



2004

Northern 3 VCT PLC

Annual Report and Accounts 30 September 2004

NVMM
Northern Venture Managers Limited



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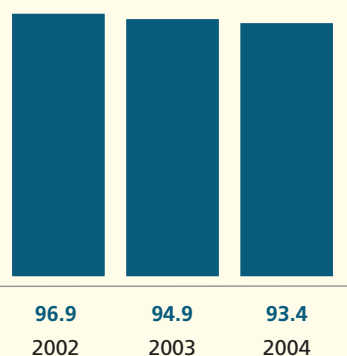
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Northern 3 VCT PLC is a Venture Capital Trust (VCT) managed by Northern Venture Managers. It invests mainly in unquoted venture capital holdings and aims to provide high long-term returns to shareholders through a combination of dividend yield and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

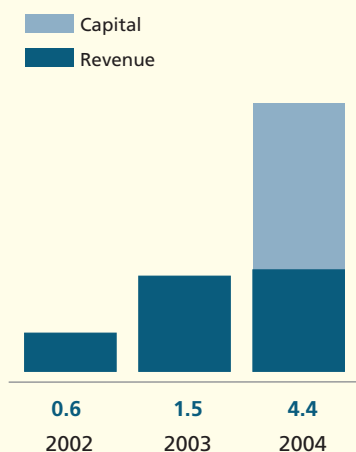
Financial Summary

Year ended 30 September	2004	2003
Net assets	£20,802,000	£16,701,000
Net asset value per share	93.4p	94.9p
Return per share		
Revenue	2.0p	1.8p
Capital	1.0p	(2.2)p
Dividend per share		
Revenue	1.6p	1.5p
Capital	2.8p	—
Cumulative return to shareholders since launch		
Dividends per share	6.5p	2.1p
Net asset value plus dividends per share	99.9p	97.0p
Share price at end of year	90.0p	90.0p

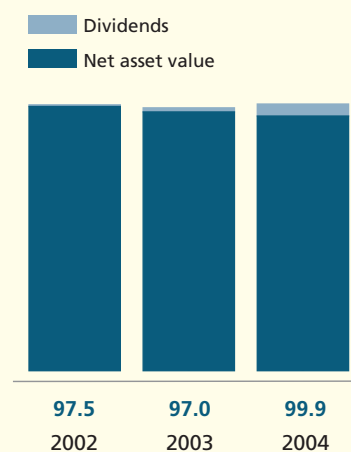
Net asset value per share



Dividend per share



Net asset value plus cumulative dividends per share



Years ended 30 September, figures in pence per share.

Past performance cannot be relied on as a guide to future performance.

KEY DATES

Results announced

17 November 2004

Shares quoted ex dividend

24 November 2004

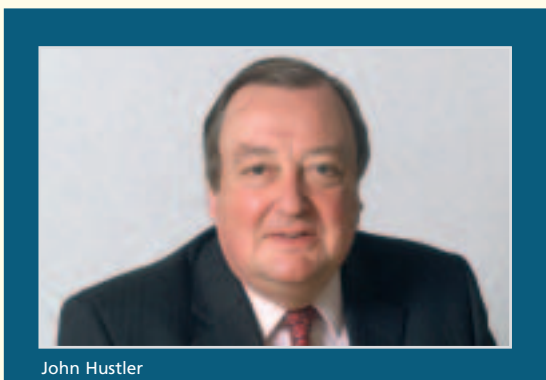
Annual general meeting

13 January 2005 (10.00am, Newcastle upon Tyne)

Final dividend paid (to shareholders on register on 26 November 2004)

14 January 2005

Chairman's Statement



I am pleased to report on a year of steady progress which has resulted in the total return to shareholders (net asset value plus cumulative dividends) increasing by 2.9p, from 97.0p to 99.9p. Despite a marked slowdown in the rate of new investment activity in the venture capital market generally, we completed six new investments during the year and achieved our first significant exit through the sale of **Keith Prowse**. The gain realised on this disposal has enabled us to pay a capital dividend of 2.8p per share. £4.8 million was raised through the issue of new ordinary shares, and the changes to tax reliefs on VCT subscriptions announced by the Chancellor in his March 2004 Budget should improve the prospects for fund-raising over the next 18 months.

The economic background to our third year's activity has been mixed and the medium-term outlook is uncertain, with UK industry feeling the adverse effect of interest rate rises designed primarily to bring a measure of stability to the housing market. However, we are seeking to build a portfolio of investments capable of performing well across the entire economic cycle and will continue to have regard to longer-term as well as short-term considerations.

Net asset value

The net asset value (NAV) at 30 September 2004, after providing for dividends totalling 4.4p in respect of the year, was 93.4p per share – marginally down from the corresponding figure of 94.9p at 30 September 2003. We have recorded gains, both realised and unrealised, on the three quoted investments in the venture capital portfolio, but the unquoted portfolio is

showing a small deficit against cost, equivalent overall to approximately 1.3p per share. This is not unexpected at this early stage in the company's development. The issues of new shares during the year have been priced at a level calculated to avoid dilution of net asset value per share.

Investments

Further details of new investments completed during the year are given in the investment manager's review. We noted a slowdown in the rate of new investment in the second half of the preceding financial year and this continued into the first half of the year under review. A welcome upturn in activity has taken place since mid-2004 and this has been reflected in four further completions subsequent to the end of the financial year on 30 September. The portfolio continues to develop, though in my interim statement I reported that one investment, **GB Industries**, had been the subject of a full provision. This remains the case six months later; although prospects for the company are better, it is not considered appropriate to recognise any value. Four other investments are now valued above cost by virtue of sustained profit performance and we expect others to be added in due course once they meet the relevant criteria set out in our valuation policy.

Revenue and dividends

Income from investments in the year increased to £796,000 from £615,000 in the preceding year, and the revenue surplus before tax rose from £376,000 to £505,000. The revenue return per share rose from 1.8p to 2.0p. The directors propose an unchanged final dividend of 1.1p per share, making a total revenue dividend of 1.6p for the year (last year 1.5p). The final dividend will, if approved by shareholders, be paid on 14 January 2005 to shareholders on the register on 26 November 2004. As previously mentioned, an interim capital dividend of 2.8p per share was declared on 28 September 2004 for payment on 26 November 2004. The total of dividends paid and proposed for the year is therefore 4.4p (last year 1.5p).

I wrote to shareholders on 18 October 2004 with details of the company's new dividend investment scheme, which provides shareholders with an opportunity to re-invest their Northern 3 VCT dividends in new ordinary shares with the benefit of the enhanced tax reliefs announced in the 2004 Budget. I am pleased to report that over 20% of shareholders have already joined the scheme and this opportunity remains available to shareholders who have not yet elected to re-invest their dividends.

Share offers

In June 2004 shareholders received a letter setting out the board's plans to issue additional ordinary shares in the 2004/05 tax year through a series of small top-up offers. The extraordinary general meeting on 8 July 2004 approved the enabling resolutions and the first top-up offer of 2,000,000 shares closed on 29 October. It is intended that a further offer will be launched shortly after the announcement of the preliminary results for the year ended 30 September 2004.

Your board believes that it is in the interests of shareholders that the size of the company be increased, and subject to market conditions we intend to raise up to a further £18 million during the remainder of the current tax year.

VCT qualifying status

PricewaterhouseCoopers LLP have continued to monitor and report on the company's progress towards meeting the qualifying investment requirements laid down in the VCT legislation. Because of the slower than expected rate of new qualifying investment completions and, generally, a lower quality of proposals, it was necessary to follow the precedent set by a number of other trusts and place £7.3 million on non-interest bearing deposit, which falls outside the definition of an investment for VCT purposes, pending investment in qualifying holdings. We are determined to maintain the rigorous standards applied in the selection of new investments; I am pleased to report that we have already completed new qualifying investments totalling £1.3 million

since the year end and hope to have utilised a substantial proportion of the non-interest bearing funds for investment purposes by 31 March 2005. The board is satisfied that the company's VCT qualifying status has been and will be maintained.

Share buy-backs

There continues to be relatively little trading in the company's shares. We remain willing to buy shares back in the market for cancellation in order to provide an exit route where necessary for shareholders and, in line with what is increasingly the market norm, will seek to do so at a discount to net asset value of approximately 10%. As usual a resolution will be proposed at the annual general meeting to renew the board's powers to purchase shares in the market up to a maximum of 10% of the issued share capital.

Future prospects

The current environment and prospects for our company are encouraging: following their management buy-out from Edinburgh Fund Managers our managers have increased their resources with the appointment of two new investment executives, deal flow has increased in both number and quality, and under the Chancellor's newly enhanced VCT tax reliefs the climate for fund-raising has improved.

We are building a diversified portfolio with the objective of providing shareholders with a strong flow of dividends, both revenue and capital, and your board remains confident for the future of the company.

We hope that shareholders will take advantage of the opportunity to invest further in Northern 3 VCT in the continuing share offers, particularly given the attractive tax reliefs now available on investments up to a maximum of £200,000 per tax year. I look forward to reporting further progress on both fund-raising and investment in my next statement to shareholders.

John Hustler
Chairman

Directors



John Hustler FCA MSI (Chairman), aged 58, 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 57, 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 53, 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 a number of other companies.



Tim Levett MBA, aged 55, 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 68, 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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E-mail: n3vct@nvm.co.uk

Registered Number

4280530

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Newcastle upon Tyne NE99 1SB

S J Berwin
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Commercial Union House
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Newcastle upon Tyne NE1 6RQ

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Newcastle upon Tyne NE99 1JP

Registrars

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PO Box 28448
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Edinburgh EH4 1WQ
Shareholder helpline: 0870 601 5366

Investment Manager's Review

Results for the year

Over the year to 30 September 2004 Northern 3 VCT achieved a net asset value total return to shareholders of 2.9p per share, equivalent to 3.1% of the opening net asset value of 94.9p. The movement in net asset value per share is summarised as follows:

	Pence per share
Net asset value at 30 September 2003	94.9
Net revenue (investment income less revenue expenses and tax)	2.0
Capital surplus arising on investments:	
Realised gains on disposals	3.1
Unrealised revaluation movements	(0.8)
Management expenses allocated to capital account (net of tax)	(1.4)
Net asset value at 30 September 2004 before dividends	97.8
Dividends paid and proposed in respect of the year:	
Revenue	(1.6)
Capital	(2.8)
Net asset value at 30 September 2004 after dividends	93.4

New investment activity

During the year six new venture capital investments were completed at a total cost of £1.6 million.

The new investments are:

- **IG Doors** (£500,000) – manufacturer of steel and GRP composite doors, Cwmbran
- **Warmseal Windows (Newcastle)** (£339,000) – manufacturer of PVCu windows, doors and conservatories, Newcastle upon Tyne
- **Omnico Plastics** (£333,000) – specialist builders' merchants, Ipswich
- **S&P Coil Products** (£240,000) – manufacturer of coil heat exchangers, Leicester
- **Fountains** (£84,000) – AiM-quoted provider of environmental management services, Banbury
- **AFI Aerial Platforms** (£116,000) – provider of powered aerial access equipment, Wakefield

Deal flow in the second half of 2004 has been strong, and since 30 September 2004 the following additional investments have been completed:

- **SMS Agencies** (£500,000) – agency supplying vehicle drivers to transport companies, Crawley
- **LEDA Holdings** (£385,000) – recruitment agency supplying temporary staff to construction, industrial and engineering sectors, Leeds
- **Arleigh International** (£210,000) – supplier of spares and consumables to the mobile home and narrow boat markets, Nuneaton
- **Cello Group** (£250,000) – Aim-quoted provider of marketing and communications services, London

Investment realisations

Investment realisations in the venture capital portfolio during the year are summarised in the table on page 7. All of the disposals were for cash. **Crabtree of Gateshead** redeemed part of its loan stock ahead of schedule in April, and **Keith Prowse** was acquired outright by a trade purchaser in September.

Investment Manager's Review

	Year acquired	Original cost £000	Sale proceeds £000	Realised gain £000
Unquoted				
Crabtree of Gateshead*	2003	58	58	—
Keith Prowse	2002	281	796	515
Quoted				
Alizyme*	2003	13	90	77
PM Group*	2002	39	84	45
Total		391	1,028	637

*Part disposal

Portfolio review

The venture capital investment portfolio at 30 September 2004 comprised 20 holdings with an aggregate value of £4.8 million. A listing of the holdings in the portfolio is given on page 9, with information on the fifteen largest investments on pages 10 to 13. The charts at the foot of pages 7 and 8 give an analysis of the portfolio by industry sector, age, financing stage and whether quoted or unquoted.

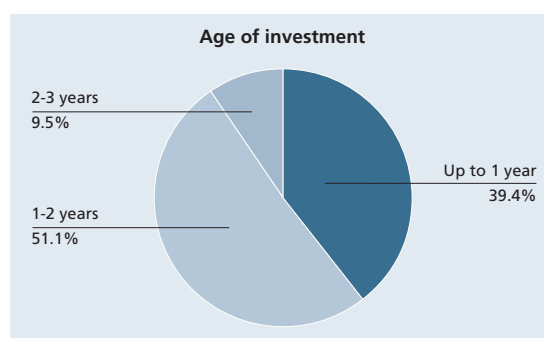
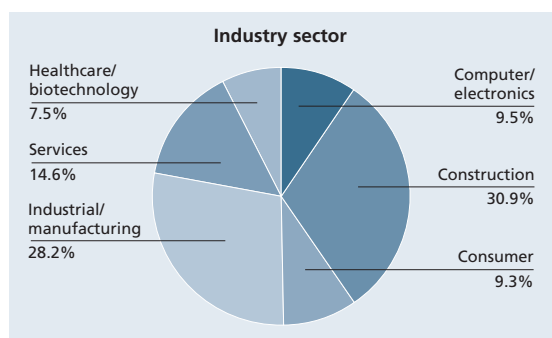
The unquoted portfolio is generally making satisfactory progress despite challenging economic conditions. Good performance has been reflected in valuation uplifts for **Arrow Industrial Group**, **Crabtree of Gateshead** and **RBF Industries**. A 100% provision was made at the half year stage against **GB Industries** (formerly known as **Horncastle Industries**) because of continued poor trading in one of the company's two operating divisions. Management changes have been made and trading performance is improving, but the provision has been retained pending a clearer view of longer-term prospects.

Listed fixed-interest portfolio

During the year the board reviewed the arrangements for the management of the listed fixed-interest portfolio and decided to appoint Chiswell Associates Limited, part of the Sarasin Chiswell group, in place of Edinburgh Fund Managers plc with effect from 1 January 2005.

Valuation policy

Unquoted investments are valued in accordance with the accounting policy set out on page 25, which complies with the guidelines for the valuation of venture capital investments published by the British Venture Capital Association. Where an investee company is significantly under-performing, its value is written down by between 25% and 100% as soon as possible. Investments are not normally revalued upwards within 12 months of acquisition, and revaluations resulting from earnings performance are prudently based on audited historic figures rather than on prospective results.



Investment Manager's Review

As at 30 September 2004 the number of investments falling into each valuation category was as follows:

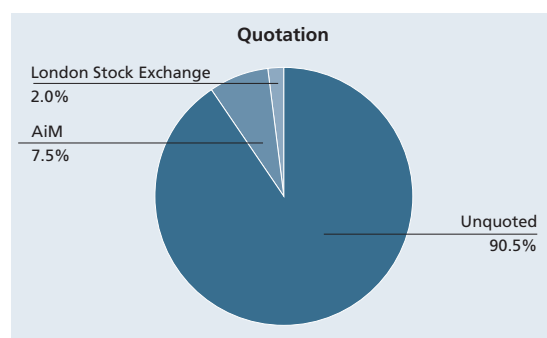
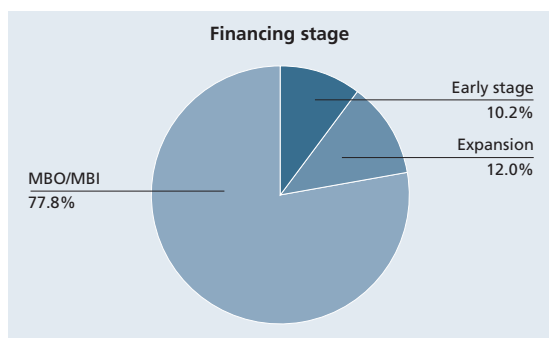
Category	Number of investments
Quoted investments at market value:	
London Stock Exchange	1
Alternative Investment Market	2
Unquoted investments:	
at cost	10
at cost less provision	3
at valuation based on third party transaction	1
at valuation based on historic earnings	3
Total	20

VCT qualifying status

The company's compliance with the Inland Revenue's conditions for VCT approval has continued to be monitored closely, with the assistance of PricewaterhouseCoopers LLP who have been retained to report regularly to the board on VCT status. The level of new VCT qualifying investments completed during the year was lower than originally expected, and the company's cash balances were increased by the proceeds of investment realisations during the year. In order to ensure compliance with the Inland Revenue's requirement that not less than 70% of the company's investments should comprise qualifying holdings by 30 September 2004, £7.3 million was withdrawn from the company's listed fixed-interest portfolio and placed as a short-term measure on non-interest bearing deposit. This balance is reducing steadily as new qualifying investments are completed.

Alastair Conn

Managing Director,
Northern Venture Managers Limited



	Cost £000	Valuation £000	% of net assets by value
Fifteen largest venture capital investments (see pages 10 to 13)			
IG Doors	500	500	2.4
Longhirst Group	480	495	2.4
Crantock Bakery	442	442	2.1
RBF Industries	251	438	2.1
Warmseal Windows (Newcastle)	339	339	1.6
Omnico Plastics	333	333	1.6
Arrow Industrial Group	245	312	1.5
John Laing Partnership	300	300	1.4
PM Group**	108	269	1.3
DxS	263	263	1.3
S&P Coil Products	240	240	1.2
Crabtree of Gateshead	161	237	1.1
LiquidLogic	165	165	0.8
AFI Aerial Platforms	116	116	0.6
Alizyme*	21	96	0.5
	3,964	4,545	21.9
Other venture capital investments			
Fountains**	84	90	0.4
Survey Inspection Systems	73	73	0.4
GSM-Central	78	39	0.2
Oxonica	41	21	0.1
GB Industries	583	—	—
Total venture capital investments	4,823	4,768	23.0
Listed fixed-interest investments			
£800,000 UK Treasury 5% stock 2008	818	807	3.9
£600,000 AIG SunAmerica 6.5% 2005	607	608	2.9
£550,000 Government of Canada 6.25% 2004	552	551	2.7
£550,000 European Investment Bank 6% 2004	552	551	2.7
£500,000 Lloyds TSB 8.5% 2006	524	524	2.5
£500,000 HSBC Bank PLC 9% 2005	522	522	2.5
£500,000 Glaxo Wellcome 8.75% 2005	518	521	2.5
£500,000 KFW International Finance 6.375% 2005	507	509	2.4
£500,000 Federal Home Loan Mortgage Corp 6.25% 2005	508	509	2.4
£500,000 European Investment Bank 6.125% 2004	506	507	2.4
£500,000 KFW International Finance 6.625% 2004	501	501	2.4
£500,000 IBRD 6.25% 2004	501	501	2.4
£500,000 AIG SunAmerica 6.5% 2004	502	501	2.4
£300,000 InterAmerican Dev Bank 7.125% 2004	301	301	1.5
Total listed fixed-interest investments	7,419	7,413	35.6
Total fixed asset investments	12,242	12,181	58.6
Net current assets		8,621	41.4
Net assets		20,802	100.0

* Quoted on London Stock Exchange

** Traded on Alternative Investment Market

IG DOORS LIMITED



Cost	£500,000
Valuation	£500,000
Basis of valuation	Cost
Equity held	5.0%
Business/location	Manufacture of steel and GRP composite doors, Cwmbran
History	Management buy-out from Expamet International, November 2003, 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 £36,000

Audited financial information:

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

LONGHIRST GROUP LIMITED

Cost	£480,000
Valuation	£495,000
Basis of valuation	Latest funding round
Equity held	5.9%
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 £9,000, loan stock interest £17,000

Audited financial information:

Year ended 31 March	2004 £m	2003* £m
Sales	8.7	3.6
Profit before tax	0.3	0.3
Retained profit	0.2	0.2
Net assets	1.6	1.4

*9 months ended 31 March



CRANTOCK BAKERY LIMITED

Cost	£442,000
Valuation	£442,000
Basis of valuation	Cost
Equity held	6.2%
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 £14,000

Audited financial information:

Year ended 30 September	2003 £m
Sales	4.7
Profit before tax	0.2
Retained profit	0.1
Net assets	0.9



RBF INDUSTRIES LIMITED

Cost	£251,000
Valuation	£438,000
Basis of valuation	Earnings multiple
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 nil, loan stock interest £17,000

Audited financial information:

Year ended 31 March	2004 £m	2003* £m
Sales	4.3	1.3
Profit before tax	0.4	0.1
Retained profit	0.2	—
Net assets	0.4	0.3

*4 months ended 31 March



Fifteen Largest Venture Capital Investments

as at 30 September 2004



WARMSEAL WINDOWS (NEWCASTLE) LIMITED

Cost	£339,000
Valuation	£339,000
Basis of valuation	Cost
Equity held	6.1%
Business/location	Manufacturer and supplier of PVCu windows, doors and conservatories, Newcastle upon Tyne
History	Management buy-out from private ownership, December 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 £24,000

Audited financial information:

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



OMNICO PLASTICS LIMITED

Cost	£333,000
Valuation	£333,000
Basis of valuation	Cost
Equity held	3.3%
Business/location	Specialist builders' merchants, Ipswich
History	Management buy-out from private ownership, January 2004, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT
Income in year	Dividends nil, loan stock interest £18,000

Audited financial information:

Period ended 31 March	2004* £m
Sales	3.3
Profit before tax	0.2
Retained profit	0.2
Net assets	0.7

*2 months ended 31 March



ARROW INDUSTRIAL GROUP LIMITED

Cost	£245,000
Valuation	£312,000
Basis of valuation	Earnings multiple
Equity held	5.6%
Business/location	Manufacture of industrial doors and curtains, Hull
History	Management buy-in 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 £17,000

Audited financial information:

Period ended 30 September	2003* £m
Sales	3.6
Profit before tax	0.1
Retained profit	—
Net assets	1.0

*17 months ended 30 September



JOHN LAING PARTNERSHIP LIMITED

Cost	£300,000
Valuation	£300,000
Basis of valuation	Cost
Equity held	4.3%
Business/location	Housebuilding, Elstree
History	Management buy-out from John Laing plc, September 2003, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT, Northern AIM VCT
Income in year	Dividends nil, loan stock interest £17,000

Audited financial information:

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

Fifteen Largest Venture Capital Investments

as at 30 September 2004



PM GROUP PLC

Cost	£108,000
Valuation	£269,000
Basis of valuation	Mid-market price (AIM)
Equity held	1.0%
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	Dividends £3,000, loan stock interest nil

Audited financial information:

Year ended 30 June	2004 £m	2003 £m
Sales	14.9	8.5
Profit before tax	1.6	1.2
Retained profit	0.7	0.6
Net assets	7.0	5.9



DxS LIMITED

Cost	£263,000
Valuation	£263,000
Basis of valuation	Cost
Equity held	8.3%
Business/location	Provider of pharmacogenomic services to the healthcare industry, Manchester
History	Start-up investment in May 2001, led by NVM. Northern 3 VCT made its initial investment during a further financing round in April 2004
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT
Income in year	Nil

Audited financial information:

Year ended 30 June	2003 £m	2002 £m
Sales	0.3	—
Loss before tax	(0.8)	(1.0)
Retained loss	(0.7)	(1.0)
Net liabilities	(0.7)	—



S&P COIL PRODUCTS LIMITED

Cost	£240,000
Valuation	£240,000
Basis of valuation	Cost
Equity held	4.8%
Business/location	Manufacture of coil heat exchangers, Leicester
History	Management buy-out from Halma Plc, April 2004, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT
Income in year	Dividends nil, loan stock interest £10,000

Audited financial information:

First audited accounts will be for the period to 31 March 2005



CRABTREE OF GATESHEAD LIMITED

Cost	£161,000
Valuation	£237,000
Basis of valuation	Earnings multiple
Equity held	5.8%
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 £12,000, loan stock interest £17,000

Audited financial information:

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

Fifteen Largest Venture Capital Investments

as at 30 September 2004

LIQUIDLOGIC LIMITED



Cost	£165,000
Valuation	£165,000
Basis of valuation	Cost
Equity held	2.9%
Business/location	Software development for 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 £7,000

Audited financial information:

Year ended 31 March	2004 £m	2003 £m
Sales	1.8	0.6
Loss before tax	(0.2)	(0.4)
Retained loss	(0.2)	(0.3)
Net assets	0.2	0.4

AFI AERIAL PLATFORMS LIMITED



Cost	£116,000
Valuation	£116,000
Basis of valuation	Cost
Equity held	2.0%
Business/location	Provider of powered aerial access equipment, Wakefield
History	Development capital investment, July 2004, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT,
Income in year	Nil

Audited financial information:

Year ended 31 May	2004 £m	2003 £m
Sales	7.5	4.4
Profit before tax	0.2	0.1
Retained profit	—	0.1
Net assets	1.0	0.8

ALIZYME PLC



Cost	£21,000
Valuation	£96,000
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	2003 £m	2002 £m
Sales	1.2	—
Loss before tax	(10.8)	(10.5)
Retained loss	(10.0)	(9.8)
Net assets	20.8	4.4

Directors' Report

The directors present their report and the audited financial statements for the year ended 30 September 2004.

Activities and status

The principal activity of the company during the year was the making of long-term equity and loan investments, mainly in unquoted companies. The company was an investment company as defined in Section 266 of the Companies Act 1985 until 1 October 2004 when investment company status was revoked in order to permit the distribution of capital profits. 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

	Revenue £000	Capital £000
Return on ordinary activities after tax	389	195
Appropriated as follows:		
Interim dividend paid – 0.5p per share	91	—
Second interim dividend proposed – 2.8p per share	—	623
Final dividend proposed – 1.1p per share	245	—
Transfer to/(from) reserves	53	(428)
	389	195

The proposed second interim dividend of 2.8p per share will be paid on 26 November 2004 to shareholders on the register on 8 October 2004.

The proposed final dividend of 1.1p per share will, if approved by shareholders, be paid on 14 January 2005 to shareholders on the register on 26 November 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 2004	1 October 2003
J R Hustler (Chairman)	25,100	5,100
J G D Ferguson	102,800	102,800
C J Fleetwood	15,300	15,300
T R Levett	55,000	55,000
B E Sealey	46,100	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 2004 and the date of this report.

Brief biographical notes on the directors are given on page 4. Mr J G D Ferguson and Mr C J Fleetwood retire from the board by rotation in accordance with the Articles of Association and 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 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 2004.

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, NVM Group Limited.

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 – special business

Resolution 8 in the notice of meeting on pages 33 and 34 will, if passed, authorise the directors to allot equity securities for cash as if Section 89(1) of the Companies Act 1985 (which gives shareholders certain pre-emption rights on the issue of shares or convertible securities) did not apply to any such allotment. The authority allows:

- the issue of up to an aggregate nominal amount of £1,352,470 representing 27,049,400 ordinary shares (being the company's authorised but unissued share capital, equivalent to 118% of the ordinary share capital in issue at 17 November 2004) by means of rights issues and other issues pro rata to existing entitlements;
- the issue of up to an aggregate nominal amount of £1,352,470 representing 27,049,400 ordinary shares on the exercise of options granted on or prior to the date of the meeting;

- the issue of up to 18,000,000 ordinary shares (78% of the company's ordinary share capital in issue at 17 November 2004) in connection with proposed offers of shares to the public. This element of the resolution renews the authority granted by shareholders for that purpose in respect of up to 20,000,000 shares at the extraordinary general meeting on 8 July 2004 (since when 2,095,150 ordinary shares have been issued using that earlier authority); and
- other issues for cash limited to shares having an aggregate nominal amount of £114,753 representing 2,295,060 ordinary shares (10% of the company's ordinary share capital in issue at 17 November 2004).

The authority will expire at the conclusion of the annual general meeting to be held in 2006 or, if earlier, on 13 April 2006.

Resolution 9 in the notice of meeting will, if passed, renew a general authority for the company to make market purchases of its own shares. The directors consider that it is in shareholders' interests that the company should have the ability to purchase its shares in the market for cancellation with the aim of reducing the share price discount to net asset value and enhancing the net asset value per share of the remaining shares. The authority in respect of 2,295,060 ordinary shares (10% of the company's ordinary share capital in issue at 17 November 2004) will expire at the conclusion of the annual general meeting to be held in 2006 or, if earlier, on 13 April 2006.

Independent auditors

KPMG Audit Plc 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

17 November 2004

Directors' Remuneration Report

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

The company's independent auditors, KPMG Audit Plc, are required to give their opinion on certain information included in this report, as indicated below. Their report on these and other matters is set out on page 21.

Board of directors

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

Remuneration policy

The board considers that directors' fees should reflect the time commitment required and the high level of responsibility borne by directors, and should be broadly comparable to those paid by similar companies. It is not considered appropriate that directors' remuneration should be performance-related, and none of the directors is eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits in respect of their services as non-executive directors of the company. Mr T R Levett is entitled to participate in an incentive scheme established for the benefit of certain executives of Northern Venture Managers, as described in Note 3 to the financial statements, but no benefit had arisen as at 30 September 2004.

Directors' fees were reviewed by the Nomination Committee during its meeting in September 2004, when it was recommended that fees should be increased to £13,500 (previously £13,250) per annum for the chairman and £10,750 (previously £10,500) for other directors for the year ending 30 September 2005. 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 years ended 30 September 2004 and 2003:

	Year ended 30 September 2004 £	Year ended 30 September 2003 £
J R Hustler (Chairman)	13,250	12,500
J G D Ferguson	10,500	10,000
C J Fleetwood	10,500	10,000
T R Levett	—	—
B E Sealey	10,500	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 2004 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

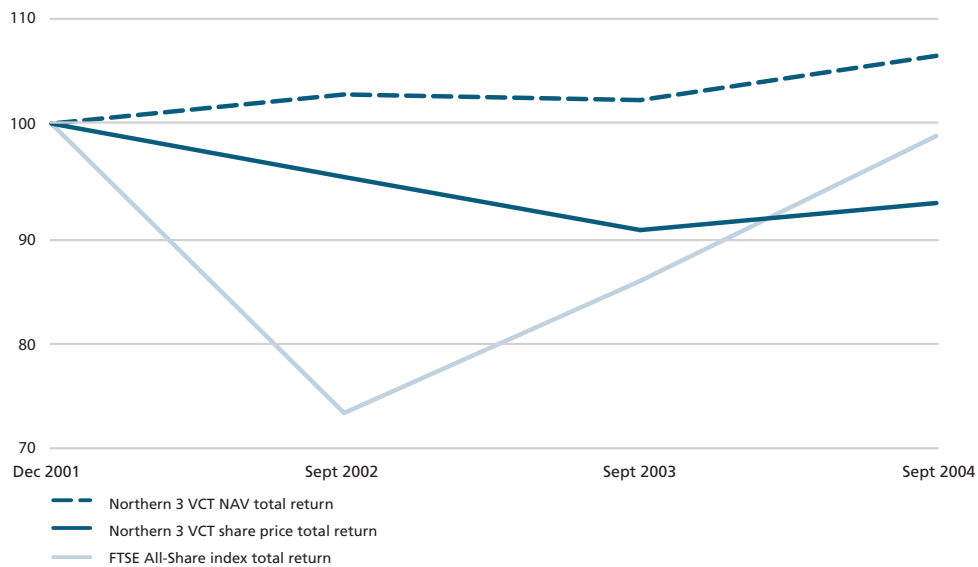
C D Mellor

Secretary

17 November 2004

Return to shareholders in Northern 3 VCT PLC

Period to September 2004 (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 in all material respects with the provisions set out in Section 1 of the Combined Code on Corporate Governance published by the UK Listing Authority in June 1998. In July 2003 the Financial Reporting Council issued a revised Combined Code (“Revised Code”), which is applicable to the company’s financial year which began on 1 October 2004. The company is not formally required to report on how it has applied the principles of the Revised Code, or complied with its provisions, until the company’s 2005 annual report.

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. 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 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.

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

Internal control

The directors have overall responsibility for ensuring that there is in place a system of internal control and

for reviewing its effectiveness. 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 key elements are as follows:

- Review by the Audit Committee of NVM's statement of internal controls operated in relation to the company's business.
- Review by the Audit Committee of periodic reports on the effectiveness of NVM's compliance procedures.
- Monitoring of portfolio performance through the receipt of quarterly board reports from NVM on the progress of each investment.
- Review of annual budgets and quarterly financial reports in relation to the company's own business.

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 unquoted equity holdings, which by their nature may entail a higher degree of risk than investments in large quoted 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 2004 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) launched in September 2001. It has raised a total of £22.4 million through its public share offers. The trust invests mainly in unquoted venture capital holdings, with its remaining assets invested in a portfolio of listed fixed-interest investments and bank deposits.

Northern 3 VCT PLC is managed by Northern Venture Managers Limited (NVM), an independent specialist firm of venture capital managers based in Newcastle upon Tyne, Edinburgh and Reading. NVM also acts as manager of four other quoted 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 £160 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. With effect from 6 April 2004, the benefits to eligible investors include:

- income tax relief at up to 40% on new subscriptions of up to £200,000 per tax year, provided the shares are held for at least three years.
- 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.

Prior to 6 April 2004, subscribers for shares in VCTs were entitled to income tax relief at 20% rather than 40% and could also obtain capital gains deferral relief. Capital gains deferred by pre-6 April 2004 subscriptions are not affected by the subsequent changes in tax reliefs.

Northern 3 VCT PLC has been 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 2005 is as follows:

June 2005	Interim report for half year to 31 March 2005 published
August 2005	Interim dividend paid
December 2005	Final dividend and preliminary results for year to 30 September 2005 announced; annual report and financial statements published
January 2006	Annual general meeting
January 2006	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 NVM website at www.nvm.co.uk.

Dividend investment scheme

The company has recently introduced a dividend investment scheme, giving shareholders the option of reinvesting their dividends in new shares in the company with the benefit of the enhanced tax reliefs announced in the 2004 Budget. Information about the scheme can be obtained from the Company Secretary (see page 5 for contact details).

Independent Auditors' Report

To the members of NORTHERN 3 VCT PLC

We have audited the financial statements on pages 22 to 32. 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 19 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 2004 and of its total return for the year then ended; and
- 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.

KPMG AUDIT Plc

Chartered Accountants
and Registered Auditors
Edinburgh

17 November 2004

Statement of Total Return (incorporating the Revenue Account)

for the year ended 30 September 2004

	Notes	Year ended 30 September 2004			Year ended 30 September 2003		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Gains/(losses) on investments							
Realised on disposals	8	—	615	615	—	118	118
Unrealised revaluation movements	8	—	(157)	(157)	—	(248)	(248)
		—	458	458	—	(130)	(130)
Income	2	796	—	796	615	—	615
Investment management fee	3	(119)	(357)	(476)	(86)	(258)	(344)
Other expenses	4	(172)	—	(172)	(153)	(22)	(175)
Return on ordinary activities before tax		505	101	606	376	(410)	(34)
Tax on ordinary activities	5	(116)	94	(22)	(81)	59	(22)
Return on ordinary activities after tax		389	195	584	295	(351)	(56)
Dividends	6	(336)	(623)	(959)	(251)	—	(251)
Transfer to/(from) reserves	16	53	(428)	(375)	44	(351)	(307)
Return per share	7	2.0p	1.0p	3.0p	1.8p	(2.2)p	(0.4)p
Dividend per share	6	1.6p	2.8p	4.4p	1.5p	—	1.5p

- 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 2004

	Notes	30 September 2004 £000	30 September 2003 £000
Fixed assets			
Investments	8	12,181	13,336
Current assets			
Investments	12	—	2,371
Debtors	13	395	408
Cash at bank		9,184	836
		9,579	3,615
Creditors (amounts falling due within one year)	14	(958)	(250)
Net current assets		8,621	3,365
Net assets		20,802	16,701
Capital and reserves			
Called-up equity share capital	15	1,113	880
Share premium	16	13,922	9,622
Capital redemption reserve	16	5	1
Special reserve	16	6,177	6,238
Capital reserve – realised	16	(456)	(185)
– unrealised	16	(61)	96
Revenue reserve	16	102	49
Total equity shareholders' funds	17	20,802	16,701
Net asset value per share	18	93.4p	94.9p

- The accompanying notes are an integral part of this statement

The financial statements on pages 22 to 32 were approved by the directors on 17 November 2004 and are signed on their behalf by:

J R Hustler
Director

C J Fleetwood
Director

Cash Flow Statement

for the year ended 30 September 2004

	Year ended 30 September 2004 £000		Year ended 30 September 2003 £000	
Cash flow statement				
Net cash inflow/(outflow) from operating activities		192		(10)
Taxation				
Corporation tax paid		(22)		—
Financial investment				
Purchase of investments	(12,015)		(8,191)	
Sale/repayment of investments	13,628		4,218	
Net cash inflow/(outflow) from financial investment		1,613		(3,973)
Equity dividends paid		(282)		(144)
Net cash inflow/(outflow) before use of liquid resources and financing		1,501		(4,127)
Net cash inflow from management of liquid resources		2,371		496
Financing				
Issue of ordinary shares	4,776		3,668	
Share issue expenses	(239)		(170)	
Purchase of ordinary shares for cancellation	(61)		(21)	
Net cash inflow from financing		4,476		3,477
Increase/(decrease) in cash at bank		8,348		(154)
Reconciliation of revenue before tax to net cash flow from operating activities				
Net revenue before tax		505		376
Decrease/(increase) in debtors		13		(112)
Increase in creditors		31		6
Management fees charged to capital reserve		(357)		(258)
Other expenses charged to capital reserve		—		(22)
Net cash inflow/(outflow) from operating activities		192		(10)
Analysis of movement in net funds				
	1 October 2003 £000	Cash flows £000		30 September 2004 £000
Cash at bank	836	8,348		9,184
Short-term investments	2,371	(2,371)		—
Net funds	3,207	5,977		9,184

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

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

Unquoted investments are stated at directors' valuation. The directors' policy in valuing unquoted 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 quoted 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.

Unquoted 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 quoted equity shares are brought into account on the ex-dividend date. Dividends receivable on unquoted equity shares are brought into account when the company's right to receive payment is established and there is no reasonable doubt that payment will be received. Fixed returns on non-equity shares and debt securities are recognised on 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 2004

2 Income	Year ended 30 September 2004 £000	Year ended 30 September 2003 £000
Franked investment income	23	2
Interest receivable		
Bank deposits	124	77
Treasury bills	42	53
Loans to unquoted companies	219	122
Government stocks and bonds	388	359
Other income	—	2
	<u>796</u>	<u>615</u>

3 Investment management fee	Year ended 30 September 2004			Year ended 30 September 2003		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Investment management fee	101	304	405	73	219	292
Irrecoverable VAT thereon	18	53	71	13	39	52
	<u>119</u>	<u>357</u>	<u>476</u>	<u>86</u>	<u>258</u>	<u>344</u>

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

NVM receives a management fee, payable quarterly in advance, at the rate of 2.5% per annum of net assets calculated at half-yearly intervals as at 31 March and 30 September. NVM has agreed to reduce the fee payable in respect of the proceeds of new share issues to 1.5% for the first year and 2.0% for the second year. 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 a 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 2004

4 Other expenses	Year ended 30 September 2004 £000	Year ended 30 September 2003 £000
Administrative and secretarial services	36	35
Directors' remuneration	45	43
Auditors' remuneration – audit services	7	7
– non-audit services	—	—
Irrecoverable VAT	16	16
Other expenses	68	52
	172	153

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 2004			Year ended 30 September 2003		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
(a) Analysis of charge/(credit) for the year						
Corporation tax payable/(recoverable) on the returns of the year	116	(94)	22	81	(59)	22
(b) Tax reconciliation						
Return on ordinary activities before tax	505	101	606	376	(410)	(34)
Return on ordinary activities multiplied by the standard rate of UK corporation tax of 30% (2003 30%)	151	30	181	113	(123)	(10)
Effect of:						
UK dividends not subject to tax	(7)	—	(7)	(1)	—	(1)
Non-deductible expenses	—	—	—	—	7	7
Small companies rate relief	(26)	12	(14)	(31)	18	(13)
Capital returns not subject to tax	—	(136)	(136)	—	39	39
Adjustment in respect of previous periods	(2)	—	(2)	—	—	—
Current tax charge/(credit) for the year	116	(94)	22	81	(59)	22

(c) Factors which may affect future tax charges

The directors are not aware of any matters which may affect the tax charges in future periods. There is no provided or unprovided deferred tax as at 30 September 2004.

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

Notes to the Financial Statements

for the year ended 30 September 2004

6 Dividends	Year ended 30 September 2004		Year ended 30 September 2003	
	Revenue £000	Capital £000	Revenue £000	Capital £000
Interim dividend paid – 0.5p (2003 0.4p) per share	91	—	58	—
Second interim dividend proposed – 2.8p (2003 nil) per share	—	623	—	—
Final dividend proposed – 1.1p (2003 1.1p) per share	245	—	193	—
	<u>336</u>	<u>623</u>	<u>251</u>	<u>—</u>

7 Return per share

The calculation of the revenue return per share is based on net revenue from ordinary activities after tax of £389,000 (2003 £295,000) and on 19,550,936 (2003 15,832,417) shares, being the weighted average number of shares in issue during the year.

The calculation of the capital return per share is based on net realised and unrealised capital gains for the year of £195,000 (2003 losses of £351,000) and on 19,550,936 (2003 15,832,417) shares, being the weighted average number of shares in issue during the year.

8 Fixed asset investments	30 September 2004 £000	30 September 2003 £000
Venture capital investments – unquoted	4,312	2,685
– quoted	456	441
Listed fixed-interest investments	7,413	10,210
	<u>12,181</u>	<u>13,336</u>

Movements in investments during the year are summarised as follows:

	Venture capital – unquoted £000	Venture capital – quoted £000	Listed fixed-interest £000	Total £000
Book cost at 1 October 2003	2,831	176	10,233	13,240
Unrealised appreciation at 1 October 2003	(146)	265	(23)	96
Valuation at 1 October 2003	2,685	441	10,210	13,336
Movements in the year:				
Purchases at cost	2,119	88	9,808	12,015
Disposals – proceeds	(854)	(174)	(12,600)	(13,628)
– net realised gains/(losses)	515	122	(22)	615
Movement in unrealised appreciation	(153)	(21)	17	(157)
Valuation at 30 September 2004	<u>4,312</u>	<u>456</u>	<u>7,413</u>	<u>12,181</u>
Comprising:				
Book cost at 30 September 2004	4,611	212	7,419	12,242
Unrealised appreciation at 30 September 2004	(299)	244	(6)	(61)
	<u>4,312</u>	<u>456</u>	<u>7,413</u>	<u>12,181</u>

At 30 September 2004 there were commitments totalling £1,977,000 (30 September 2003 £500,000) in respect of investments approved by the manager but not yet completed.

Notes to the Financial Statements

for the year ended 30 September 2004

9 Unquoted investments	30 September 2004		30 September 2003	
	Total cost £000	Carrying value £000	Total cost £000	Carrying value £000
The cost and carrying value of investments in unquoted companies held at 30 September 2004 are shown below.				
IG Doors Limited				
Ordinary shares	50	50	—	—
Loan stock	450	450	—	—
	<u>500</u>	<u>500</u>	<u>—</u>	<u>—</u>
Longhirst Group Limited				
Ordinary shares	150	165	120	120
Redeemable preference shares	150	150	—	—
Loan stock	180	180	180	180
	<u>480</u>	<u>495</u>	<u>300</u>	<u>300</u>
Crantock Bakery Limited				
Ordinary shares	90	90	86	86
Loan stock	352	352	313	313
	<u>442</u>	<u>442</u>	<u>399</u>	<u>399</u>
RBF Industries Limited				
Ordinary shares	26	213	25	25
Loan stock	225	225	225	225
	<u>251</u>	<u>438</u>	<u>250</u>	<u>250</u>
Warmseal Windows (Newcastle) Limited				
Ordinary shares	34	34	—	—
Loan stock	305	305	—	—
	<u>339</u>	<u>339</u>	<u>—</u>	<u>—</u>
Omnico Plastics Limited				
Ordinary shares	33	33	—	—
Loan stock	300	300	—	—
	<u>333</u>	<u>333</u>	<u>—</u>	<u>—</u>
Arrow Industrial Group Limited				
Ordinary shares	35	102	35	35
Loan stock	210	210	210	210
	<u>245</u>	<u>312</u>	<u>245</u>	<u>245</u>
John Laing Partnership Limited				
Ordinary shares	16	16	16	16
Redeemable preference shares	44	44	44	44
Loan stock	240	240	240	240
	<u>300</u>	<u>300</u>	<u>300</u>	<u>300</u>
DxS Limited				
Ordinary shares	30	30	—	—
Loan stock	233	233	—	—
	<u>263</u>	<u>263</u>	<u>—</u>	<u>—</u>
S&P Coil Products Limited				
Ordinary shares	24	24	—	—
Loan stock	216	216	—	—
	<u>240</u>	<u>240</u>	<u>—</u>	<u>—</u>

Notes to the Financial Statements

for the year ended 30 September 2004

9 Unquoted investments continued	30 September 2004		30 September 2003	
	Total cost £000	Carrying value £000	Total cost £000	Carrying value £000
Crabtree of Gateshead Limited				
Ordinary shares	25	101	24	24
Loan stock	136	136	195	195
	<u>161</u>	<u>237</u>	<u>219</u>	<u>219</u>
LiquidLogic Limited				
Ordinary shares	44	44	44	44
Loan stock	121	121	44	44
	<u>165</u>	<u>165</u>	<u>88</u>	<u>88</u>
AFI Aerial Platforms Limited				
Ordinary shares	39	39	—	—
Redeemable preference shares	77	77	—	—
	<u>116</u>	<u>116</u>	<u>—</u>	<u>—</u>
Survey Inspection Systems Limited				
Ordinary shares	12	12	12	12
Loan stock	61	61	61	61
	<u>73</u>	<u>73</u>	<u>73</u>	<u>73</u>
GSM-Central Limited				
Ordinary shares	8	—	5	5
Loan stock	70	39	47	47
	<u>78</u>	<u>39</u>	<u>52</u>	<u>52</u>
Oxonica Limited				
Ordinary shares	20	—	20	20
Loan	21	21	21	21
	<u>41</u>	<u>21</u>	<u>41</u>	<u>41</u>
GB Industries Limited				
Ordinary shares	117	—	117	5
Loan stock	466	—	466	433
	<u>583</u>	<u>—</u>	<u>583</u>	<u>438</u>

Additional information relating to the fifteen largest venture capital investments is given on pages 10 to 13.

10 Investment disposals

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

	Original cost £000	Carrying value prior to disposal £000	Disposal proceeds £000	Realised gain/(loss) against cost £000
Alizyme*	13	69	90	77
Crabtree of Gateshead*	58	58	58	—
Keith Prowse	281	634	796	515
PM Group*	39	72	84	45
	<u>391</u>	<u>833</u>	<u>1,028</u>	<u>637</u>

*Part disposal

11 Significant interests

There are no shareholdings in companies where the company's holding at 30 September 2004 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 2003 comprised UK money market instruments maturing within three months of the balance sheet date.

13 Debtors

	30 September 2004 £000	30 September 2003 £000
Prepayments and accrued income	395	408

14 Creditors (amounts falling due within one year)

	30 September 2004 £000	30 September 2003 £000
Corporation tax payable	24	24
Accruals	66	35
Proposed dividend	868	191
	<u>958</u>	<u>250</u>

15 Called-up equity share capital

	30 September 2004 £000	30 September 2003 £000
Authorised:		
50,000,000 (2003 50,000,000) ordinary shares of 5p	<u>2,500</u>	<u>2,500</u>
Allotted and fully paid:		
22,266,304 (2003 17,601,926) ordinary shares of 5p	<u>1,113</u>	<u>880</u>

During the year the company issued 3,444,438 ordinary shares of 5p for cash at a premium of 95p per share and 1,291,940 ordinary shares of 5p for cash at a premium of 98p per share in order to provide financial resources for its investment activities. The company also repurchased 72,000 ordinary shares of 5p for cancellation at a cost of £61,000.

16 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 2003	9,622	1	6,238	(185)	96	49
Premium on issue of ordinary shares	4,539	—	—	—	—	—
Share issue expenses	(239)	—	—	—	—	—
Shares purchased for cancellation	—	4	(61)	—	—	—
Realised on disposal of investments	—	—	—	615	—	—
Management fee capitalised net of associated taxation	—	—	—	(263)	—	—
Capital dividend declared	—	—	—	(623)	—	—
Net decrease in unrealised appreciation	—	—	—	—	(157)	—
Net revenue retained for the year	—	—	—	—	—	53
At 30 September 2004	<u>13,922</u>	<u>5</u>	<u>6,177</u>	<u>(456)</u>	<u>(61)</u>	<u>102</u>

Notes to the Financial Statements

for the year ended 30 September 2004

	Year ended 30 September 2004 £000	Year ended 30 September 2003 £000
17 Reconciliation of movements in equity shareholders' funds		
Return on ordinary activities after tax	584	(56)
Net proceeds of share issues	4,537	3,498
Shares purchased for cancellation	(61)	(21)
Dividends	(959)	(251)
Net addition to equity shareholders' funds	4,101	3,170
Shareholders' funds at 1 October 2003	16,701	13,531
Shareholders' funds at 30 September 2004	20,802	16,701

18 Net asset value per share

The calculation of net asset value per share as at 30 September 2004 is based on net assets of £20,802,000 (2003 £16,701,000) divided by the 22,266,304 (2003 17,601,926) ordinary shares in issue.

19 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 at fair value as determined by the directors. There is little exposure to interest rate risk and the company does not have any financial liabilities other than short-term creditors. Market risk is discussed in the corporate governance statement on page 19.

Investments are made in a combination of equity and loan instruments so as to enable the company to achieve its objective of providing high long-term returns to shareholders through a combination of dividend yield and capital growth. Surplus funds are held on bank deposit or in listed money market instruments.

At 30 September 2004 the company's 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	Weighted average period to maturity
Venture capital investments:					
Ordinary shares	1,408	6.6	N/A	N/A	N/A
Preference shares	271	1.2	Fixed	0.0%	5.0 years
Loan stock	3,089	14.5	Floating	6.8%	4.8 years
	4,768	22.3			
Listed fixed-interest investments	7,413	34.7	Fixed	4.8%	0.9 years
Bank deposits – interest-bearing	1,841	8.6	Floating	4.5%	N/A
– non interest-bearing	7,343	34.4	N/A	Nil	N/A
	21,365	100.0			

Notice of Annual General Meeting

Notice is hereby given that the third annual general meeting of Northern 3 VCT PLC will be held at the offices of Northern Venture Managers Limited, Northumberland House, Princess Square, Newcastle upon Tyne NE1 8ER at 10.00am on Thursday 13 January 2005 for the following purposes:

As ordinary business

- 1 To receive the financial statements for the year ended 30 September 2004 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 2004.
- 3 To approve the directors' remuneration report in respect of the year ended 30 September 2004.
- 4 To re-elect as a director Mr J G D Ferguson who retires by rotation in accordance with the Articles of Association and offers himself for re-election.
- 5 To re-elect as a director Mr C J Fleetwood who retires by rotation 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 (save to the extent relied upon prior to the passing of this resolution), 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 8 July 2004 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;

- (c) to the allotment of up to 18,000,000 ordinary shares for cash in connection with offers of ordinary shares to the public; and

- (d) to the allotment (otherwise than pursuant to paragraph (a), (b) or (c) above) of equity securities up to an aggregate nominal value of £114,753;

and shall expire on the conclusion of the next annual general meeting of the company after the passing of this resolution 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:

Notice of Annual General Meeting

- (a) the maximum number of ordinary shares hereby authorised to be purchased is 2,295,060, 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

17 November 2004

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 10.00am on Tuesday 11 January 2005.
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 12 January 2005 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 12 January 2005 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 – 13 January 2005

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 third annual general meeting of the company to be held on 13 January 2005, notice of which was sent to shareholders with the annual report and accounts for the year ended 30 September 2004, 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 2004	<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 2004	<input type="checkbox"/>	<input type="checkbox"/>
3 To approve the directors' remuneration report in respect of the year ended 30 September 2004	<input type="checkbox"/>	<input type="checkbox"/>
4 To re-elect Mr J G D Ferguson as a director	<input type="checkbox"/>	<input type="checkbox"/>
5 To re-elect Mr C J Fleetwood 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 the 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 10.00am on Tuesday 11 January 2005.

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 10.00am on Thursday 13 January 2005 at _____
Northumberland House, Princess Square, Newcastle upon Tyne NE1 8ER

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

Northern 3 VCT PLC
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Princess Square
Newcastle upon Tyne NE1 8ER

Tel: 0191 244 6000

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