m |
|-------------------------|------------|------------|
| Sales | 8.8 | 7.1 |
| Profit before tax | 0.4 | 0.4 |
| Profit after tax | - | 0.2 |
| Net assets | 1.5 | 1.4 |

Fifteen Largest Venture Capital Investments



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 | Dividends nil, loan stock interest £35,000 |

Audited financial information:

| Period ended 31 May | 2008* £m |
|---------------------|-------------|
| Sales | 1.0 |
| Loss before tax | (0.3) |
| Loss after tax | (0.3) |
| Net assets | 0.2 |

*11 months ended 31 May



ABERMED GROUP LIMITED

| | |
|---------------------------|--|
| Cost | £375,000 |
| Valuation | £527,000 |
| Basis of valuation | Earnings multiple |
| Equity held | 5.5% |
| Business/location | Provider of medical and occupational health services, Aberdeen |
| History | Management buy-out from private ownership, May 2005, led by NVM |
| Other NVM funds investing | Northern Investors Company, Northern Venture Trust, Northern 2 VCT |
| Income in year | Dividends nil, loan stock interest £29,000 |

Audited financial information:

| Year ended 28 March | 2008 £m | 2007 £m |
|---------------------|------------|------------|
| Sales | 10.0 | 9.2 |
| Profit before tax | 0.1 | 0.4 |
| Profit after tax | - | 0.4 |
| Net assets | 0.5 | 0.6 |



ADVANCED COMPUTER SOFTWARE PLC

| | |
|---------------------------|---|
| Cost | £429,000 |
| Valuation | £505,000 |
| Basis of valuation | Bid price (AIM) |
| Equity held | 1.3% |
| Business/location | Provider of software to the healthcare sector, London |
| History | Reverse take-over of an AIM quoted company, combined with additional fundraising, August 2008 |
| Other NVM funds investing | Northern Venture Trust, Northern AIM VCT, Northern 2 VCT |
| Income in year | Nil |

Audited financial information:

First audited accounts will be for the period to 28 February 2009



PROMANEX GROUP HOLDINGS LIMITED

| | |
|---------------------------|---|
| Cost | £1,000,000 |
| Valuation | £500,000 |
| Basis of valuation | Cost less provision |
| 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 £24,000 |

Audited financial information:

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



ARLEIGH INTERNATIONAL LIMITED

| | |
|---------------------------|---|
| Cost | £210,000 |
| Valuation | £405,000 |
| Basis of valuation | Earnings multiple |
| Equity held | 5.8% |
| Business/location | Suppliers of accessories and spares to the holiday home and boating markets, Nuneaton |
| History | Management buy-out from Firstserve, October 2004, led by NVM |
| Other NVM funds investing | Northern Investors Company, Northern Venture Trust, Northern 2 VCT |
| Income in year | Dividends nil, loan stock interest £19,000 |

Audited financial information:

| Year ended 31 December | 2007 £m | 2006 £m |
|------------------------|------------|------------|
| Sales | 10.4 | 7.7 |
| Profit before tax | 0.9 | 0.7 |
| Profit after tax | 0.6 | 1.5 |
| Net assets | 1.1 | 0.9 |



WEAR INNS LIMITED

| | |
|---------------------------|--|
| Cost | £386,000 |
| Valuation | £384,000 |
| Basis of valuation | Earnings multiple |
| Equity held | 9.9% |
| Business/location | Owner of managed public houses, Newcastle upon Tyne |
| History | Acquisition capital financing in February 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 £16,000 |

Audited financial information:

| Year ended 31 March | 2008 £m | 2007 £m |
|---------------------|------------|------------|
| Sales | 2.4 | 1.2 |
| Loss before tax | (0.3) | (0.7) |
| Loss after tax | (0.3) | (0.7) |
| Net assets | 0.1 | 0.4 |



IDOX PLC

| | |
|---------------------------|---|
| Cost | £298,000 |
| Valuation | £367,000 |
| Basis of valuation | Bid price (AIM) |
| Equity held | 1.2% |
| Business/location | Developer of software products for document, content and information management, London |
| History | Acquisition fundraising in May 2007, participated in by Northern 3 VCT |
| Other NVM funds investing | Northern Venture Trust, Northern AIM VCT |
| Income in year | Dividends £4,000 |

Audited financial information:

| Year ended 31 October | 2008 £m | 2007 £m |
|--------------------------|------------|------------|
| Sales | 20.6 | 13.0 |
| Profit/(loss) before tax | 1.1 | (0.5) |
| Profit/(loss) after tax | 0.9 | (1.0) |
| Net assets | 19.9 | 8.4 |

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 AIM VCT PLC and Northern 2 VCT PLC, and has a total of approximately £160 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 £7 million at the time of investment (for funds subscribed before 6 April 2006 the gross assets limit was £15 million). The definition of "qualifying trade" excludes certain activities such as property investment and development, financial services and asset leasing.

Financial calendar

The company's financial calendar for the year ending 31 March 2010 is as follows:

November 2009

Half-yearly financial report for six months ending 30 September 2009 published

January 2010

Interim dividend paid

May 2010

Final dividend and results for year to 31 March 2010 announced

May 2010

Annual report and accounts published

July 2010

Annual general meeting

July 2010

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 - VCTs".

A range of shareholder information is provided on the internet at www.shareview.co.uk by the company's registrars, Equiniti Limited, including details of shareholdings, indicative share prices and information on recent dividends (see page 5 for contact details for Equiniti Limited).

Share price information can also be obtained via the NVM website at 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 then 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 year ended 31 March 2009.

Activities and status

The principal activity of the company during the year 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 417 of the Companies Act 2006 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.

Corporate governance

The statement on corporate governance set out on pages 22 to 26 is included in the directors' report by reference.

Results and dividend

The negative return on ordinary activities after tax for the year of £3,037,000 has been transferred to reserves.

The interim dividend of 2.0p per share in respect of the year ended 31 March 2009 was paid during the year at a cost of £575,000 and has been charged to reserves.

The proposed final dividend of 2.0p per share for the year ended 31 March 2009 will, if approved by shareholders, be paid on 10 July 2009 to shareholders on the register on 19 June 2009.

Provision of information to auditors

Each of the directors who held office at the date of approval of this directors' report confirms that, so far as he is aware, there is no relevant audit information of which the company's

auditors are unaware and that he has taken all the steps that he ought to have taken as a director in order 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 the necessary 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 year and their interests in respect of which transactions are notifiable to the company under Disclosure and Transparency Rule 3.1.2R (and so far as the company is, or ought upon reasonable enquiry to become, aware, the interests of their connected persons) in the issued ordinary shares of 5p of the company as at 31 March 2009 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 2009 and the date of this report.

Table 1: Directors' interests in ordinary shares

| | 31 March 2009 | 1 April 2008 |
|---------------------------|---------------|--------------|
| J G D Ferguson (Chairman) | 102,800 | 102,800 |
| C J Fleetwood | 15,300 | 15,300 |
| J R Hustler | 25,100 | 25,100 |
| T R Levett | 117,300 | 106,500 |
| J M O Waddell | 5,000 | 5,000 |

Directors' Report

Brief biographical notes on the directors are given on page 4. Mr J G D Ferguson retires from the board in accordance with the articles of association and offers himself for re-election. Mr T R Levett retires from the board in accordance with the AIC Code of Corporate Governance and offers himself for re-election.

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 year 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 Act 2006, maintained insurance cover on behalf of the directors and secretary indemnifying them against certain liabilities which may be incurred by any of 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 2009.

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.

With effect from April 2006 a management performance incentive scheme was introduced under which investment executives employed by NVM are required to invest personally (and on the same terms as the company and other funds managed by NVM) in the ordinary share capital of investee companies in which the company invests. The directors review the operation of the scheme annually.

As required by the Listing Rules, the directors confirm that in their opinion the continuing appointment of NVM as investment manager on the terms agreed is in the interests of the company's shareholders as a whole. In reaching this conclusion the directors have taken into account the performance of the investment portfolio and the efficient and effective service provided by NVM to the company.

Share capital

During the year the company purchased for cancellation 894,966 of its own shares, representing 3.0% of the called-up share capital of the company, for a consideration of £773,000. Purchases were made in line with the company's policy of purchasing available shares at a discount to net asset value. 84,917 new ordinary shares of 5p were issued for a cash consideration of £72,000 through the company's dividend investment scheme. Details of allotments during the year are given in Note 15 to the financial statements.

At the 2008 annual general meeting shareholders authorised the company to purchase in the market up to 2,974,908 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 2009 374,141 shares had been purchased under this authority, which at that date remained effective in respect of 2,600,767 shares; the authority will lapse at the conclusion of the 2009 annual general meeting of the company on 2 July 2009.

Fixed assets

Movements in fixed asset investments during the year are set out in Note 9 to the financial statements.

Annual general meeting

Notice of the 2009 annual general meeting is set out on pages 44 and 45. The authorities sought under resolutions 8, 9 and 10 are to be given under the Companies Act 1985 and will be effective in accordance with their terms when the equivalent provisions in the Companies Act 2006 come into force (this is expected to occur on 1 October 2009). The directors continue to keep the company's articles of association under review and intend to recommend changes to shareholders following the full implementation of the Companies Act 2006.



Re-election of retiring directors (Resolutions 4 and 5)

Mr J G D Ferguson retires from the board by rotation in accordance with the articles of association and seeks re-election whilst Mr T R Levett retires from the board in accordance with the AIC Code of Corporate Governance 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 8)

Resolution 8, which will be proposed as an ordinary resolution, grants the directors a general authority to allot shares in the company. This resolution, if passed, gives the directors authority to allot ordinary shares up to a maximum nominal value of £1,053,048 (representing 72.78% of the issued ordinary 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 2010) or, if earlier, 30 September 2010 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 8 except in connection with the issue of ordinary shares pursuant to the dividend investment scheme.

Disapplication of pre-emption rights (Resolution 9)

Resolution 9, which will be proposed as a special resolution, supplements the directors' authority to allot shares in the company given to them by Resolution 8. The resolution authorises the directors to allot equity shares, or sell treasury shares, for cash (otherwise than pro rata to existing shareholders) up to an aggregate nominal value of £144,695 (representing 10% of the company's issued ordinary 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 2010) or, if earlier, 30 September 2010.

Purchase of shares by the company (Resolution 10)

Resolution 10, which will be proposed as a special resolution, authorises the company to purchase in the market up to 2,893,903 ordinary shares (equivalent to approximately 10% of the issued ordinary share capital) at a minimum price per share of 5p and a maximum price per share of not more than 105% of the average market value of the relevant shares for the five business days prior to the date on which the purchase is made. 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 2010) or, if earlier, 30 September 2010.

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.

Shares purchased under this authority become treasury shares which the company can cancel or hold for sale for cash; previously the board's policy has been to cancel treasury shares.

Substantial shareholdings

No disclosures of major shareholdings had been made to the company under Disclosure and Transparency Rule 5 (Vote Holder and Issuer Notification Rules) as at the date of this report.

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

18 May 2009

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 currently 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 G D Ferguson 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 18.

Directors' fees were reviewed by the nomination committee during its meeting in March 2009, when it was recommended that fees should not be increased from the present level of £18,000 per annum for the chairman and £13,500 for other directors for the year ending 31 March 2010. 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 year ended 31 March 2009 and 18 months ended 31 March 2008 are shown in table 1.

Table 1: Directors' fees

| | Year ended 31 March 2009 £ | 18 months ended 31 March 2008 £ |
|--|----------------------------------|---------------------------------------|
| J G D Ferguson (Chairman from 14 January 2009) | 14,450 | 19,500 |
| C J Fleetwood | 13,500 | 19,500 |
| J R Hustler (Chairman until 14 January 2009) | 17,050 | 26,250 |
| T R Levett | – | – |
| B E Sealey (retired 26 September 2007) | – | 13,000 |
| J M O Waddell (appointed 26 September 2007) | 13,500 | 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 below compares the total return (assuming all dividends are re-invested) to ordinary shareholders in the company over the five years ended 31 March 2009 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.

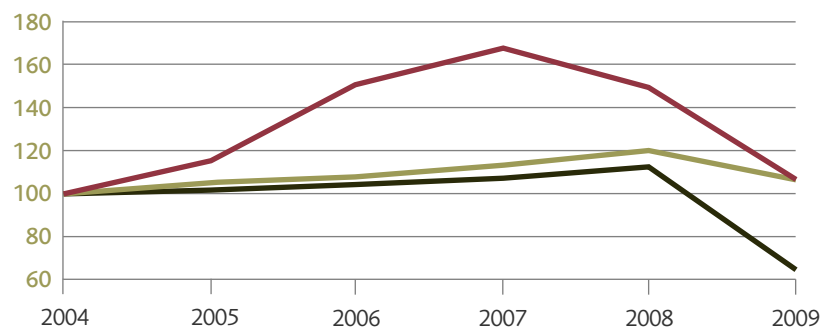
By order of the Board

C D MELLOR
Secretary

18 May 2009

Return to shareholders in Northern 3 VCT PLC

Five years to 31 March 2009 (March 2004 = 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.

The board of Northern 3 VCT PLC has considered the principles and recommendations of the Association of Investment Companies Code of Corporate Governance, third edition (AIC Code) by reference to the related 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 AIC Code can be viewed at www.theaic.co.uk.

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 during the year ended 31 March 2009 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 G D Ferguson, 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 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, 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.

The AIC Code recommends that where a director has served for more than nine years, the board should state its reasons for believing that the individual remains independent. The board is of the view that a term of service in excess of nine years is not per se prejudicial to a director's ability to carry out his/her duties effectively and from an independent perspective; the nature of the company's business is such that individual directors' experience and continuity of board membership can significantly enhance the effectiveness of the board as a whole. Accordingly it is not considered appropriate to require directors who have served for more than nine years to seek annual re-election. Nevertheless the board acknowledges that periodic refreshment of its membership is desirable.

Board committees

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

Audit Committee

During the year the audit committee comprised:

Mr C J Fleetwood (Chairman)
Mr J G D Ferguson
Mr J R Hustler (from 14 January 2009)
Mr J M O Waddell

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 year ended 31 March 2009 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 statement and interim management statements prior to board approval;
- reviewing the external auditors' detailed reports to the committee on the annual financial statements; and
- recommending to the board and shareholders the reappointment of KPMG Audit plc as the auditors of the company.

Corporate Governance

Nomination Committee

During the year the nomination committee comprised:

Mr J G D Ferguson
(Chairman from 14 January 2009)
Mr C J Fleetwood
Mr J R Hustler
(Chairman until 14 January 2009)
Mr T R Levett
Mr J M O Waddell

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 20 and 21.

Management Engagement Committee

During the year the management engagement committee comprised:

Mr J G D Ferguson
(Chairman from 14 January 2009)
Mr C J Fleetwood
Mr J R Hustler
(Chairman until 14 January 2009)
Mr J M O Waddell

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 year ended 31 March 2009 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 general meetings and are made available publicly following the relevant meeting.

Further information can also be obtained via the NVM website at 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

Table 1: Directors' attendance at meetings

| | Board | Audit Committee | Nomination Committee | Management Engagement Committee |
|-------------------------------|-------|-----------------|----------------------|---------------------------------|
| Number of meetings held | 6 | 3 | 2 | 2 |
| Attendance (actual/possible): | | | | |
| J G D Ferguson | 6/6 | 3/3 | 2/2 | 2/2 |
| C J Fleetwood | 6/6 | 3/3 | 2/2 | 2/2 |
| J R Hustler | 6/6 | 1/1 | 2/2 | 2/2 |
| T R Levett | 6/6 | N/A | 2/2 | N/A |
| J M O Waddell | 6/6 | 3/3 | 2/2 | 2/2 |

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.

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 2009 28,939,039 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:

(a) 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;

- (b) 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
- (c) 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.

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

Corporate Governance



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

The company's articles of association specify that, 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 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 2008 annual general meeting to make market purchases of up to 2,974,908 ordinary shares at any time up to the 2009 annual general meeting and otherwise on the terms set out in the relevant resolution, and authority is being sought at the annual general meeting to be held on 2 July 2009 as set out on page 19 in the description of the business of the meeting.

By order of the Board

C D MELLOR
Secretary

18 May 2009

Directors' Responsibility Statement

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.

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 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.

In relation to the financial statements for the year ended 31 March 2009, each of the directors confirms that to the best of his knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company; and
- the directors' report includes a fair review of the development and performance of the business and the position of the company together with a description of the principal risks and uncertainties that it faces.

The directors are also 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. 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. 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

18 May 2009

Independent Auditors' Report

We have audited the financial statements of Northern 3 VCT PLC for the year ended 31 March 2009 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, 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 Statement of Directors' Responsibilities 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 is consistent with the financial statements. The information given in the Directors' Report includes that information presented in the Business Review that is cross referred from the Business Review section of the Directors' Report.

In addition we 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

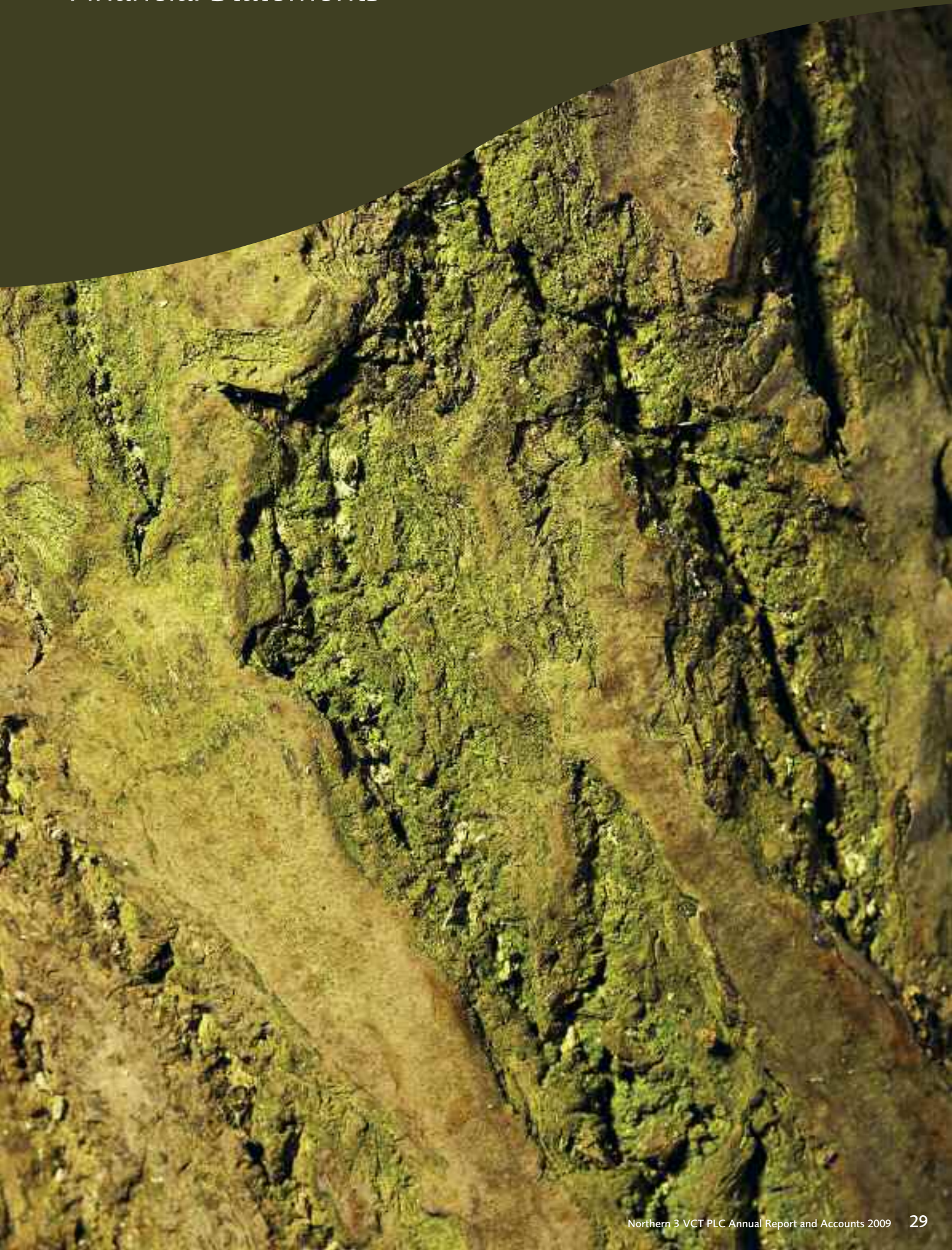
In our opinion:

- 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 2009 and of its total return for the year 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

18 May 2009

Financial Statements



Income Statement

for the year ended 31 March 2009

| | Notes | Year ended 31 March 2009 | | | 18 months ended 31 March 2008 | | |
|---|-------|--------------------------|-----------------|---------------|-------------------------------|-----------------|---------------|
| | | Revenue £000 | Capital £000 | Total £000 | Revenue £000 | Capital £000 | Total £000 |
| Gain on disposal of investments | 9 | – | 814 | 814 | – | 85 | 85 |
| Movements in fair value of investments | 9 | – | (4,460) | (4,460) | – | 1,969 | 1,969 |
| | | – | (3,646) | (3,646) | – | 2,054 | 2,054 |
| Income | 2 | 1,249 | – | 1,249 | 2,228 | – | 2,228 |
| Investment management fee | 3 | (140) | (420) | (560) | (259) | (903) | (1,162) |
| Recoverable VAT | 4 | 67 | 213 | 280 | – | – | – |
| Other expenses | 5 | (213) | – | (213) | (295) | – | (295) |
| Return on ordinary activities before tax | | 963 | (3,853) | (2,890) | 1,674 | 1,151 | 2,825 |
| Tax on return on ordinary activities | 5 | (208) | 61 | (147) | (441) | 271 | (170) |
| Return on ordinary activities after tax | | 755 | (3,792) | (3,037) | 1,233 | 1,422 | 2,655 |
| Return per share | 8 | 2.6p | (13.0)p | (10.4)p | 4.1p | 4.7p | 8.8p |
| Dividends paid/proposed in respect of the year | 7 | 2.5p | 1.5p | 4.0p | 4.2p | 1.8p | 6.0p |

- The total column of this statement is the profit and loss account of the company. The supplementary revenue return and capital return columns have been prepared under guidance published by the Association of Investment Companies.
- There are no recognised gains or losses other than those disclosed in the income statement.
- All items in the above statement derive from continuing operations.
- The accompanying notes are an integral part of this statement.

Reconciliation of Movements in Shareholders' Funds

for the year ended 31 March 2009

| | Notes | Year ended | 18 months ended |
|--|-------|-----------------------|-----------------------|
| | | 31 March 2009 £000 | 31 March 2008 £000 |
| Equity shareholders' funds at 1 April 2008 | | 28,645 | 29,281 |
| Return on ordinary activities after tax | | (3,037) | 2,655 |
| Dividends recognised in the period | 7 | (575) | (2,418) |
| Net proceeds of share issues | 15 | 63 | 287 |
| Shares purchased for cancellation | 15 | (773) | (1,142) |
| Expenses charged to capital reserve | | – | (18) |
| Equity shareholders' funds at 31 March 2009 | | 24,323 | 28,645 |

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

Balance Sheet

as at 31 March 2009

| | Notes | 31 March 2009 £000 | 31 March 2008 £000 |
|--|-------|-----------------------|-----------------------|
| Fixed assets | | | |
| Investments | 9 | 20,909 | 27,200 |
| Current assets | | | |
| Debtors | 13 | 848 | 265 |
| Cash and deposits | | 2,785 | 1,526 |
| | | 3,633 | 1,791 |
| Creditors (amounts falling due within one year) | 14 | (219) | (346) |
| Net current assets | | 3,414 | 1,445 |
| Net assets | | 24,323 | 28,645 |
| Capital and reserves | | | |
| Called-up equity share capital | 15 | 1,447 | 1,487 |
| Share premium | 16 | 8,089 | 8,031 |
| Capital redemption reserve | 16 | 188 | 143 |
| Capital reserve | 16 | 16,432 | 15,997 |
| Revaluation reserve | 16 | (2,424) | 2,749 |
| Revenue reserve | 16 | 591 | 238 |
| Total equity shareholders' funds | | 24,323 | 28,645 |
| Net asset value per share | 17 | 84.0p | 96.3p |

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

The financial statements on pages 30 to 43 were approved by the directors on 18 May 2009 and are signed on their behalf by:

J G D Ferguson
Director

C J Fleetwood
Director

Cash Flow Statement

for the year ended 31 March 2009

| | Year ended 31 March 2009 | | 18 months ended 30 March 2008 | |
|---|--------------------------|---------|-------------------------------|---------|
| | £000 | £000 | £000 | £000 |
| Net cash inflow from operating activities | | 42 | | 1,206 |
| Taxation | | | | |
| Corporation tax paid | | (143) | | (105) |
| Financial investment | | | | |
| Purchase of investments | (2,234) | | (16,041) | |
| Sale/repayment of investments | 4,879 | | 16,133 | |
| Net cash inflow from financial investment | | 2,645 | | 92 |
| Equity dividends paid | | (575) | | (2,418) |
| Net cash outflow before financing | | (1,969) | | (1,225) |
| Financing | | | | |
| Issue of ordinary shares | 72 | | 293 | |
| Share issue expenses | (9) | | (6) | |
| Purchase of ordinary shares for cancellation | (773) | | (1,142) | |
| Net cash outflow from financing | | (710) | | (855) |
| Increase/(decrease) in cash and deposits | | 1,259 | | (2,080) |
| Reconciliation of return before tax to net cash flow from operating activities | | | | |
| Return on ordinary activities before tax | | (2,890) | | 2,825 |
| Gain on disposal of investments | | (814) | | (85) |
| Movements in fair value of investments | | 4,460 | | (1,969) |
| (Increase)/decrease in debtors | | (583) | | 335 |
| Increase/(decrease) in creditors | | (131) | | 118 |
| Expenses charged to capital reserve | | – | | (18) |
| Net cash inflow from operating activities | | 42 | | 1,206 |

| Analysis of movement in net funds | 1 April 2008 | Cash flows | 31 March 2009 |
|--|--------------|------------|---------------|
| | £000 | £000 | £000 |
| Cash and deposits | 1,526 | 1,259 | 2,785 |

Notes to the Financial Statements

for the year ended 31 March 2009

1 Accounting policies

A summary of the principal accounting policies, all of which have been consistently applied throughout the year 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 January 2009, 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 revaluation reserve. 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.

f Taxation

UK corporation tax payable is provided on taxable profits at the current rate. The tax charge for the year 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 year ended 31 March 2009

2 Income

| | Year ended 31 March 2009 £000 | 18 months ended 30 September 2008 £000 |
|-----------------------------------|-------------------------------------|--|
| Franked investment income: | | |
| Unquoted companies | 74 | 183 |
| Quoted companies | 16 | 20 |
| Interest receivable: | | |
| Bank deposits* | 101 | 118 |
| Loans to unquoted companies | 708 | 1,045 |
| Listed fixed-interest investments | 350 | 862 |
| | 1,249 | 2,228 |

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

3 Investment management fee

| | Year ended 31 March 2009 | | | 18 months ended 30 September 2008 | | |
|----------------------------|--------------------------|-----------------|---------------|-----------------------------------|-----------------|---------------|
| | Revenue £000 | Capital £000 | Total £000 | Revenue £000 | Capital £000 | Total £000 |
| Investment management fee: | | | | | | |
| Basic | 134 | 401 | 535 | 220 | 662 | 882 |
| Performance-related | – | – | – | – | 106 | 106 |
| Irrecoverable VAT thereon | 6 | 19 | 25 | 39 | 135 | 174 |
| | 140 | 420 | 560 | 259 | 903 | 1,162 |

NVM Private Equity Limited (NVM) provides investment management and secretarial services to the company under an agreement dated 24 September 2001, which may 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 year 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 total return is equal to or less than the target. The target for the year ended 31 March 2009 was 6.25% and accordingly no performance-related fee was payable. 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 is included in other expenses (see Note 5).

The Finance Act 2008 contained provisions exempting VCT management fees from VAT, and accordingly NVM ceased charging VAT on management and administrative and secretarial fees payable by the company with effect from 1 July 2008.

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.

4 Recoverable VAT

HM Revenue & Customs has accepted that under European Union VAT law the exemption of VCT management fees from VAT should have applied from January 1990 onwards, and has indicated that claims may be made for repayment of VAT previously paid by VCTs on management fees, subject to such claims being limited to a period of three years prior to the date of claim. During the year ended 31 March 2009 the company received a repayment of £280,000 in respect of VAT previously paid on management fees and this amount has been recognised as a separate credit in the income statement, allocated between revenue and capital return in the same proportion as that in which the irrecoverable VAT was originally charged. The directors believe it is possible that a further repayment of VAT may be receivable in due course, but they are unable at this stage to quantify the amount involved and consequently no provision for any further recovery has been made in these financial statements.

5 Other expenses

| | Year ended 31 March 2009 £000 | 18 months ended 31 March 2008 £000 |
|---|-------------------------------------|--|
| Administrative and secretarial services | 42 | 60 |
| Directors' remuneration | 59 | 85 |
| Auditors' remuneration – audit services | 15 | 15 |
| Legal and professional expenses | 16 | 11 |
| Irrecoverable VAT | 19 | 24 |
| Other expenses | 62 | 100 |
| | 213 | 295 |

Information on directors' remuneration is given in the directors' remuneration report on pages 20 and 21.

6 Tax on return on ordinary activities

| | Year ended 31 March 2009 | | | 18 months ended 31 March 2008 | | |
|---|--------------------------|-----------------|---------------|-------------------------------|-----------------|---------------|
| | Revenue £000 | Capital £000 | Total £000 | Revenue £000 | Capital £000 | Total £000 |
| (a) Analysis of charge/(credit) for the period | | | | | | |
| UK corporation tax payable/(recoverable) on the return for the period | 208 | (61) | 147 | 441 | (271) | 170 |
| (b) Tax reconciliation | | | | | | |
| Return on ordinary activities before tax | 963 | (3,853) | (2,890) | 1,674 | 1,151 | 2,825 |
| Return on ordinary activities multiplied by the standard rate of UK corporation tax of 28% (2008 30%) | 270 | (1,079) | (809) | 502 | 345 | 847 |
| Effect of: | | | | | | |
| UK dividends not subject to tax | (25) | – | (25) | (61) | – | (61) |
| Capital returns not subject to tax | – | (228) | (228) | – | (26) | (26) |
| Unrealised adjustments to fair value | – | 1,249 | 1,249 | – | (590) | (590) |
| Marginal relief | (8) | (3) | (11) | – | – | – |
| Adjustment to tax charge in respect of prior periods | (28) | – | (28) | – | – | – |
| Current tax charge/(credit) for the period | 208 | (61) | 147 | 441 | (271) | 170 |

(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 2009.

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 year ended 31 March 2009

7 Dividends

| | Year ended 31 March 2009 | | | 18 months ended 31 March 2008 | | |
|---|--------------------------|-----------------|---------------|-------------------------------|-----------------|---------------|
| | Revenue £000 | Capital £000 | Total £000 | Revenue £000 | Capital £000 | Total £000 |
| (a) Recognised as distributions in the financial statements for the year | | | | | | |
| Previous year's second interim dividend | – | – | – | 308 | 307 | 615 |
| Current period's interim dividends | 402 | 173 | 575 | 1,262 | 541 | 1,803 |
| | 402 | 173 | 575 | 1,570 | 848 | 2,418 |
| (b) Paid and proposed in respect of the period | | | | | | |
| First interim paid – 2.0p (2008 2.0p) per share | 402 | 173 | 575 | 422 | 182 | 604 |
| Second interim paid – nil (2008 2.0p) per share | – | – | – | 421 | 180 | 601 |
| Third interim paid – nil (2008 2.0p) per share | – | – | – | 419 | 179 | 598 |
| Final proposed – 2.0p (2008 nil) per share | 318 | 261 | 579 | – | – | – |
| | 720 | 434 | 1,154 | 1,262 | 541 | 1,803 |

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.

The proposed final dividend of 2.0p per share for the year ended 31 March 2009 is subject to approval by shareholders at the annual general meeting on 2 July 2009 and has not been recognised as a liability in these financial statements.

8 Return per share

The calculation of the return per share is based on the negative return on ordinary activities after tax for the period of £3,037,000 (2008 positive £2,655,000) and on 29,132,520 (2008 30,321,656) shares, being the weighted average number of shares in issue during the period.

9 Investments

| | 31 March 2009 £000 | 31 March 2008 £000 |
|-----------------------------------|-----------------------|-----------------------|
| Venture capital investments: | | |
| Unquoted | 13,606 | 17,852 |
| Quoted | 1,603 | 1,851 |
| Listed fixed-interest investments | 5,700 | 7,497 |
| | 20,909 | 27,200 |

9 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 April 2008 | 14,313 | 2,641 | 7,591 | 24,545 |
| Fair value adjustment at 1 April 2008 | 3,539 | (790) | (94) | 2,655 |
| Fair value at 1 April 2008 | 17,852 | 1,851 | 7,497 | 27,200 |
| Movements in the period: | | | | |
| Purchases at cost | 1,730 | 507 | (3) | 2,234 |
| Disposals – proceeds | (3,404) | – | (1,475) | (4,879) |
| – net realised gains on disposal | 807 | – | 7 | 814 |
| Changes in fair value | (3,379) | (755) | (326) | (4,460) |
| Fair value at 31 March 2009 | 13,606 | 1,603 | 5,700 | 20,909 |
| Comprising: | | | | |
| Book cost at 31 March 2009 | 14,221 | 2,999 | 6,113 | 23,333 |
| Fair value adjustment at 31 March 2009 | (615) | (1,396) | (413) | (2,424) |
| | 13,606 | 1,603 | 5,700 | 20,909 |
| Equity shares | 5,810 | 1,603 | – | 7,413 |
| Preference shares | 203 | – | – | 203 |
| Interest-bearing securities | 7,593 | – | 5,700 | 13,293 |
| | 13,606 | 1,603 | 5,700 | 20,909 |

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.

At 31 March 2009 there were commitments totalling £208,000 (31 March 2008 £208,000) in respect of investments approved by the manager but not yet completed.

10 Investment disposals

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

| | Original cost £000 | Carrying value prior to disposal £000 | Disposal proceeds £000 | Realised gain/(loss) against carrying value £000 |
|-------------------------------|--------------------------|---|------------------------------|--|
| Pivotal Laboratories Holdings | 1,000 | 908 | 1,239 | 331 |
| Product Support (Holdings) | 679 | 1,547 | 2,007 | 460 |
| Hat Pin | 149 | – | – | – |
| Other | 143 | 142 | 158 | 16 |
| | 1,971 | 2,597 | 3,404 | 807 |

Notes to the Financial Statements

for the year ended 31 March 2009

11 Unquoted investments

The cost and carrying value of material investments in unquoted companies held at 31 March 2009 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 2009 | | 31 March 2008 | |
|---------------------------------------|--------------------|------------------------|--------------------|------------------------|
| | Total cost £000 | Carrying value £000 | Total cost £000 | Carrying value £000 |
| DxS Limited | | | | |
| Ordinary shares | 32 | 2,292 | 30 | 266 |
| Loan stock | 295 | 295 | 295 | 295 |
| | 327 | 2,587 | 325 | 561 |
| Paladin Group Limited | | | | |
| Ordinary shares | 256 | 522 | 256 | 631 |
| Loan stock | 605 | 605 | 605 | 605 |
| | 861 | 1,127 | 861 | 1,236 |
| Axial Systems Holdings Limited | | | | |
| Ordinary shares | 145 | 242 | 141 | 141 |
| Loan stock | 859 | 859 | 859 | 859 |
| | 1,004 | 1,101 | 1,000 | 1,000 |
| Envirotec Limited | | | | |
| Ordinary shares | 106 | 472 | 106 | 462 |
| Loan stock | 350 | 350 | 350 | 350 |
| | 456 | 822 | 456 | 812 |
| Optilan Group Limited | | | | |
| Ordinary shares | 179 | – | 179 | 179 |
| Loan stock | 821 | 821 | 821 | 821 |
| | 1,000 | 821 | 1,000 | 1,000 |
| CloserStill Holdings Limited | | | | |
| Ordinary shares | 142 | 142 | – | – |
| Loan stock | 601 | 601 | – | – |
| | 743 | 743 | – | – |
| Britspace Holdings Limited | | | | |
| Ordinary shares | 443 | – | 588 | 1,058 |
| Loan stock | 758 | 735 | – | – |
| | 1,201 | 735 | 588 | 1,058 |
| Crantock Bakery Limited | | | | |
| Ordinary shares | 90 | 205 | 90 | 410 |
| Loan stock | 352 | 352 | 352 | 352 |
| | 442 | 557 | 442 | 762 |
| Frontier Foods Limited | | | | |
| Ordinary shares | 157 | 157 | 157 | 157 |
| Loan stock | 385 | 385 | 385 | 385 |
| | 542 | 542 | 542 | 542 |
| Abermed Limited | | | | |
| Ordinary shares | 38 | 190 | 38 | 130 |
| Loan stock | 337 | 337 | 337 | 337 |
| | 375 | 527 | 375 | 467 |

11 Unquoted investments continued

| | 31 March 2009 | | 31 March 2008 | |
|--|--------------------|------------------------|--------------------|------------------------|
| | Total cost £000 | Carrying value £000 | Total cost £000 | Carrying value £000 |
| Promanex Group Holdings Limited | | | | |
| Ordinary shares | 100 | – | 100 | 100 |
| Loan stock | 900 | 500 | 900 | 900 |
| | 1,000 | 500 | 1,000 | 1,000 |
| Arleigh International Limited | | | | |
| Ordinary shares | 21 | 216 | 21 | 293 |
| Loan stock | 189 | 189 | 189 | 189 |
| | 210 | 405 | 210 | 482 |
| Wear Inns Limited | | | | |
| Ordinary shares | 178 | 176 | 178 | 178 |
| Loan stock | 208 | 208 | 208 | 208 |
| | 386 | 384 | 386 | 386 |
| Ingleby (1804) Limited | | | | |
| Ordinary shares | 36 | 36 | – | – |
| Loan stock | 326 | 326 | – | – |
| | 362 | 362 | – | – |
| S&P Coil Products Limited | | | | |
| Ordinary shares | 24 | 127 | 24 | 138 |
| Loan stock | 216 | 216 | 216 | 216 |
| | 240 | 343 | 240 | 354 |
| Product Support (Holdings) Limited | | | | |
| Ordinary shares | – | – | 101 | 648 |
| Loan stock | – | – | 899 | 899 |
| | – | – | 1,000 | 1,547 |
| Astbury Marsden Holdings Limited | | | | |
| Ordinary shares | – | – | 181 | 181 |
| Loan stock | – | – | 819 | 819 |
| | – | – | 1,000 | 1,000 |
| Foreman Roberts Group Limited | | | | |
| Ordinary shares | – | – | 100 | 100 |
| Loan stock | – | – | 900 | 900 |
| | – | – | 1,000 | 1,000 |
| Pivotal Laboratories Holdings Limited | | | | |
| Ordinary shares | – | – | 68 | 297 |
| Loan stock | – | – | 611 | 611 |
| | – | – | 679 | 908 |
| Promatic Group Limited | | | | |
| Ordinary shares | 57 | – | 57 | 57 |
| Loan stock | 511 | 284 | 511 | 511 |
| | 568 | 284 | 568 | 568 |
| John Laing Partnership Limited | | | | |
| Ordinary shares | – | – | 21 | 279 |
| Irredeemable preference shares | – | – | 44 | 3 |
| Loan stock | – | – | 240 | 240 |
| | – | – | 305 | 522 |

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

Notes to the Financial Statements

for the year ended 31 March 2009

12 Significant interests

There are no shareholdings in companies where the company's holding at 31 March 2009 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.

13 Debtors

| | 31 March 2009 £000 | 31 March 2008 £000 |
|--------------------------------|-----------------------|-----------------------|
| Prepayments and accrued income | 152 | 265 |
| Other debtors | 696 | – |
| | 848 | 265 |

14 Creditors (amounts falling due within one year)

| | 31 March 2009 £000 | 31 March 2008 £000 |
|------------------------------|-----------------------|-----------------------|
| Accruals and deferred income | 45 | 176 |
| Corporation tax payable | 174 | 170 |
| | 219 | 346 |

15 Called-up equity share capital

| | 31 March 2009 £000 | 31 March 2008 £000 |
|--|-----------------------|-----------------------|
| Authorised: | | |
| 50,000,000 (2008 50,000,000) ordinary shares of 5p | 2,500 | 2,500 |
| Allotted and fully paid: | | |
| 28,939,039 (2008 29,749,088) ordinary shares of 5p | 1,447 | 1,487 |

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 84,917 ordinary shares of 5p for cash at an average premium of 79.1p per share in connection with the dividend investment scheme. 894,966 shares were re-purchased for cancellation at a cost of £773,000.

16 Reserves

| | Share premium £000 | Capital redemption reserve £000 | Capital reserve £000 | Revaluation reserve £000 | Revenue reserve £000 |
|--|--------------------------|--|----------------------------|--------------------------------|----------------------------|
| At 1 April 2008 | 8,031 | 143 | 15,997 | 2,749 | 238 |
| Transfer between reserves (see below) | – | – | 94 | (94) | – |
| Premium on issue of ordinary shares | 67 | – | – | – | – |
| Share issue expenses | (9) | – | – | – | – |
| Shares purchased for cancellation | – | 45 | (773) | – | – |
| Realised on disposal of investments | – | – | 814 | – | – |
| Transfer on disposal of investments | – | – | 619 | (619) | – |
| Movements in fair value of investments | – | – | – | (4,460) | – |
| Management fee capitalised net of associated tax | – | – | (146) | – | – |
| Revenue return on ordinary activities after tax | – | – | – | – | 755 |
| Dividends recognised in the period | – | – | (173) | – | (402) |
| At 31 March 2009 | 8,089 | 188 | 16,432 | (2,424) | 591 |

With effect from 1 April 2008, changes in fair value of listed fixed-interest investments are dealt with in the revaluation reserve rather than the capital reserve. The balances on both reserves at 1 April 2008 have been amended by a reserve transfer to reflect this change.

16 Reserves continued

At 31 March 2009, distributable reserves amounted to £16,610,000 (31 March 2008 £16,235,000), comprising the capital reserve, the revenue reserve and that part of the revaluation reserve relating to holding gains/losses on readily realisable listed fixed-interest investments.

17 Net asset value per share

The calculation of net asset value per share as at 31 March 2009 is based on net assets of £24,323,000 (2008 £28,645,000) divided by the 28,939,039 (2008 29,749,088) ordinary shares in issue at that date.

18 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 9) 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 with 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 to 10. 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 22 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 9.

6.6% (31 March 2008 6.5%) by value of the company's net assets comprises 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 2009 would have increased net assets and the total return for the period by £80,000 (31 March 2008 £93,000); a corresponding fall would have reduced net assets and the total return for the period by the same amount.

55.9% (31 March 2008 62.3%) 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 2009 would have increased net assets and the total return for the period by £680,000 (31 March 2008 £893,000); 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.

Notes to the Financial Statements

for the year ended 31 March 2009

18 Financial instruments continued

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 2009 | | | 31 March 2008 | | |
|--|------------------------------------|-------------------------------------|--|------------------------------------|-------------------------------------|--|
| | 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 | 5,700 | 4.8 | 0.9 | 7,497 | 5.8 | 1.6 |
| Short-term cash deposits | 1,600 | 1.6 | 0.2 | – | – | – |
| Fixed-rate investments in unquoted companies | 1,180 | 9.9 | 1.3 | 1,413 | 9.8 | 1.9 |
| | 8,480 | | | 8,910 | | |

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 0.5% at 31 March 2009 (31 March 2008 5.25%). The amounts held in floating rate investments at the balance sheet date were as follows:

| | 31 March 2009 £000 | 31 March 2008 £000 |
|---|-----------------------|-----------------------|
| Floating rate loans to unquoted companies | 6,413 | 9,310 |
| Interest-bearing deposit accounts | 1,185 | 1,526 |
| | 7,598 | 10,836 |

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 2009 the company's financial assets exposed to credit risk comprised the following:

| | 31 March 2009 £000 | 31 March 2008 £000 |
|--|-----------------------|-----------------------|
| Listed fixed-interest investments | 5,700 | 7,497 |
| Short-term cash deposits | 1,600 | – |
| Fixed-rate investments in unquoted companies | 1,180 | 1,413 |
| Floating rate loans to unquoted companies | 6,413 | 9,310 |
| Interest-bearing deposit accounts | 1,185 | 1,526 |
| Accrued dividends and interest receivable | 143 | 258 |
| | 16,221 | 20,004 |

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 2009 or 31 March 2008. No individual investment exceeded 5.9% of the company's net assets at 31 March 2009 (31 March 2008 5.4%).

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 2009 these investments were valued at £8,485,000 (31 March 2008 £9,023,000).

19 Contingent liabilities

At 31 March 2009 the company had a potential liability of £696,000 (31 March 2008 £nil) in respect of a guarantee given to secure certain liabilities of an investee company.

Notice of Annual General Meeting

Notice is hereby given that the seventh annual general meeting of Northern 3 VCT PLC will be held at the Vermont Hotel, Castle Garth, Newcastle upon Tyne NE1 1RQ at 11.30am on Thursday 2 July 2009 for the following purposes:

- 1 To receive the financial statements for the year ended 31 March 2009 and the directors' and independent auditors' reports thereon.
- 2 To declare a final dividend of 2.0p per share in respect of the year ended 31 March 2009.
- 3 To approve the directors' remuneration report in respect of the year ended 31 March 2009.
- 4 To re-elect as a director Mr J G D Ferguson 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 T R Levett who retires in accordance with the AIC Code and offers himself for re-election.
- 6 To re-appoint KPMG Audit Plc as independent auditors of the company until the conclusion of the next annual general meeting of the company.
- 7 To authorise the directors to fix the independent auditors' remuneration.
- 8 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 £1,053,048, 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, 30 September 2010, 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 hereby has expired."
- 9 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 for the purposes of Section 80 of the Act conferred by Resolution 8 passed at the 2009 Annual General Meeting and to sell equity shares which immediately before the sale are held by the company as treasury shares, in each case as if Section 89(1) of the Act did not apply to any such allotment or sale provided that the power conferred by this resolution shall be limited to the allotment or sale of equity securities up to an aggregate nominal value of £144,695 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, 30 September 2010 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."
 - 10 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 2,893,903 representing approximately 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 purchase is made; 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 after the passing of this resolution or, if earlier, 30 September 2010 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."

By order of the Board

C D MELLOR
Secretary

18 May 2009

Northumberland House
Princess Square
Newcastle upon Tyne NE1 8ER

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 Limited at Aspect House, Spencer Road, Lancing BN99 6ZR not later than 11.30am on Tuesday 30 June 2009.
- 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 30 June 2009 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 30 June 2009 (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 15 May 2009 (being the last business day prior to the date of this notice) the company's issued share capital consisted of 28,939,039 ordinary shares each carrying one vote per share. Accordingly the total voting rights in the company as at 15 May 2009 were 28,939,039.
- 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 provider(s) 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 – 2 July 2009

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 seventh annual general meeting of the company to be held on 2 July 2009, notice of which was sent to shareholders with the annual report and accounts for the year ended 31 March 2009, 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 year ended 31 March 2009 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2 To declare a final dividend of 2.0p per share in respect of the year ended 31 March 2009 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3 To approve the directors' remuneration report in respect of the year ended 31 March 2009 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4 To re-elect Mr J G D Ferguson as a director | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5 To re-elect Mr T R Levett as a director | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 6 To re-appoint KPMG Audit Plc as independent auditors | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 7 To authorise the directors to fix the remuneration of the independent auditors | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 8 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"/> |
| 9 To disapply Section 89 of the Companies Act 1985 in relation to certain allotments of equity securities and the sale of treasury shares | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 10 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"/> |

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: _____ 2009

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 form of proxy 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/her. To appoint more than one proxy, please contact Equiniti Limited 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 the proxy holder is 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 Limited at Aspect House, Spencer Road, Lancing BN99 6ZR not later than 11.30am on Tuesday 30 June 2009.
- 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 2 July 2009 at the Vermont Hotel, Castle Garth, Newcastle upon Tyne NE1 1RQ

Signed: _____ Date: _____ 2009

Third fold and tuck in

BUSINESS REPLY SERVICE
Licence No. SEA10850



First fold

EQUINITI LIMITED
ASPECT HOUSE
SPENCER ROAD
LANCING
BN99 6ZR

Second fold

Northern 3 VCT PLC

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Princess Square
Newcastle upon Tyne NE1 8ER

Tel: 0191 244 6000

Fax: 0191 244 6001

E-mail: n3vct@nvm.co.uk

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