



2002

Northern 3 VCT PLC

Annual Report and Accounts 30 September 2002





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Financial Summary

Period ended
30 September 2002

Net assets	£13,531,000
Net asset value per share	96.9p
Return on ordinary activities before tax:	
Revenue	£111,000
Capital	£242,000
Return per share:	
Revenue	1.2p
Capital	3.4p
Dividend per share	0.6p
Share price at end of period	95p

Northern 3 VCT PLC is a Venture Capital Trust (VCT) managed by Northern Venture Managers. The trust intends to invest mainly in unquoted venture capital situations and aims to provide high long-term returns to shareholders through a combination of dividend yield and capital growth.

Chairman's Statement



I am pleased to present Northern 3 VCT's first annual report to shareholders, covering the period from the date of incorporation to 30 September 2002. The company's public share offer raised almost £14 million from investors, representing around 10% of new VCT funds raised in the past year, and your directors regard this as a creditable outcome given the prevailing market conditions. I would again like to thank all of our shareholders for their support, and I am pleased to report that we have made a satisfactory start to the process of building our portfolio of qualifying venture capital investments.

Net asset value

The net asset value (NAV) at 30 September 2002 was 96.9p per share, compared with a starting position, after deducting issue expenses, of 95p. The increase is almost entirely due to a rise in the value of the listed fixed-interest portfolio, as our unlisted venture capital investments are all still valued at their original cost, but our sole AiM-listed investment to date has also achieved a modest uplift in value against the market trend.

Investments

During the period our managers completed five VCT-qualifying investments, further details of which are given elsewhere in this report. Three more investments have been added since the financial year end and your directors are encouraged at this early stage by the way the portfolio is shaping up and by the standard of the continuing flow of potential new investments.

Revenue and dividends

The statement of total return for the period to 30 September 2002 includes the investment income earned on the proceeds of share allotments, which took place on a phased basis on various dates from October 2001 onwards, and is not representative of a normal year's ongoing activities. The net revenue after tax was £89,000, equivalent to a return per share of 1.2p based on the weighted average of 7,727,133 shares in issue during the period. The amount available for distribution equates to just over 0.6p for each share in issue at the year end, and the directors therefore recommend a final dividend of 0.6p per share, which will be paid on 6 February 2003 to shareholders on the register on 6 January 2003. As mentioned below, we are also declaring an interim dividend of 0.4p in respect of the year ending 30 September 2003 and this will be payable on the same date.

With interest rates continuing at a low level, and bearing in mind that funds will be moved progressively from the listed fixed-interest portfolio into venture capital investments, it is likely that in the short to medium term any dividends paid will be relatively low. However our plans to increase the overall size of the company will have the effect of spreading the fixed costs over a wider base, thus enhancing the income yield. We also intend to ensure that a substantial proportion of the company's venture capital portfolio comprises mature income-producing holdings, complementing those earlier stage investments which have the potential for above-average capital gains. In the longer term we will seek to realise capital gains from investment disposals for distribution to shareholders by way of tax-free dividend under the VCT rules.

VCT qualifying status

Your board has retained PricewaterhouseCoopers to monitor and report on the company's progress towards meeting the qualifying investment requirements laid down in the VCT legislation. We believe that the strong flow of potential deals through our managers will enable us to meet all the relevant conditions in advance of the first deadline in September 2004.

Share price

The company's mid-market share price has stood at 95p since December 2001 and, as expected, very few shares have come onto the market. Although VCTs are obliged to maintain a full listing on the London Stock Exchange, the market is rarely sufficiently liquid to prevent VCT shares trading at a wide discount to net asset value. Our managers are involved in ongoing discussions with other VCT managers to identify ways of making investors more aware of the benefits of buying VCT shares in the secondary market.

We will be asking shareholders at the annual general meeting to renew the board's powers to purchase shares in the market for cancellation, thus providing one avenue for shareholders to realise their investment. In line with the intention expressed in the prospectus, Court consent has been obtained to a reduction in the company's share premium account, so creating a new special reserve which can be used to offset the cancellation of shares without drawing on the company's revenue reserves.

Proposed public share offer

In my interim statement I reported that your board intended to consider launching a further share issue with the objective of enlarging the company's capital base to over £25 million. Although market conditions are still by no means favourable, we have now decided to go ahead with a public offer commencing in January 2003 for the 2002/03 and 2003/04 tax years. Accordingly shareholders will receive with this annual report a circular giving details of an extraordinary general meeting to be held on 22 January 2003, at which resolutions will be proposed authorising the directors to allot new shares. Existing shareholders will have preferential subscription rights in the new issue, and we have declared an early interim dividend of 0.4p per share, payable on 6 February 2003, to ensure that existing shareholders receive the fullest possible benefit from the company's earnings up to the date of launch. Your directors believe strongly that enlargement is in the interests of existing shareholders and we hope you will support the resolutions.

Future prospects

The outcome of the public share offer and the steady progress made subsequently have given us a sound foundation for the future. Although there is still uncertainty as to the short-term outlook for the UK economy and the financial markets, we continue to hold the view that the next two to three years will be a good time to be building a portfolio of VCT-qualifying investments. This augurs well for the longer term prospects of our company.

John Hustler

Chairman

19 December 2002

Directors



John Hustler FCA MSI (Chairman), aged 56, 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 a non-executive director of Northern Venture Trust PLC, ATA Group plc and a number of other companies.



James Ferguson BA, aged 55, was chairman and managing director of Stewart Ivory Limited from 1989 until 2000. He is chairman of Value & Income Trust plc, a non-executive director of The Independent Investment Trust plc and a former deputy chairman of the Association of Investment Trust Companies.



Chris Fleetwood BA FCA, aged 51, held a number of positions in manufacturing businesses and was group chief executive of Whessoe plc from 1988 until 2000. He is now managing partner of io solutions, e-business strategy advisers. He is chairman of the North East Regional Portal 2001 Limited and Tolwood Limited and a non-executive director of Darlington Building Society.



Tim Levett MBA, aged 53, is the investment director of Northern Venture Managers Limited. He is a non-executive director of Northern Venture Trust PLC and of several unquoted companies.



Barry Sealey CBE MA, aged 66, was managing director of Christian Salvesen plc from 1981 to 1990. He is now an active business angel investor. He is chairman of Optos plc and a non-executive director of a number of other companies.

Secretary and Registered Office

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Registered Number

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Investment Manager's Review

Background

This review covers the period from October 2001, when the first share allotments by Northern 3 VCT took place, to the end of September 2002. The net proceeds of the ordinary share issues during the period amounted to £13.3 million, and the Venture Capital Trust rules require us to invest at least 70% in qualifying venture capital holdings by the end of the company's third accounting period. The directors intend in practice to maintain the level of qualifying holdings at around 80% of net assets in order to allow flexibility in the management of the portfolio.

Management of liquid funds

The proceeds of the share issues have been initially invested in a portfolio of gilts and corporate bonds managed by Edinburgh Fund Managers plc. Funds will be progressively drawn down by Northern Venture Managers ("NVM") as required in order to finance investments in the venture capital portfolio. At 30 September 2002 the funds managed by Edinburgh Fund Managers totalled some £8.2 million, on which a yield to maturity of 4.2% is currently being obtained.

VCT qualifying investments

Five VCT-qualifying investments totalling £1.3 million were completed during the period to 30 September 2002. Information on the individual holdings is set out on pages 8 and 9. Since the period end three more investments totalling £0.9 million have been completed. As indicated in the company's prospectus, we will be aiming as the portfolio develops to achieve a broad spread of investments over a variety of industry sectors and stages of maturity. All of our investments have made satisfactory progress to date.

The portfolio includes one investment traded on the Alternative Investment Market, which is valued at the mid-market price as at 30 September 2002. Unlisted investments are valued in accordance with the accounting policy set out on page 17, which follows the guidelines laid down by the British Venture Capital Association. As well as requiring appropriate provision where an investment is under-

performing significantly, the guidelines stipulate that normally no investment should be revalued upwards within 12 months of its acquisition. As no provisions were considered necessary at 30 September 2002, all of the unlisted investments are valued at cost in the financial statements.

Northern 3 VCT is entitled to be offered participation in every investment proposal developed by NVM. The company usually co-invests alongside the other venture capital funds managed by NVM, with investments allocated to the participating funds pro rata to their net asset value.

NVM monitors the progress of each investment carefully through well-established monthly reporting procedures, and NVM's monitoring reports are in turn reviewed on a regular basis by the board of Northern 3 VCT.

Outlook

Despite the difficult economic and stock market environment, NVM has seen a good flow of potential venture capital deals during the past 12 months. Most of our activity is in investments of up to £5 million, below the minimum level at which many UK venture capital firms now operate, which means that we occupy a strong position in our chosen market and can take a highly selective approach to new investment opportunities.

We believe that the next two years will continue to present good investment opportunities, which should enable Northern 3 VCT to build a durable investment portfolio with long-term growth potential.

Alastair Conn

Managing Director

Northern Venture Managers Limited

Investment Portfolio

as at 30 September 2002

	Cost £000	Valuation £000	% of net assets by valuation
Venture capital investments			
Horncastle Industries	750	750	5.5
Keith Prowse	280	280	2.1
PM Group*	141	176	1.3
Liquidlogic	88	88	0.6
Oxonica	20	20	0.2
Total venture capital investments	1,279	1,314	9.7
Listed fixed-interest investments			
£900,000 Treasury 6.5% stock 2003	928	949	7.0
£546,000 General Electric Capital Corporation FRN bonds 2003	546	549	4.1
£543,000 Federal Home Loan Bank 5.625% bonds 2003	547	559	4.1
£540,000 Halifax 5.75% notes 2003	545	576	4.3
£538,000 European Investment Bank 6% bonds 2003	542	558	4.1
£535,000 General Electric Capital Corporation 6.25% bonds 2003	539	556	4.1
£533,000 General Electric Company 6% bonds 2003	535	557	4.1
£530,000 Abbey National 7.75% GTB bonds 2003	547	584	4.3
£525,000 Barclays Bank 7.875% bonds 2049	541	584	4.3
£520,000 Bank Nederland Gemeenten 7.75% bonds 2003	533	542	4.0
£510,000 Toyota Motor Credit 6.25% bonds 2003	516	524	3.9
£500,000 European Investment Bank 7% bonds 2003	516	546	4.0
£400,000 Inter American Development Bank 7.25% bonds 2002	403	425	3.1
£379,000 Nippon Telegraph & Telephone 7.375% bonds 2003	388	416	3.1
£240,000 Abbey National 8% GTB bonds 2003	244	254	1.9
Total listed fixed-interest investments	7,870	8,179	60.4
Total fixed asset investments	9,149	9,493	70.1
Net current assets		4,038	29.9
Net assets		13,531	100.0

* Quoted on Alternative Investment Market

Venture Capital Investments



HORNCASTLE INDUSTRIES LIMITED

Cost	£750,000
Valuation	£750,000
Basis of valuation	Cost
Equity held	6.0%
Business/location	Manufacture of modular buildings, Hull
History	Management buy-out, September 2002, led by NVM
Other NVM funds investing	Northern Investors Company, Northern 2 VCT, Northern AIM VCT
Dividends in year	Nil

Audited financial information:

First audited accounts will be for the period to 31 March 2003



KEITH PROSE LIMITED

Cost	£280,000
Valuation	£280,000
Basis of valuation	Cost
Equity held	4.9%
Business/location	Provision of corporate hospitality, London
History	Management buy-out from Wembley plc, March 2002, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT, Northern AIM VCT
Dividends in year	Nil

Audited financial information:

First audited accounts will be for the period to 31 December 2002



PM GROUP PLC

Cost	£141,000
Valuation	£176,000
Basis of valuation	Mid-market value (Alternative Investment Market)
Equity held	1.1%
Business/location	Manufacture of on-board weighing systems for bulk haulage and waste management markets, Bradford
History	The company floated on AiM in April 2002
Other NVM funds investing	Northern Investors Company, Northern 2 VCT, Northern AIM VCT
Dividends in year	Nil

Audited financial information:

Year ended 30 June	2002 £m	2001 £m
Sales	5.4	4.3
Profit before tax	1.0	0.5
Retained profit	0.3	0.1
Net assets	5.0	0.3

Venture Capital Investments

LIQUIDLOGIC LIMITED



Cost	£88,000
Valuation	£88,000
Basis of valuation	Cost
Equity held	3.1%
Business/location	Software development for the public sector, Leeds
History	Development capital investment, August 2002, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT
Dividends in year	Nil

Audited financial information:

Year ended 31 March	2002 £m	2001 £m
Sales	—	—
Loss before tax	(0.4)	(0.2)
Retained loss	(0.4)	(0.2)
Net assets	0.1	0.1

OXONICA LIMITED



Cost	£20,000
Valuation	£20,000
Basis of valuation	Cost
Equity held	0.4%
Business/location	Development of nanomaterials technology, Oxford
History	Early stage investment, June 2002, led by VCF Partners
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT
Dividends in year	Nil

Audited financial information:

Year ended 31 December	2001 £m	2000 £m
Sales	—	—
Loss before tax	(0.9)	(0.5)
Retained loss	(0.9)	(0.5)
Net assets	—	0.3

Directors' Report

The directors present their report and the audited financial statements for the period from 3 September 2001 to 30 September 2002.

Activities and status

The company was incorporated on 3 September 2001 and commenced operations on 19 October 2001 when its shares were first listed on the London Stock Exchange.

The principal activity of the company during the period was the making of long-term equity and loan investments, mainly in unlisted companies. The company is an investment company as defined in Section 266 of the Companies Act 1985. The company has been granted provisional approval by the Inland Revenue as a Venture Capital Trust. The Chairman's Statement on pages 2 and 3 includes a review of developments during the period and of future prospects.

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 842AA of the Income and Corporation Taxes Act 1988. 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 Act.

The directors are required by the Articles of Association to convene an extraordinary general meeting immediately after the tenth annual general meeting of the company, and, if applicable, in every fifth year thereafter, to consider and vote on a special resolution that the company be wound up voluntarily.

Results and dividend

Net revenue attributable to shareholders for the period

£89,000

Appropriated as follows:

Final dividend proposed – 0.6p per share

84,000

Retained in revenue reserve

5,000

£89,000

Directors

The directors of the company at the end of the period and their interests in the issued ordinary shares of 5p of the company were as follows:

	30 September 2002	As at date of appointment
J R Hustler (Chairman)	5,100	—
J G D Ferguson	51,400	—
C J Fleetwood	10,200	—
T R Levett	25,000	—
B E Sealey	20,500	—

All of the directors named above were appointed on 20 September 2001 except for Mr T R Levett who was appointed on 3 September 2001. Mr C D Mellor was appointed as a director on 3 September 2001 and resigned on 20 September 2001.

All of the directors' share interests shown above were held beneficially. Mr J G D Ferguson subscribed for a further 51,400 shares on 11 October 2002. There have been no other changes in the directors' share interests between 30 September 2002 and the date of this report.

Brief biographical notes on the directors are given on page 4.

In accordance with the recommendations of the Combined Code included within the London Stock Exchange Listing Rules, all of the directors will retire at the first annual general meeting of the company and will offer themselves 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 subsisted during or at the end of the period in which any director was materially interested and which was significant in relation to the company's business.

Directors' and officers' liability insurance

The company has, as permitted by Section 310(3) of the Companies Act 1985, maintained insurance cover on behalf of the directors and secretary indemnifying

them against certain liabilities which may be incurred by them in relation to the company.

Creditor payment policy

The company's payment policy for the forthcoming financial year is to agree terms of payment before business is transacted and to settle accounts in accordance with those terms. There were no amounts owing to trade creditors at 30 September 2002.

Management

Northern Venture Managers 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, Edinburgh Fund Managers Group plc.

Purchase and cancellation of own shares

During the year the company purchased for cancellation 15,000 of its own shares with a nominal value of £750, representing 0.01% of the called-up share capital of the company, for a consideration of £13,500.

Fixed assets

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

Substantial shareholdings

So far as the directors are aware, there were no individual shareholdings representing 3% or more of the company's issued share capital at the date of this report.

Annual general meeting and extraordinary general meeting

A resolution will be proposed as special business at the annual general meeting to renew the authority of the directors to make market purchases of the company's shares for cancellation.

An extraordinary general meeting will be held on the same day to consider resolutions authorising the

directors to allot up to 15,000,000 new ordinary shares in the company.

Independent auditors

PricewaterhouseCoopers, who were appointed as independent auditors of the company on incorporation, are willing to continue in office 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

19 December 2002

Corporate Governance

The company is committed to maintaining high standards in corporate governance. The directors consider that the company has throughout the period under review complied with the provisions set out in Section 1 of the Combined Code on Corporate Governance published by the UK Listing Authority in June 1998, except that 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 or to appoint a Remuneration Committee.

Board of directors

The company has a board of five non-executive directors, the majority of whom are independent of the company's investment manager. The board meets regularly on a quarterly basis, and on other occasions as required, to review investment performance and monitor compliance with the investment policy laid down by the board. The board has a formal schedule of matters specifically reserved for its decision. A brief biographical summary of each director is given on page 4.

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

Audit Committee

Mr C J Fleetwood (Chairman)

Mr J G D Ferguson

Mr B E Sealey

- deals with matters relating to audit, financial reporting and internal control systems. The committee meets three times per year and has direct access to PricewaterhouseCoopers, the company's independent auditors.

Nomination Committee

Mr J R Hustler (Chairman)

Mr J G D Ferguson

Mr C J Fleetwood

Mr T R Levett

Mr B E Sealey

- considers the selection and appointment of directors and makes annual recommendations to the board as to the level of directors' fees. 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 Note 5 to the financial statements.

Management Engagement Committee

Mr J R Hustler (Chairman)

Mr J G D Ferguson

Mr C J Fleetwood

Mr B E Sealey

- undertakes a periodic review of the terms of the management agreement with Northern Venture Managers.

All of the directors have access to the advice and services of Mr C D Mellor, 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.

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 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.

Internal control

The directors have overall responsibility for keeping under review the effectiveness of the company's systems of internal controls. The purpose of these 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 results and investment performance with the investment managers.

Responsibility for accounting, secretarial services and physical custody of documents of title relating to 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.

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 the accounting period under review and up to the date of this report.

The board has considered the need for a separate internal audit function and has concluded that, in view of the nature of the company’s operations, such a function is not currently necessary.

Risk management

A statement of the company’s principal objectives is given on page 1. In order to achieve these objectives the company invests its funds primarily in unlisted equity holdings, which by their nature may entail a higher degree of risk than investments in large listed companies. The directors aim to limit the risk attaching to the portfolio as a whole by careful selection of investments and by maintaining a wide spread of investments in terms of financing stage, industry sector and geographical location.

Management of the company’s liquid funds is carried out by external managers in accordance with policy guidelines laid down and regularly reviewed by the directors. The company has not undertaken any borrowings or entered into any derivative transactions and does not expect to do so in the foreseeable future.

Directors’ responsibilities

The directors are required by law to prepare financial statements which give a true and fair view

both of the financial position of the company at the end of the financial period and of the results for that period. The directors are required to prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the company will continue in business. The financial statements must comply with applicable Accounting Standards and with the prescribed statutory formats and disclosures.

The directors confirm that the financial statements for the period ended 30 September 2002 comply with the requirements set out above and that suitable accounting policies, consistently applied and supported by reasonable and prudent judgement, have been used in their preparation.

The directors are also responsible for ensuring that proper accounting records are maintained and for taking such steps as are reasonably open to them to ensure that the assets of the company are safeguarded and that fraud and other irregularities are prevented.

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.

Statement of Total Return (incorporating the Revenue Account)

for the period ended 30 September 2002

	Notes	Period ended 30 September 2002 Revenue £000	Capital £000	Total £000
Gains on investments				
Realised on disposals		—	—	—
Unrealised revaluation movements	9	—	344	344
		<u>—</u>	<u>344</u>	<u>344</u>
Income	2	269	—	269
Investment management fee	3	(34)	(102)	(136)
Other expenses	4	(124)	—	(124)
		<u>111</u>	<u>242</u>	<u>353</u>
Return on ordinary activities before tax		111	242	353
Tax on ordinary activities	6	(22)	20	(2)
		<u>89</u>	<u>262</u>	<u>351</u>
Return on ordinary activities after tax		89	262	351
Dividends	7	(84)	—	(84)
		<u>5</u>	<u>262</u>	<u>267</u>
Transfer to reserves	17	5	262	267
Return per share	8	1.2p	3.4p	4.6p
Dividend per share	7	0.6p	—	0.6p

- The revenue column of this statement is the profit and loss account of the company
- There is no difference between the revenue return on ordinary activities before tax and the transfer to revenue reserves for the financial period and their historic cost equivalents
- All revenue and capital items in the above statement derive from continuing operations
- The accompanying notes are an integral part of this statement

Balance Sheet

as at 30 September 2002

	Notes	30 September 2002 £000
Fixed assets		
Investments	9	9,493
Current assets		
Investments	12	2,867
Debtors	13	296
Cash at bank		990
		<u>4,153</u>
Creditors (amounts falling due within one year)	14	(115)
Net current assets		<u>4,038</u>
Net assets		<u>13,531</u>
Capital and reserves		
Called-up equity share capital	16	698
Share premium	17	12,566
Capital reserve - realised	17	(82)
- unrealised	17	344
Revenue reserve	17	5
Total equity shareholders' funds	18	<u>13,531</u>
Net asset value per share	19	96.9p

■ The accompanying notes are an integral part of this statement

The financial statements on pages 14 to 22 were approved by the directors on 19 December 2002 and are signed on their behalf by:

J R Hustler
Director

C J Fleetwood
Director

Cash Flow Statement

for the period ended 30 September 2002

	Notes	Period ended 30 September 2002	
		£000	£000
Cash flow statement			
Net cash outflow from operating activities			(258)
Taxation			
Corporation tax paid			—
Financial investment			
Purchase of investments	9	(9,149)	
Sale of investments		—	
Net cash outflow from financial investment			(9,149)
Equity dividends paid			
			—
Cash outflow before use of liquid resources and financing			(9,407)
Net cash flow from management of liquid resources	12		(2,867)
Financing			
Issue of redeemable preference shares	16	50	
Issue of ordinary shares	16	13,975	
Share issue expenses	17	(698)	
Purchase of ordinary shares for cancellation	16	(13)	
Redemption of preference shares	16	(50)	
Net cash inflow from financing			13,264
Increase in cash at bank			990
Reconciliation of revenue before tax to net cash flow from operating activities			
Net revenue before taxation			111
Increase in debtors			(296)
Increase in creditors			29
Management fees charged to capital reserve			(102)
Net cash outflow from operating activities			(258)
Analysis of movement in net funds			
	3 September 2001	Cash flows	30 September 2002
	£000	£000	£000
Cash at bank	—	990	990
Short-term investments	—	2,867	2,867
Net funds	—	3,857	3,857

1 Accounting policies

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

a Basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of fixed asset investments, and in accordance with applicable accounting standards and with the Statement of Recommended Practice “Financial statements of investment trust companies”.

b Investments

Listed investments are stated at middle market prices, discounted where necessary to reflect lack of liquidity.

Unlisted investments are stated at directors’ valuation. The directors’ policy in valuing unlisted investments is to carry them at cost except in the following circumstances:

- where a company’s under-performance against plan indicates a diminution in the value of the investment: provision against cost is made as appropriate in bands of 25%.
- where a company is well-established and profitable the shares may be valued by applying a suitable price-earnings ratio to the company’s historic post-tax earnings. The ratio used is based on a comparable listed company or sector but discounted by 25-50% to reflect unmarketability.
- where a value is indicated by a material arms-length transaction by a third party in the shares of a company.

Unlisted investments will not normally be revalued upwards for a period of at least twelve months from the date of acquisition.

Capital gains and losses on investments, whether realised or unrealised, are dealt with in the capital reserve.

c Income

Investment income includes income tax withheld at source. Dividend income is shown net of any related tax credit.

Dividends receivable on listed equity shares are brought into account on the ex-dividend date. Dividends receivable on unlisted 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 a time apportionment basis so as to reflect the effective yield, 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 normally charged wholly to revenue with the exception of:

- expenses incidental to the acquisition or disposal of an investment, which are included within the cost of the investment or deducted from the disposal proceeds as appropriate, and
- the investment management fee, which has been charged 25% to the revenue account and 75% to realised capital reserve to reflect that element which is, in the directors’ opinion, attributable to the acquisition of the company’s investments and the maintenance or enhancement of their value.

e Taxation

Corporation tax payable is provided on taxable profits at the current rate. Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Deferred tax is measured on a non-discounted basis.

Notes to the Financial Statements

for the period ended 30 September 2002

5 Directors' remuneration	Period ended 30 September 2002 £000
Fees paid to directors	33
Amounts paid to third parties in consideration for the services of directors	10
	<u>43</u>

The fees paid in respect of individual directors were as follows:

	£
J R Hustler (Chairman)	12,500
J G D Ferguson	10,000
C J Fleetwood	10,000
T R Levett	—
B E Sealey	10,000

None of the directors received any other remuneration or benefit during the period. Mr T R Levett waived his entitlement to director's fees in respect of the period ended 30 September 2002. Since all of the directors are non-executive, the other disclosures required by the Listing Rules are not applicable.

6 Tax on ordinary activities	Period ended 30 September 2002 Revenue £000	Capital £000
(a) Analysis of charge for the period		
Corporation tax payable/(recoverable)	22	(20)
(b) Tax reconciliation		
Return on ordinary activities before tax	111	242
Return on ordinary activities multiplied by the smaller companies rate of UK corporation tax of 20%	22	48
Effect of:		
Capital returns not subject to tax	—	(68)
	<u>22</u>	<u>(20)</u>

The directors are not aware of any matters which may affect the tax charge in future periods. There is no provided or unprovided deferred tax as at 30 September 2002.

7 Dividends	Period ended 30 September 2002 £000
Final dividend proposed - 0.6p per share	<u>84</u>

8 Return per share

The revenue return per share is based on net revenue from ordinary activities after tax of £89,000 and on 7,727,133 shares, being the weighted average number of shares in issue during the period.

The capital return per share is based on net realised and unrealised capital gains for the period of £262,000 and on 7,727,133 shares, being the weighted average number of shares in issue during the period.

The company has no securities that would have a dilutive effect in the period to 30 September 2002 and hence basic and diluted return per share are the same.

Notes to the Financial Statements

for the period ended 30 September 2002

	30 September 2002 £000
9 Fixed asset investments	
Venture capital investments - unlisted	1,138
- listed	176
Listed fixed-interest investments	8,179
	<u>9,493</u>

Movements in investments during the period are summarised as follows:

	Venture capital - unlisted £000	Venture capital - listed £000	Listed fixed-interest £000	Total £000
Movements in the period:				
Purchases at cost	1,138	141	7,870	9,149
Movement in unrealised appreciation	—	35	309	344
	<u>1,138</u>	<u>176</u>	<u>8,179</u>	<u>9,493</u>
Valuation at 30 September 2002				
Comprising:				
Book cost at 30 September 2002	1,138	141	7,870	9,149
Unrealised appreciation at 30 September 2002	—	35	309	344
	<u>1,138</u>	<u>176</u>	<u>8,179</u>	<u>9,493</u>

10 Unlisted investments

The cost and carrying value of investments in unlisted companies held at 30 September 2002 are shown below.

	30 September 2002	
	Total cost £000	Carrying value £000
Horncastle Industries Limited		
Ordinary shares	150	150
Loan stock	600	600
	<u>750</u>	<u>750</u>
Keith Prowse Limited		
Ordinary shares	29	29
Loan stock	251	251
	<u>280</u>	<u>280</u>
Liquidlogic Limited		
Ordinary shares	44	44
Loan stock	44	44
	<u>88</u>	<u>88</u>
Oxonica Limited		
Ordinary shares	20	20

Additional information relating to investments in unlisted companies is given on pages 8 and 9.

Notes to the Financial Statements

for the period ended 30 September 2002

11 Significant interests

There are no shareholdings in companies where the company's holding at 30 September 2002 represents (1) more than 10% of the allotted equity share capital of any class, (2) more than 10% of the total allotted share capital or (3) more than 10% of the assets of the company itself.

12 Current asset investments

Current asset investments at 30 September 2002 comprised UK money market instruments maturing within three months of the balance sheet date.

	30 September 2002 £000
13 Debtors	
Prepayments and accrued income	296

	30 September 2002 £000
14 Creditors (amounts falling due within one year)	
Corporation tax payable	2
Accruals	29
Proposed dividend	84
	<u>115</u>

15 Financial instruments

The company has no derivative financial instruments and has no financial asset or liability for which hedge accounting has been used. All financial assets are held in sterling, hence there is no foreign currency exchange rate exposure. Fixed asset investments are valued in accordance with the British Venture Capital Association's guidelines and the directors consider that all assets are carried at fair value. There is little exposure to interest rate risk. The company does not have any financial liabilities other than short-term creditors, and had no borrowing facilities at 30 September 2002. Market risk is discussed on page 13.

Investments are made in a combination of equity and fixed-rate financial instruments so as to comply with venture capital trust legislation and provide potential future capital growth. Surplus funds are held in listed fixed-rate securities, details of which are given on page 7, until suitable qualifying investment opportunities arise.

At 30 September 2002 the financial assets by value, excluding short-term trade debtors and creditors as permitted by Financial Reporting Standard 13 "Financial Instruments and Derivatives", comprised:

	£000	%	Interest rate	Weighted average interest rate
Venture capital investments:				
Ordinary shares	419	3.1	N/A	N/A
Loan stock	895	6.7	Floating	7.8%
	<u>1,314</u>	<u>9.8</u>		
Fixed-interest securities	11,046	82.8	Fixed	6.4%
Cash	990	7.4	Floating	3.4%
	<u>13,350</u>	<u>100.0</u>		

Notes to the Financial Statements

for the period ended 30 September 2002

30 September 2002
£000

16 Called-up equity share capital

Authorised:	
25,000,000 ordinary shares of 5p	1,250
Allotted and fully paid:	
13,961,147 ordinary shares of 5p	698

During the period the company issued a total of 13,976,147 ordinary shares of 5p for cash at a premium of 95p per share in order to provide financial resources for its investment activities. The company also purchased 15,000 ordinary shares of 5p for cancellation at a cost of £13,500.

On 19 September 2001 the company issued 50,000 redeemable preference shares of £1, for cash; the preference shares were subsequently redeemed out of the proceeds of the ordinary share issues and the authorised and unissued preference capital of £50,000 was re-designated as 1,000,000 ordinary shares of 5p.

17 Reserves	Share premium £000	Capital reserve - realised £000	Capital reserve - unrealised £000	Revenue reserve £000
At 3 September 2001	—	—	—	—
Premium on issue of ordinary shares	13,277	—	—	—
Share issue expenses	(698)	—	—	—
Shares purchased for cancellation	(13)	—	—	—
Management fee capitalised net of associated taxation	—	(82)	—	—
Net increase in unrealised appreciation	—	—	344	—
Net revenue retained for the period	—	—	—	5
At 30 September 2002	12,566	(82)	344	5

On 13 November 2002 the company received Court consent to a reduction of £6,260,346 in the share premium account. An equivalent amount was credited to a new distributable reserve which can inter alia be used to write off the cost of shares repurchased by the company for cancellation.

Share issue expenses comprise commission at the rate of 5% of gross proceeds paid to Northern Venture Managers, out of which Northern Venture Managers met all the expenses incurred in connection with the share issue including commissions to intermediaries and legal and professional costs.

Period ended
30 September 2002
£000

18 Reconciliation of movements in equity shareholders' funds

Return on ordinary activities after tax	351
Net proceeds of share issue	13,277
Shares purchased for cancellation	(13)
Dividends	(84)
Net addition to equity shareholders' funds	13,531
Equity shareholders' funds at 3 September 2001	—
Equity shareholders' funds at 30 September 2002	13,531

19 Net asset value per share

The calculation of net asset value per share as at 30 September 2002 is based on net assets of £13,531,000 divided by the 13,961,147 ordinary shares in issue at that date.

Independent Auditors' Report

To the members of NORTHERN 3 VCT PLC

We have audited the financial statements which comprise the statement of total return, the balance sheet, the cash flow statement and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This opinion has been prepared for and only for the company's members in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the chairman's statement, the investment manager's review, the investment portfolio, the information in respect of the venture capital investments, the directors' report and the corporate governance statement.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the 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 to form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with auditing standards 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. It also includes an assessment of the significant estimates and judgements 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 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.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the company's affairs at 30 September 2002 and of its total return and cash flows for the period then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

Chartered Accountants
and Registered Auditor

Newcastle upon Tyne

19 December 2002

Shareholder Information

The Company

Northern 3 VCT PLC is a Venture Capital Trust (VCT) launched in September 2001, raising £13.9 million through a public share offer which closed in June 2002. The trust invests mainly in unquoted venture capital situations, with its remaining assets invested in a portfolio of fixed interest investments managed by Edinburgh Fund Managers.

Northern 3 VCT PLC is managed by Northern Venture Managers Limited, a specialist firm of venture capital managers based in Newcastle upon Tyne, Edinburgh and Reading. Since June 2000 Northern Venture Managers has been part of the Edinburgh Fund Managers group. Northern Venture Managers also acts as manager of four other listed investment companies, Northern Investors Company PLC, Northern Venture Trust PLC, Northern 2 VCT PLC and Northern AIM VCT PLC, and has a total of over £140 million under management.

Venture Capital Trusts

Venture Capital Trusts (VCTs) were introduced in the Finance Act 1995, and 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. The benefits to eligible investors include:

- Income tax relief at 20% on new subscriptions, provided the shares are held for at least three years
- Deferral of tax on certain chargeable gains to the extent that the gain is re-invested in new shares in a VCT
- exemption from income tax on dividends paid by VCTs (such dividends may include the VCT's capital gains as well as its income)
- exemption from capital gains tax on disposals of shares in VCTs

Northern 3 VCT PLC has been provisionally approved as a VCT by the Inland Revenue. In order to maintain its approval the company must comply

with certain requirements on a continuing basis; in particular, within three years from the date of provisional approval at least 70% of the company's investments must comprise "qualifying holdings", of which at least 30% must be in eligible ordinary shares. Where a VCT's original share issue is subsequently followed by further issues, the investments made using the proceeds of the further issues may be disregarded for the purpose of the 70% and 30% tests in all financial years ending no later than 3 years after the relevant share issue. A "qualifying holding" consists of up to £1 million invested in any one year in new shares or securities in an unquoted company (including companies quoted on AiM) which is carrying on a qualifying trade and whose gross assets do not exceed £15 million at the time of investment.

Financial Calendar

The company's financial calendar for the year ending 30 September 2003 is as follows:

February 2003	Interim dividend paid
June 2003	Interim report for half year to 31 March 2003 published
December 2003	Final dividend and preliminary results for year to 30 September 2003 announced; annual report and financial statements published
January 2004	Annual general meeting
February 2004	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 FT-SE Actuaries classification is "Investment Companies".

Share price information can also be obtained via the Northern Venture Managers website at www.nvm.co.uk.

Notice of Annual General Meeting

Notice is hereby given that the first annual general meeting of Northern 3 VCT PLC will be held at the offices of S J Berwin at 222 Gray's Inn Road, London WC1X 8XF at 2.00pm on Wednesday 22 January 2003 for the following purposes:

As ordinary business

- 1 To receive the financial statements for the period ended 30 September 2002 and the directors' and auditors' reports thereon.
- 2 To declare a final dividend of 0.6p per share in respect of the period ended 30 September 2002.
- 3 To re-elect as a director Mr J G D Ferguson who retires in accordance with the recommendations of the Combined Code included within the Listing Rules of the UK Listing Authority and offers himself for re-election.
- 4 To re-elect as a director Mr C J Fleetwood who retires in accordance with the recommendations of the Combined Code included within the Listing Rules of the UK Listing Authority and offers himself for re-election.
- 5 To re-elect as a director Mr J R Hustler who retires in accordance with the recommendations of the Combined Code included within the Listing Rules of the UK Listing Authority and offers himself for re-election.
- 6 To re-elect as a director Mr T R Levett who retires in accordance with the recommendations of the Combined Code included within the Listing Rules of the UK Listing Authority and offers himself for re-election.
- 7 To re-elect as a director Mr B E Sealey who retires in accordance with the recommendations of the Combined Code included within the Listing Rules of the UK Listing Authority and offers himself for re-election.
- 8 To re-appoint PricewaterhouseCoopers as independent auditors of the company and to authorise the directors to fix their remuneration.
- 9 To transact any other ordinary business of the company.

As special business

- 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 to make one or more market purchases (within the meaning of Section 163(3) of that Act) on the London Stock Exchange Limited 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 1,437,482, representing 10% of the company's issued ordinary share capital;
- b the minimum price which may be paid for an ordinary share shall be 5p per share;
- c the maximum price which may be paid for an ordinary share shall be not more than the lower of (i) net asset value per share and (ii) 105% of the average of the middle market quotations for an ordinary share as derived from the Stock Exchange Daily Official List for the five business days immediately preceding the date on which the ordinary shares are purchased; and
- d unless previously renewed, varied or revoked, the authority hereby conferred shall expire on the conclusion of the next annual general meeting of the company or, if earlier, on the expiry of 15 months from the passing of this resolution, 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

19 December 2002

Northumberland House
Princess Square
Newcastle upon Tyne NE1 8ER

The notes on page 26 form part of this notice of meeting.

Notice of Annual General Meeting

NOTES

- 1 A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote in his stead. The appointment of a proxy does not preclude a member from attending and voting in person at the meeting should he subsequently decide to do so.
- 2 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 Lloyds TSB Registrars at The Causeway, Worthing, BN99 6DA not later than 2.00pm on Monday 20 January 2003.
- 3 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 21 January 2003 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 that time. Changes to entries on the register after 6.00pm on Tuesday 21 January 2003 shall be disregarded in determining the rights of any person to attend or vote at the meeting.
- 4 None of the directors has a contract of service with the company. The register of directors' interests will be available for inspection on the day of the above meeting, at the place of the meeting, from at least 15 minutes prior to the meeting until its conclusion.

NORTHERN 3 VCT PLC
Annual General Meeting – 22 January 2003

I/We _____

(block capitals please)

of _____

being a member of Northern 3 VCT PLC, hereby appoint

or failing him/her the Chairman of the meeting to be my/our proxy and vote for me/us on my/our behalf at the first annual general meeting of the company to be held on 22 January 2003, notice of which was sent to shareholders with the directors' report and the financial statements for the period ended 30 September 2002, 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
1 To receive the financial statements for the period ended 30 September 2002	<input type="checkbox"/>	<input type="checkbox"/>
2 To declare a final dividend of 0.6p per share in respect of the period ended 30 September 2002	<input type="checkbox"/>	<input type="checkbox"/>
3 To re-elect Mr J G D Ferguson as a director	<input type="checkbox"/>	<input type="checkbox"/>
4 To re-elect Mr C J Fleetwood as a director	<input type="checkbox"/>	<input type="checkbox"/>
5 To re-elect Mr J R Hustler as a director	<input type="checkbox"/>	<input type="checkbox"/>
6 To re-elect Mr T R Levett as a director	<input type="checkbox"/>	<input type="checkbox"/>
7 To re-elect Mr B E Sealey as a director	<input type="checkbox"/>	<input type="checkbox"/>
8 To re-appoint PricewaterhouseCoopers as independent auditors and authorise the directors to fix their remuneration	<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"/>

Signed: _____ Date: _____

NOTES

- 1 A member wishing to appoint a person other than the Chairman of the meeting as proxy should insert the name and address of such person in the space provided.
- 2 Use of the proxy form does not preclude a member from attending and voting in person.
- 3 Where this proxy form is executed by a corporation it must be either under its seal or under the hand of an officer or attorney duly authorised.
- 4 If the proxy form 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.
- 5 To be valid, the proxy form, 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 Lloyds TSB Registrars at The Causeway, Worthing BN99 6DA not later than 2.00pm on Monday 20 January 2003.

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 intend to attend the annual general meeting at 2.00pm on Wednesday 22 January 2003 at the offices of S J Berwin at 222 Gray's Inn Road, London WC1X 8XF.

Signed: _____ Date: _____

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BUSINESS REPLY SERVICE
Licence No. SEA 10850



First Fold

**LLOYDS TSB REGISTRARS
THE CAUSEWAY
WORTHING
BN99 6ZR**

Second fold

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Princess Square
Newcastle upon Tyne NE1 8ER

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