



2003

Northern 3 VCT PLC

Annual Report and Accounts 30 September 2003





Contents

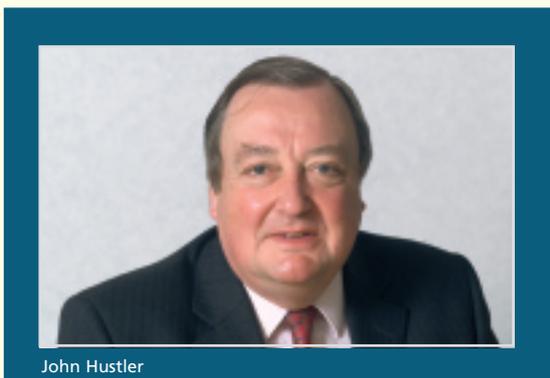
Financial summary	1
Chairman's statement	2
Directors	4
Advisers	5
Investment manager's review	6
Investment portfolio	8
Venture capital investments	9
Directors' report	14
Directors' remuneration report	16
Corporate governance	18
Shareholder information	20
Independent auditors' report	21
Statement of total return	22
Balance sheet	23
Cash flow statement	24
Notes to the financial statements	25
Notice of annual general meeting	32
Proxy form	

Financial Summary

	Year ended 30 September 2003	Period ended 30 September 2002
Net assets	£16,701,000	£13,531,000
Net asset value per share	94.9p	96.9p
Return on ordinary activities before tax		
Revenue	£376,000	£111,000
Capital	£(410,000)	£242,000
Return per share		
Revenue	1.8p	1.2p
Capital	(2.2p)	3.4p
Dividend per share	1.5p	0.6p
Share price at end of year	90p	95p

Northern 3 VCT PLC is a Venture Capital Trust (VCT) managed by Northern Venture Managers. It invests 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



Northern 3 VCT's second financial year has passed against a background of fluctuating economic and market conditions. The brief stock market recovery in the last quarter of 2002 was followed by a sharp drop in investor confidence as a result of the conflict in the Middle East, with the low point reached in March 2003. Subsequently there has been a market rally, with the AIM index advancing particularly strongly. However the prospect of interest rate increases is unlikely to strengthen economic confidence in the short term.

Net asset value

The net asset value (NAV) at 30 September 2003 was 94.9p per share, down by 2.1% from the corresponding figure of 96.9p at 30 September 2002. The prospect of interest rate rises has had a mildly negative effect on the value of the listed fixed-interest portfolio in the short term, but your board is satisfied that its established policy of holding surplus funds in high-grade gilts and bonds remains appropriate. As reported in the investment manager's review, we have seen gains in our listed venture capital portfolio. However the unquoted portfolio is still relatively immature and, reflecting our prudent valuation policy, we consider it is too early to recognise any uplift in value.

Investments

During the year nine new venture capital investments were completed, further details of which are given in the investment managers' review. The rate of new investment slowed noticeably during the second half of the financial year, reflecting the experience of the venture capital industry generally.

However the current level of activity is encouraging and since the end of September new deals totalling £1.8 million have been completed or approved. We are pleased that the unquoted portfolio, generally, is making satisfactory progress, although one investment has under-performed sufficiently to require a partial provision against cost and has been receiving particularly close attention from our managers.

Revenue and dividends

Income from investments totalled £615,000 compared with £269,000 in the preceding year, and the revenue surplus before tax rose from £111,000 to £376,000. The revenue return per share was 1.8p (last year 1.2p). Comparisons between the two periods are significantly affected by the timing of receipt of share issue proceeds in each period. The directors propose a final dividend of 1.1p per share, making a total of 1.5p for the year (last year 0.6p). The final dividend will, if approved by shareholders, be paid on 5 February 2004 to shareholders on the register on 5 January 2004.

As I have previously indicated, it is likely that in the short to medium term the dividends paid to shareholders will remain relatively low. As the venture capital portfolio matures we will be aiming to realise capital profits from investment disposals which, under the VCT rules, can be distributed to shareholders by way of tax free dividends.

Share offers

I reported at the interim stage on the disappointing outcome of our public share offers during the year. We had aimed to raise up to £15 million of additional capital for future investment, but in the event only £3.7 million was subscribed. Market conditions were very difficult for those VCTs which issued new shares this year, and it is estimated that the total raised was only £50 million compared to three times as much in the previous year.

There is no doubt that the capital gains tax deferral relief available to VCT investors has become less attractive over the past three years, due to a general dearth of capital gains and also the effect of tapering

relief on marginal CGT rates. The Government has been undertaking a consultation process on the future of VCTs, and it is to be hoped that this will lead to a re-focusing of the tax incentives in recognition of the significant role VCTs have played in providing funds for small enterprising companies in the UK over the past eight years.

We still have it as a medium-term objective to increase the size of our company, believing that this is very much in the interests of existing shareholders, and we are currently reviewing the prospects of raising further funds over the next six months in the light of market conditions.

VCT qualifying status

PricewaterhouseCoopers LLP have been retained to monitor and report on the company's progress towards meeting the qualifying investment requirements laid down in the VCT legislation. The company has complied with all the relevant conditions so far. The next important deadline is 30 September 2004, when the requirement to have 70% of our investment portfolio in VCT qualifying holdings must be satisfied in respect of funds raised in the accounting period ended 30 September 2002. Although the rate of investment over the past year has been slower than expected, our managers currently report an increase in deal flow. The overall qualifying investment position is carefully managed in conjunction with our advisers and the board is satisfied that the company's VCT qualifying status will be maintained.

Share price

There continues to be little trading in the company's shares, as is to be expected at this stage. In line with the intention expressed when the company was launched, Court consent has been obtained to the cancellation of part of the share premium account, so creating a new balance sheet reserve which we are using to repurchase the small number of holdings which come onto the market. This marginally enhances the company's net asset value. A resolution will be proposed at the annual general meeting to renew the board's powers, to allow us to continue to purchase shares in the market.

Northern Venture Managers

Edinburgh Fund Managers Group plc, the parent company of Northern Venture Managers, was acquired by Aberdeen Asset Management PLC in October 2003. Your board does not expect that this will result in any adverse change to the arrangements for the management of Northern 3 VCT.

Future prospects

We wait to see how sustained the present modest economic recovery in the UK will be. The manufacturing sector has recently been weak, and the boom in the housing market has fuelled an unusually high level of consumer expenditure. Public sector spending however looks set to remain strong for some time to come.

Our objective remains to build a diversified portfolio of later-stage development capital and buy-out investments, together with a modest exposure to earlier stage technology investments whose management can satisfy our demanding criteria. We believe this will create the profits to allow us to pay increasing dividends once we are fully invested.

We continue to seek ways to promote awareness of the long-term investment value of VCTs, so helping to ensure that the market value of our shares reflects their true value based on a progressive yield.

John Hustler

Chairman

Directors



John Hustler FCA MSI (Chairman), aged 57, 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 56, 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 three other investment trusts and a former deputy chairman of the Association of Investment Trust Companies.



Chris Fleetwood BA FCA, aged 52, 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 54, 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 67, 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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Investment Manager's Review

Background

This review covers the year ended 30 September 2003. During the year the company received net proceeds of £3.5 million from the issue of ordinary shares, which when added to the previous year's figure of £13.3 million makes a cumulative total of £16.8 million since the company was launched in 2001. The Inland Revenue's venture capital trust rules require us to invest at least 70% of the proceeds of each share issue in qualifying venture capital holdings within three years, and the initial objective is therefore to invest at least £9.3 million (ie 70% of £13.3 million) in such holdings by 30 September 2004. The directors intend in the long term 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 were initially invested in a portfolio of gilts and corporate bonds managed by Edinburgh Fund Managers plc, and funds are drawn down from this portfolio as required in order to finance new investments in the venture capital portfolio. At 30 September 2003 the funds managed by Edinburgh Fund Managers totalled £10.2 million.

The venture capital investment process

Northern Venture Managers currently receives around 60 new investment enquiries each month through its offices in Newcastle upon Tyne, Edinburgh and Reading. Many are declined during the initial screening process, but if the appraisal is positive then NVM will make a proposal to the enquirer setting out some broad terms and conditions for an investment. If the proposal is acceptable, NVM carries out a thorough "due diligence" investigation into key aspects of the business. Much of this work is done in-house by one or more of NVM's executives, with specialist outside assistance obtained when necessary. If the result is satisfactory, a comprehensive report is presented to the NVM board for discussion and decision; if the investment is approved, legal completion usually follows closely thereafter. The whole process typically takes between six and eight weeks.

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.

Post-investment monitoring

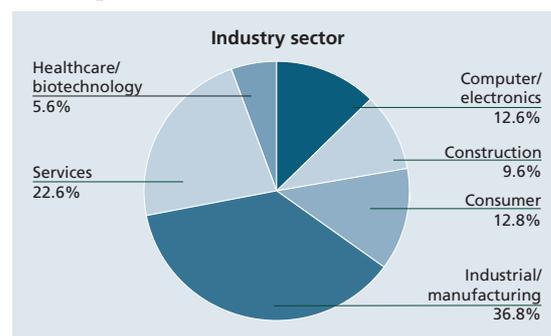
On completion of a new investment one of NVM's executives takes responsibility for the ongoing relationship with the investee company, often by taking a board position as a non-executive director. When appropriate, for instance where a particular area of expertise is called for, an external non-executive director may be brought in. The director will play a key role and must be able to contribute to the strategic development of the business, usually over a period of several years, so that the long-term objectives of all the shareholders can be met.

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.

Investment activity

Nine new investments totalling £2.0 million were added to the venture capital portfolio during the year ended 30 September 2003:

- **Crantock Bakery** (£399,000) – supplier of premium hand-made Cornish pasties, Newquay
- **Arrow Industrial Group** (£245,000) – manufacturer of industrial doors and curtains, Hull
- **RBF Industries** (£250,000) – manufacturer of healthcare products and flexible heat shields, Southend-on-Sea
- **Longhirst Group** (£300,000) – provider of business training and conference services, Morpeth



Investment Manager's Review

- **Alizyme** (£118,000) – drug development company, Cambridge
- **Crabtree of Gateshead** (£219,000) – manufacturer of metal printing machinery, Gateshead
- **Survey Inspection Systems** (£73,000) – provider of ground and airborne surveying services, Stockton-on-Tees
- **GSM-Central** (£52,000) – provision of mobile telephone call routing services, Oxford
- **John Laing Partnership** (£300,000) – management buy-out of the social housing division of John Laing plc, Elstree

The rate of new investment during the year has been slower than we had envisaged, although since September there has been a marked upturn in the flow of new opportunities for consideration. During the year to September 2004 we will be aiming to increase both the number and the average size of new investments, provided of course that this can be achieved without compromising on quality standards.

Portfolio review

The venture capital investment portfolio at 30 September 2003 comprised 14 holdings with an aggregate value of £3.1 million. A listing of the holdings in the portfolio is given on page 8, with further information on each investment on pages 9 to 13. We are aiming as the portfolio develops to achieve a broad spread of investments – the charts at the foot of pages 6 and 7 give an analysis of the present holdings by industry sector, financing stage and whether listed or unlisted.

The portfolio includes two quoted investments.

Alizyme is listed on the London Stock Exchange and we subscribed for 423,000 shares at 28p in a

February 2003 placing. The company subsequently announced positive trial results from two of its drug development projects and its share price rose steeply. We sold 298,000 shares during July and September at an average price of 67p, realising a gain of £118,000, and a further 40,000 shares in October at 180p. **PM Group** is traded on AiM and our investment (acquired in April 2002) has made good progress during the year, with the company's share price rising from 125p to 188p.

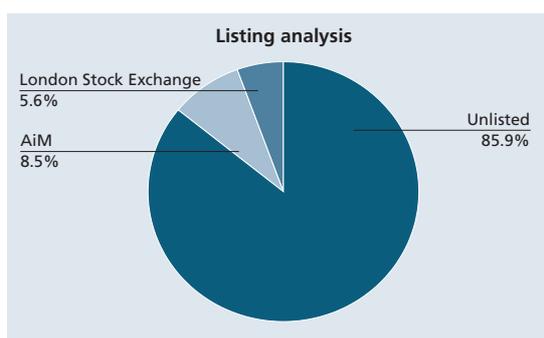
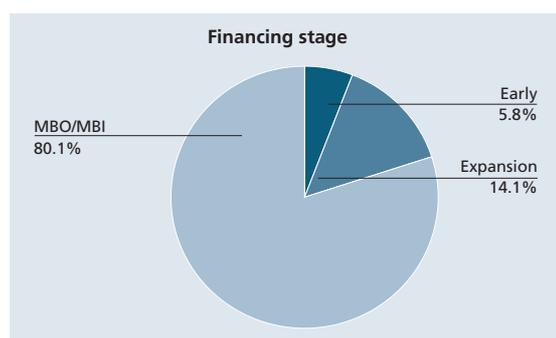
The unquoted investments are valued in accordance with the accounting policy set out on page 25, which follows the revised guidelines issued recently by the British Venture Capital Association. Most of the investments are making satisfactory progress but are still held at cost at this early stage; however, as mentioned in the interim report, **Horncastle Industries** experienced some operational difficulties in one of its main divisions as a result of which a 25% provision was made against the investment in March 2003. The company has taken a number of corrective actions but the provision has been retained until the longer-term picture becomes clear.

Outlook

Recent months have brought an improvement in economic and stock market conditions, although it is not yet clear whether this will prove sustainable. We are currently seeing a good flow of potential venture capital deals and are encouraged by the way the portfolio as a whole is developing.

Alastair Conn

Managing Director,
Northern Venture Managers Limited



Investment Portfolio

as at 30 September 2003

	Cost £000	Valuation £000	% of net assets by value
Venture capital investments			
Horncastle Industries	583	438	2.6
Crantock Bakery	399	399	2.4
Longhirst Group	300	300	1.8
John Laing Partnership	300	300	1.8
Keith Prowse	280	280	1.7
PM Group**	142	266	1.6
RBF Industries	250	250	1.5
Arrow Industrial Group	245	245	1.5
Crabtree of Gateshead	219	219	1.3
Alizyme*	35	175	1.1
LiquidLogic	88	88	0.5
Survey Inspection Systems	73	73	0.4
GSM-Central	52	52	0.3
Oxonica	41	41	0.2
Total venture capital investments	3,007	3,126	18.7
Listed fixed-interest investments			
£1,000,000 Treasury 5% stock 2008	1,030	1,028	6.2
£900,000 Treasury 6.5% stock 2003	904	905	5.4
£600,000 Radobank Nederland 6.5% bonds 2004	614	612	3.7
£550,000 Nordic Investment Bank 6% bonds 2004	561	559	3.3
£550,000 Government of Canada 6.25% bonds 2004	566	564	3.4
£546,000 General Electric Capital Corp FRN bonds 2003	546	546	3.3
£530,000 Lloyds TSB Bank PLC 7.375% bonds 2004	539	538	3.2
£545,000 General Electric Capital Corp 5.125% bonds 2004	548	547	3.3
£540,000 Halifax 5.75% notes 2003	541	542	3.2
£540,000 Bank of Scotland Treasury Services 5.25% bonds 2004	549	548	3.3
£530,000 Abbey National 7.75% GTB BDS bonds 2003	533	535	3.2
£530,000 Royal Bank of Scotland 6.625% bonds 2004	537	536	3.2
£525,000 Barclays Bank 7.875% bonds 2049	541	526	3.1
£500,000 European Investment Bank 7% bonds 2003	503	503	3.0
£500,000 Treasury 5% stock 2004	506	505	3.0
£379,000 Nippon Telegraph & Telephone 7.375% bonds 2003	380	381	2.3
£300,000 InterAmerican Dev Bank 7.125% bonds 2004	310	310	1.9
£297,000 UBS AG 7.375% bonds 2004	308	308	1.9
£215,000 Japan Fin Corp 6.375% bonds 2004	217	217	1.3
Total listed fixed-interest investments	10,233	10,210	61.2
Total fixed asset investments	13,240	13,336	79.9
Net current assets		3,365	20.1
Net assets		16,701	100.0

* Listed on London Stock Exchange

** Traded on Alternative Investment Market

HORNCastle INDUSTRIES LIMITED



Cost	£583,000	Audited financial information:
Valuation	£438,000	First audited accounts will be for the period to 31 March 2003
Basis of valuation	Cost less provision	
Equity held	6.0%	
Business/location	Manufacture of modular buildings and steel fabrications, Hull	
History	Management buy-out from private ownership, September 2002, led by NVM	
Other NVM funds investing	Northern Investors Company, Northern 2 VCT, Northern AIM VCT	
Income in year	Dividends nil, loan stock interest £20,000	

CRANTOCK BAKERY LIMITED



Cost	£399,000	Audited financial information:
Valuation	£399,000	First audited accounts will be for the period to 30 September 2003
Basis of valuation	Cost	
Equity held	6.3%	
Business/location	Manufacturer of premium hand-made Cornish pasties, Newquay	
History	Management buy-out from private ownership, October 2002, led by NVM	
Other NVM funds investing	Northern Investors Company, Northern 2 VCT, Northern AIM VCT	
Income in year	Dividends nil, loan stock interest £25,000	

LONGHIRST GROUP LIMITED



Cost	£300,000	Audited financial information:
Valuation	£300,000	First audited accounts will be for the period to 31 March 2003
Basis of valuation	Cost	
Equity held	5.3%	
Business/location	Provision of conference and training facilities, Morpeth	
History	Management buy-out from public sector ownership, December 2002, led by NVM	
Other NVM funds investing	Northern Investors Company, Northern 2 VCT, Northern AIM VCT	
Income in year	Dividends nil, loan stock interest £14,000	

Venture Capital Investments

as at 30 September 2003



JOHN LAING PARTNERSHIP LIMITED

Cost	£300,000
Valuation	£300,000
Basis of valuation	Cost
Equity held	4.8%
Business/location	Housebuilding, London
History	Management buy-out from John Laing plc, September 2003, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT, Northern AIM VCT
Income in year	Nil

Audited financial information:

First audited accounts will be for the period to 30 September 2004



KEITH PROWSE 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
Income in year	Dividends nil, loan stock interest £17,000

Audited financial information:

Year ended 31 December	2002 £m
Sales	14.6
Profit before tax	0.2
Retained profit	0.1
Net assets	0.5



PM GROUP PLC

Cost	£142,000
Valuation	£266,000
Basis of valuation	Mid-market price (AiM)
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
Income in year	Nil

Audited financial information:

Year ended 30 June	2003 £m	2002 £m
Sales	8.5	5.4
Profit before tax	1.2	1.0
Retained profit	0.6	0.3
Net assets	5.9	5.0

RBF INDUSTRIES LIMITED



Cost	£250,000
Valuation	£250,000
Basis of valuation	Cost
Equity held	6.8%
Business/location	Manufacture of healthcare products and flexible heat shields, Southend-on-Sea
History	Management buy-out from private ownership, December 2002, led by NVM
Other NVM funds investing	Northern Investors Company, Northern 2 VCT
Income in year	Dividends £2,000, loan stock interest £13,000

Audited financial information:

Period ended 31 March	2003* £m
Sales	1.3
Profit before tax	0.1
Retained profit	—
Net assets	0.3

*4 months ended 31 March

ARROW INDUSTRIAL GROUP LIMITED



Cost	£245,000
Valuation	£245,000
Basis of valuation	Cost
Equity held	5.6%
Business/location	Manufacture of industrial doors and curtains, Hull
History	Management buy-out from private ownership, October 2002, led by NVM
Other NVM funds investing	Northern Investors Company, Northern 2 VCT
Income in year	Dividends nil, loan stock interest £15,000

Audited financial information:

First audited accounts will be for the period to 30 September 2003

CRABTREE OF GATESHEAD LIMITED



Cost	£219,000
Valuation	£219,000
Basis of valuation	Cost
Equity held	6.1%
Business/location	Manufacture and servicing of metal printing machinery, Gateshead
History	Management buy-out from LTG Technologies plc, March 2003, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT
Income in year	Dividends nil, loan stock interest £12,000

Audited financial information:

First audited accounts will be for the period to 31 March 2004

Venture Capital Investments

as at 30 September 2003

ALIZYME PLC

Cost	£35,000
Valuation	£175,000
Basis of valuation	Mid-market price (London Stock Exchange)
Equity held	0.1%
Business/location	Biotechnology research and development, Cambridge
History	Floated on AiM in 1996 and moved to London Stock Exchange in October 2000. Northern 3 VCT took part in a share placing in February 2003
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT
Income in year	Nil

Audited financial information:

Year ended 31 December	2002 £m	2001 £m
Sales	—	—
Loss before tax	(10.5)	(7.8)
Retained loss	(9.8)	(6.6)
Net assets	4.4	14.1

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
Income in year	Dividends nil, loan stock interest £4,000

Audited financial information:

Year ended 31 March	2003 £m	2002 £m
Sales	0.6	—
Loss before tax	(0.4)	(0.4)
Retained loss	(0.3)	(0.4)
Net assets	0.4	0.1



SURVEY INSPECTION SYSTEMS LIMITED

Cost	£73,000
Valuation	£73,000
Basis of valuation	Cost
Equity held	4.2%
Business/location	Topographical surveying, Stockton-on-Tees
History	Management buy-out from Abbott Group plc, August 2003, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT
Income in year	Dividends nil, loan stock interest £1,000

Audited financial information:

First audited accounts will be for the period to 31 August 2004

GSM-CENTRAL LIMITED



Cost	£52,000
Valuation	£52,000
Basis of valuation	Cost
Equity held	1.8%
Business/location	Provider of mobile telephone call routing services, Oxford
History	Development capital investment, September 2003, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT
Income in year	Nil

Audited financial information:

First audited accounts will be for the period to 31 March 2004

OXONICA LIMITED



Cost	£41,000
Valuation	£41,000
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
Income in year	Dividends nil, loan stock interest £1,000

Audited financial information:

Year ended 31 December	2002 £m	2001 £m
Sales	0.1	—
Loss before tax	(2.1)	(0.9)
Retained loss	(2.0)	(0.9)
Net assets	0.1	—

Directors' Report

The directors present their report and the audited financial statements for the year ended 30 September 2003.

Activities and status

The principal activity of the company during the year 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 year 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 year	<u>£295,000</u>
Appropriated as follows:	
Interim dividend paid – 0.4p per share	58,000
Final dividend proposed – 1.1p per share	193,000
Retained in revenue reserve	<u>44,000</u>
	<u>£295,000</u>

The proposed final dividend will, if approved by shareholders, be paid on 5 February 2004 to shareholders on the register on 5 January 2004.

Directors

The directors of the company during the year and their interests in the issued ordinary shares of 5p of the company were as follows:

	30 September 2003	1 October 2002
J R Hustler (Chairman)	5,100	5,100
J G D Ferguson	102,800	51,400
C J Fleetwood	15,300	10,200
T R Levett	55,000	25,000
B E Sealey	20,500	20,500

All of the directors' share interests shown above were held beneficially. There have been no changes in the directors' share interests between 30 September 2003 and the date of this report.

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

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 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 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 2003.

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, Aberdeen Asset Management PLC.

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

21 November 2003

Fixed assets

Movements in fixed asset investments during the year are set out in Note 8 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

Resolutions will be proposed as special business at the annual general meeting to:

- renew the authority of the directors, in certain limited circumstances, to allot equity shares for cash otherwise than pro rata to existing shareholders, and
- renew the authority of the directors to make market purchases of the company's shares for cancellation.

It is the intention of the directors to seek to renew these authorities at each subsequent annual general meeting.

Independent auditors

During the year PricewaterhouseCoopers resigned as independent auditors and KPMG Audit Plc were appointed by the directors to fill the casual vacancy. KPMG Audit plc have indicated their willingness to

Directors' Remuneration Report

This report has been prepared by the directors in accordance with the requirements of Schedule 7A to the Companies Act 1985, which applies to the company for the first time this year. 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 21.

Board of directors

The board currently comprises five directors, all of whom are non-executive. The board has established a Nomination Committee, 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 an incentive scheme established for the benefit of certain executives of Northern Venture Managers, as described in Note 3 to the financial statements.

Directors' fees were reviewed by the Nomination Committee during its meeting in September 2003, when it was recommended that fees should be increased to £13,250 (previously £12,500) per annum for the chairman and £10,500 (previously £10,000) for other directors for the year ending

30 September 2004. The articles of association place an overall limit (currently £100,000 per annum) on directors' remuneration.

Directors' fees (audited information)

The following fees were paid to individual directors in respect of the year ended 30 September 2003 and period ended 30 September 2002:

	Year ended 30 September 2003 £	Period ended 30 September 2002 £
J R Hustler (Chairman)	12,500	12,500
J G D Ferguson	10,000	10,000
C J Fleetwood	10,000	10,000
T R Levett	—	—
B E Sealey	10,000	10,000

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.

Directors' Remuneration Report

Company performance

The graph below compares the total return (assuming all dividends are re-invested) to ordinary shareholders in the company over the period from 31 December 2001 to 30 September 2003 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

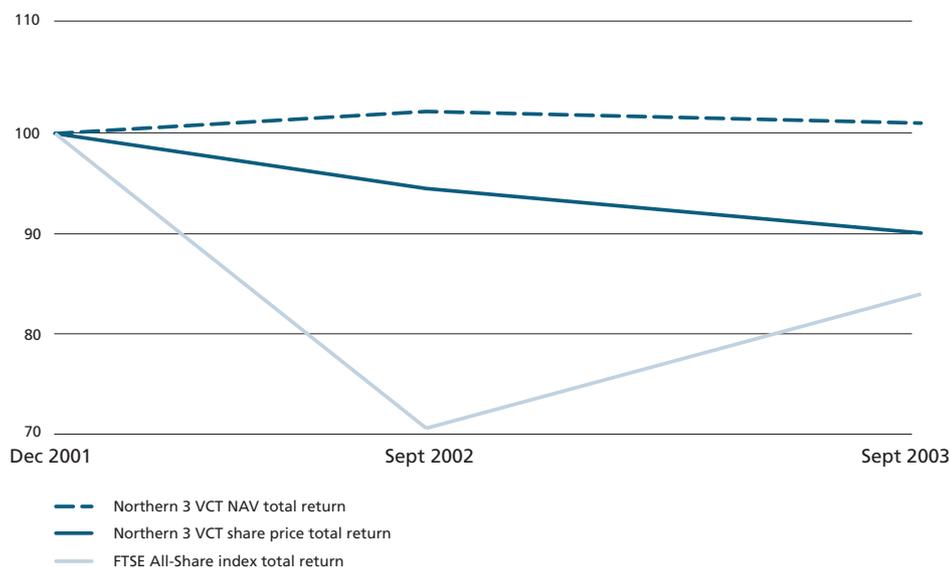
C D Mellor

Secretary

21 November 2003

Return to shareholders in Northern 3 VCT PLC

Period to September 2003 (December 2001 = 100)



Corporate Governance

The company is committed to maintaining high standards in corporate governance. The directors consider that the company has throughout the year 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.

Board of directors

The company has a board of five non-executive directors, four of whom are considered to be 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. 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 KPMG Audit Plc, 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 the directors' remuneration report on page 16.

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. 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 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.

Investor relations

The board recognises the value of maintaining regular communications with shareholders. Formal reports are sent to shareholders at the interim and year-end stages, and an opportunity is given at the annual general meeting to question the board and the investment manager. Proxy voting figures for each resolution are announced at the annual general meeting.

Internal control

The directors have overall responsibility for keeping under review the effectiveness of the company's system 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 and NVM's external auditors.

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.

Risk management

The company aims to provide high long-term returns to shareholders through a combination of income yield and capital growth. In order to achieve this objective the company intends to invest 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 year and of the results for that year. 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 year ended 30 September 2003 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.

Shareholder Information

The Company

Northern 3 VCT PLC is a Venture Capital Trust (VCT) managed by Northern Venture Managers. The trust was launched in September 2001 and has raised a total of £17.6 million through its public share offers. The trust invests mainly in unquoted venture capital situations, with its remaining assets invested in a portfolio of fixed interest investments.

Northern 3 VCT PLC is managed by Northern Venture Managers Limited (NVM), a specialist firm of venture capital managers based in Newcastle upon Tyne, Edinburgh and Reading. Since June 2000 NVM has been part of the Edinburgh Fund Managers group. NVM also acts as manager of four other listed investment companies, Northern Investors Company PLC, Northern Venture Trust PLC, Northern 2 VCT PLC and Northern AIM VCT PLC, and has a total of over £150 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 2004 is as follows:

June 2004	Interim report for half year to 31 March 2004 published
August 2004	Interim dividend paid
December 2004	Final dividend and preliminary results for year to 30 September 2004 announced; annual report and financial statements published
January 2005	Annual general meeting
February 2005	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.

Independent Auditors' Report

To the members of NORTHERN 3 VCT PLC

We have audited the financial statements on pages 22 to 31. 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 are responsible for preparing the Annual Report and the directors' remuneration report. As described on page 19, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

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 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 with the company is not disclosed.

We review whether the statement on page 18 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, 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, including the corporate governance statement and the unaudited part of the directors' remuneration 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.

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 and the part of the directors' remuneration report to be audited. 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 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 of the state of the company's affairs at 30 September 2003 and of its total return for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

KPMG AUDIT Plc

Chartered Accountants
Registered Auditors
Edinburgh

21 November 2003

Statement of Total Return (incorporating the Revenue Account)

for the year ended 30 September 2003

	Notes	Year ended 30 September 2003			Period ended 30 September 2002		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Gains/(losses) on investments							
Realised on disposals		—	118	118	—	—	—
Unrealised revaluation movements	8	—	(248)	(248)	—	344	344
		—	(130)	(130)	—	344	344
Income	2	615	—	615	269	—	269
Investment management fee	3	(86)	(258)	(344)	(34)	(102)	(136)
Other expenses	4	(153)	(22)	(175)	(124)	—	(124)
Return on ordinary activities before tax		376	(410)	(34)	111	242	353
Tax on ordinary activities	5	(81)	59	(22)	(22)	20	(2)
Return on ordinary activities after tax		295	(351)	(56)	89	262	351
Dividends	6	(251)	—	(251)	(84)	—	(84)
Transfer to/(from) reserves	15	44	(351)	(307)	5	262	267
Return per share	7	1.8p	(2.2)p	(0.4)p	1.2p	3.4p	4.6p
Dividend per share	6	1.5p	—	1.5p	0.6p	—	0.6p

- The revenue column of this statement is the profit and loss account of the company
- The accompanying notes are an integral part of this statement
- All revenue and capital items in the above statement derive from continuing operations

Balance Sheet

as at 30 September 2003

	Notes	30 September 2003 £000	30 September 2002 £000
Fixed assets			
Investments	8	13,336	9,493
Current assets			
Investments	11	2,371	2,867
Debtors	12	408	296
Cash at bank		836	990
		3,615	4,153
Creditors (amounts falling due within one year)	13	(250)	(115)
Net current assets		3,365	4,038
Net assets		16,701	13,531
Capital and reserves			
Called-up equity share capital	14	880	698
Share premium	15	9,622	12,566
Capital redemption reserve	15	1	—
Special reserve	15	6,238	—
Capital reserve – realised	15	(185)	(82)
– unrealised	15	96	344
Revenue reserve	15	49	5
Total equity shareholders' funds	16	16,701	13,531
Net asset value per share	17	94.9p	96.9p

- The accompanying notes are an integral part of this statement

The financial statements on pages 22 to 31 were approved by the directors on 21 November 2003 and are signed on their behalf by:

J R Hustler
Director

C J Fleetwood
Director

Cash Flow Statement

for the year ended 30 September 2003

	Year ended 30 September 2003 £000		Period ended 30 September 2002 £000	
Cash flow statement				
Net cash outflow from operating activities		(10)		(258)
Taxation				
Corporation tax paid		—		—
Financial investment				
Purchase of investments	(8,191)		(9,149)	
Sale/repayment of investments	4,218		—	
Net cash outflow from financial investment		(3,973)		(9,149)
Equity dividends paid				
		(144)		—
Net cash outflow before use of liquid resources and financing		(4,127)		(9,407)
Net cash inflow/(outflow) from management of liquid resources		496		(2,867)
Financing				
Issue of redeemable preference shares	—		50	
Issue of ordinary shares	3,668		13,975	
Share issue expenses	(170)		(698)	
Purchase of ordinary shares for cancellation	(21)		(13)	
Redemption of preference shares	—		(50)	
Net cash inflow from financing		3,477		13,264
(Decrease)/increase in cash at bank		(154)		990
Reconciliation of revenue before tax to net cash flow from operating activities				
Net revenue before tax		376		111
Increase in debtors		(112)		(296)
Increase in creditors		6		29
Management fees charged to capital reserve		(258)		(102)
Other expenses charged to capital reserve		(22)		—
Net cash outflow from operating activities		(10)		(258)
Analysis of movement in net funds				
	1 October 2002 £000	Cash flows £000		30 September 2003 £000
Cash at bank	990	(154)		836
Short-term investments	2,867	(496)		2,371
Net funds	3,857	(650)		3,207

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, 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 fair value. The determination of fair value is initially based on cost but will be modified 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. Normally this will be 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 (normally by 25-50%) to reflect unmarketability.
- where a value is indicated by a material arm's-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.

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is considered probable that a liability will crystallise.

Notes to the Financial Statements

for the year ended 30 September 2003

2 Income	Year ended 30 September 2003 £000	Period ended 30 September 2002 £000
Franked investment income – unquoted companies	2	—
Interest receivable		
Bank deposits	77	164
Treasury bills	53	13
Loans to unlisted companies	122	13
Government stocks and bonds	359	79
Other income	2	—
	<u>615</u>	<u>269</u>

3 Investment management fee	Year ended 30 September 2003		Period ended 30 September 2002	
	Revenue £000	Capital £000	Revenue £000	Capital £000
Investment management fee	73	219	29	87
Irrecoverable VAT thereon	13	39	5	15
	<u>86</u>	<u>258</u>	<u>34</u>	<u>102</u>

Northern Venture Managers Limited (NVM) provides investment management and secretarial services to the company under an agreement dated 24 September 2001. The agreement runs for an initial period of three years with effect from 19 October 2001 and may be terminated at any time thereafter by not less than twelve months' notice given by either party.

NVM receives a management fee, payable quarterly in advance, at the rate of 2.0% (period ended 30 September 2002 1.5%) per annum of net assets calculated at half-yearly intervals as at 31 March and 30 September. The fee will be at the rate of 2.5% for the year ending 30 September 2004. The total annual running costs of the company 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 the investment management fee. NVM is responsible for paying the fees of Edinburgh Fund Managers plc in respect of the management of the fixed interest portfolio.

NVM also provides administrative and secretarial services to the company for an annual fee of 0.25% per annum of net assets, subject to a maximum of £35,000 (linked to the movement in RPI), which is included in other expenses (Note 4).

NVM is entitled to receive a performance-related incentive fee based upon returns to the shareholders. If the company's net asset value per share in a relevant period increases so that it exceeds 100p (less the value of any distributions paid from time to time) plus notional interest thereon at the rate of 7% per annum (compounding annually), then NVM will be entitled to an incentive fee equal in value to 20% of such excess. The first such period will expire on 30 September 2005 and thereafter the periods will be of one year's duration. In the event that the performance of the company falls short of the target in any year such shortfall must be made up before NVM is entitled to any incentive in respect of subsequent years.

Notes to the Financial Statements

for the year ended 30 September 2003

4 Other expenses	Year ended 30 September 2003 £000	Period ended 30 September 2002 £000
Administrative and secretarial services	35	19
Directors' remuneration	43	43
Auditors' remuneration – audit services	7	4
– non-audit services	—	5
Irrecoverable VAT	16	13
Other expenses	52	40
	153	124

Information on directors' remuneration is given in the directors' remuneration report on pages 16 and 17.

5 Tax on ordinary activities	Year ended 30 September 2003		Period ended 30 September 2002	
	Revenue £000	Capital £000	Revenue £000	Capital £000
(a) Analysis of charge for the year				
Corporation tax payable/(recoverable)	81	(59)	22	(20)
(b) Tax reconciliation				
Return on ordinary activities before tax	376	(410)	111	242
Return on ordinary activities multiplied by the standard rate of UK corporation tax of 30% (2002 20%)	113	(123)	22	48
Effect of:				
UK dividends not subject to tax	(1)	—	—	—
Non-deductible expenses	—	7	—	—
Small companies tax relief	(31)	18	—	—
Capital returns not subject to tax	—	39	—	(68)
Current tax charge/(credit) for the year	81	(59)	22	(20)

6 Dividends	Year ended 30 September 2003		Period ended 30 September 2002	
	Pence per share	£000	Pence per share	£000
Interim dividend paid	0.4p	58	—	—
Final dividend proposed	1.1p	193	0.6p	84
	1.5p	251	0.6p	84

Notes to the Financial Statements

for the year ended 30 September 2003

7 Return per share

The revenue return per share is based on net revenue from ordinary activities after tax of £295,000 (2002 £89,000) and on 15,832,417 (2002 7,727,133) shares, being the weighted average number of shares in issue during the year.

The capital return per share is based on net realised and unrealised capital losses for the year of £351,000 (2002 gains of £262,000) and on 15,832,417 (2002 7,727,133) shares, being the weighted average number of shares in issue during the year.

8 Fixed asset investments	30 September 2003 £000	30 September 2002 £000
Venture capital investments – unlisted	2,685	1,138
– listed	441	176
Listed fixed-interest investments	10,210	8,179
	13,336	9,493

Movements in investments during the year are summarised as follows:

	Venture capital – unlisted £000	Venture capital – listed £000	Listed fixed-interest £000	Total £000
Book cost at 1 October 2002	1,138	141	7,870	9,149
Unrealised appreciation at 1 October 2002	—	35	309	344
Valuation at 1 October 2002	1,138	176	8,179	9,493
Movements in the year:				
Purchases at cost	1,860	118	6,213	8,191
Disposals – proceeds	(167)	(201)	(3,850)	(4,218)
– net realised gains	—	118	—	118
Decrease in unrealised appreciation	(146)	230	(332)	(248)
Valuation at 30 September 2003	2,685	441	10,210	13,336
Comprising:				
Book cost at 30 September 2003	2,831	176	10,233	13,240
Unrealised appreciation at 30 September 2003	(146)	265	(23)	96
	2,685	441	10,210	13,336

9 Unlisted investments

The cost and carrying value of investments in unlisted companies held at 30 September 2003 are shown below.

	30 September 2003		30 September 2002	
	Total cost £000	Carrying value £000	Total cost £000	Carrying value £000
Horncastle Industries Limited				
Ordinary shares	117	5	150	150
Loan stock	466	433	600	600
	583	438	750	750
Crantock Bakery Limited				
Ordinary shares	86	86	—	—
Loan stock	313	313	—	—
	399	399	—	—

Notes to the Financial Statements

for the year ended 30 September 2003

9 Unlisted investments continued	30 September 2003		30 September 2002	
	Total cost £000	Carrying value £000	Total cost £000	Carrying value £000
Longhirst Group Limited				
Ordinary shares	120	120	—	—
Loan stock	180	180	—	—
	<u>300</u>	<u>300</u>	<u>—</u>	<u>—</u>
John Laing Partnership Limited				
Ordinary shares	16	16	—	—
Redeemable preference shares	44	44	—	—
Loan stock	240	240	—	—
	<u>300</u>	<u>300</u>	<u>—</u>	<u>—</u>
Keith Prowse Limited				
Ordinary shares	29	29	29	29
Loan stock	251	251	251	251
	<u>280</u>	<u>280</u>	<u>280</u>	<u>280</u>
RBF Industries Limited				
Ordinary shares	25	25	—	—
Loan stock	225	225	—	—
	<u>250</u>	<u>250</u>	<u>—</u>	<u>—</u>
Arrow Industrial Group Limited				
Ordinary shares	35	35	—	—
Loan stock	210	210	—	—
	<u>245</u>	<u>245</u>	<u>—</u>	<u>—</u>
Crabtree of Gateshead Limited				
Ordinary shares	24	24	—	—
Loan stock	195	195	—	—
	<u>219</u>	<u>219</u>	<u>—</u>	<u>—</u>
LiquidLogic Limited				
Ordinary shares	44	44	44	44
Loan stock	44	44	44	44
	<u>88</u>	<u>88</u>	<u>88</u>	<u>88</u>
Survey Inspection Systems Limited				
Ordinary shares	12	12	—	—
Loan stock	61	61	—	—
	<u>73</u>	<u>73</u>	<u>—</u>	<u>—</u>
GSM-Central Limited				
Ordinary shares	5	5	—	—
Loan stock	47	47	—	—
	<u>52</u>	<u>52</u>	<u>—</u>	<u>—</u>
Oxonica Limited				
Ordinary shares	20	20	20	20
Loan	21	21	—	—
	<u>41</u>	<u>41</u>	<u>20</u>	<u>20</u>

Additional information relating to investments in unlisted companies is given on pages 9 to 13.

Notes to the Financial Statements

for the year ended 30 September 2003

10 Significant interests

There are no shareholdings in companies where the company's holding at 30 September 2003 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.

11 Current asset investments

Current asset investments comprise UK money market instruments maturing within three months of the balance sheet date.

12 Debtors

30 September 2003
£000

30 September 2002
£000

Prepayments and accrued income	408	296
--------------------------------	-----	-----

13 Creditors (amounts falling due within one year)

30 September 2003
£000

30 September 2002
£000

Corporation tax payable	24	2
Accruals	35	29
Proposed dividend	191	84
	<u>250</u>	<u>115</u>

14 Called-up equity share capital

30 September 2003
£000

30 September 2002
£000

Authorised: 25,000,000 (2002 25,000,000) ordinary shares of 5p	1,250	1,250
Allotted and fully paid: 17,601,926 (2002 13,961,147) ordinary shares of 5p	880	698

During the year the company issued a total of 3,669,039 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 repurchased 28,260 ordinary shares of 5p for cancellation at a cost of £21,000.

Notes to the Financial Statements

for the year ended 30 September 2003

15 Reserves	Share premium £000	Capital redemption reserve £000	Special reserve £000	Capital reserve – realised £000	Capital reserve – unrealised £000	Revenue reserve £000
At 1 October 2002	12,566	—	—	(82)	344	5
Premium on issue of ordinary shares	3,486	—	—	—	—	—
Share issue expenses	(170)	—	—	—	—	—
Shares purchased for cancellation	—	1	(22)	—	—	—
Transfer to special reserve on reduction of share premium account	(6,260)	—	6,260	—	—	—
Realised on disposal of investments	—	—	—	118	—	—
Management fee capitalised net of associated taxation	—	—	—	(199)	—	—
Other expenses charged to capital reserve	—	—	—	(22)	—	—
Net decrease in unrealised appreciation	—	—	—	—	(248)	—
Net revenue retained for the year	—	—	—	—	—	44
At 30 September 2003	<u>9,622</u>	<u>1</u>	<u>6,238</u>	<u>(185)</u>	<u>96</u>	<u>49</u>

16 Reconciliation of movements in equity shareholders' funds	Year ended 30 September 2003 £000	Period ended 30 September 2002 £000
Return on ordinary activities after tax	(56)	351
Net proceeds of share issues	3,498	13,277
Shares purchased for cancellation	(21)	(13)
Dividends	(251)	(84)
Net addition to equity shareholders' funds	<u>3,170</u>	<u>13,531</u>
Equity shareholders' funds at 1 October 2002	<u>13,531</u>	—
Equity shareholders' funds at 30 September 2003	<u>16,701</u>	<u>13,531</u>

17 Net asset value per share

The calculation of net asset value per share as at 30 September 2003 is based on net assets of £16,701,000 (2002 £13,531,000) divided by the 17,601,926 (2002 13,961,147) ordinary shares in issue.

Notice of Annual General Meeting

Notice is hereby given that the second annual general meeting of Northern 3 VCT PLC will be held at the offices of S J Berwin, 222 Gray's Inn Road, London WC1X 8XF at 2.30pm on Thursday 15 January 2004 for the following purposes:

As ordinary business

- 1 To receive the financial statements for the year ended 30 September 2003 and the directors' and independent auditors' reports thereon.
- 2 To declare a final dividend of 1.1p per share in respect of the year ended 30 September 2003.
- 3 To approve the directors' remuneration report in respect of the year ended 30 September 2003.
- 4 To re-elect as a director Mr J R Hustler who retires 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 articles of association and offers himself for re-election.
- 6 To re-appoint KPMG Audit Plc as independent auditors of the company and to authorise the directors to fix their remuneration.
- 7 To transact any other ordinary business of the company.

As special business

To consider and, if thought fit, to pass the following resolutions as special resolutions:

- 8 "That, in substitution for and to the exclusion of any power previously conferred upon the directors in this regard, the directors be and they are hereby empowered to allot equity securities (as defined in Section 94(2) of the Companies Act 1985) pursuant to the authority conferred by Resolution 1 passed at the extraordinary general meeting of the company held on 22 January 2003 as if Section 89(1) of that Act did not apply to any such allotment provided that such power shall be limited:
 - (a) to the allotment of equity securities in connection with a rights issue or other offer of securities in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as

nearly as may be) to the respective numbers of ordinary shares held by them at a fixed record date (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of or the requirements of any recognised regulatory body or any stock exchange in any territory);

(b) to the allotment of equity securities pursuant to the exercise of options granted on or prior to the date hereof; and

(c) to the allotment (otherwise than pursuant to paragraph (a) or (b) above) of equity securities up to an aggregate nominal value of £88,009;

and 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 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."

- 9 "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 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 1,760,192, 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

Notice of Annual General Meeting

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

21 November 2003

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 one or more proxies to attend and, on a poll, to vote in his stead. 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 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 2.30pm on Tuesday 13 January 2004.
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 Wednesday 14 January 2004 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 Wednesday 14 January 2004 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 – 15 January 2004

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 second annual general meeting of the company to be held on 15 January 2004, notice of which was sent to shareholders with the annual report and accounts for the year ended 30 September 2003, 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 year ended 30 September 2003	<input type="checkbox"/>	<input type="checkbox"/>
2 To declare a final dividend of 1.1p per share in respect of the year ended 30 September 2003	<input type="checkbox"/>	<input type="checkbox"/>
3 To approve the directors' remuneration report in respect of the year ended 30 September 2003	<input type="checkbox"/>	<input type="checkbox"/>
4 To re-elect Mr J R Hustler as a director	<input type="checkbox"/>	<input type="checkbox"/>
5 To re-elect Mr T R Levett as a director	<input type="checkbox"/>	<input type="checkbox"/>
6 To re-appoint KPMG Audit Plc as independent auditors and authorise the directors to fix their remuneration	<input type="checkbox"/>	<input type="checkbox"/>
8 To disapply Section 89 of the Companies Act 1985 in relation to certain allotments of equity securities	<input type="checkbox"/>	<input type="checkbox"/>
9 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 2.30pm on Tuesday 13 January 2004.

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 2.30pm on Thursday 15 January 2004 at the offices of S J Berwin, 222 Gray's Inn Road, London WC1X 8XF .

Signed: _____ Date: _____

Third fold and tuck in

BUSINESS REPLY SERVICE
Licence No. SEA 10850



First Fold

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

Second fold

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Newcastle upon Tyne NE1 8ER

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