

# Northern 3 VCT PLC

## SUMMARY

### IMPORTANT NOTICE

This document, the Securities Note and the Registration Document, which together comprise the prospectus relating to Northern 3 VCT PLC ("the Prospectus"), have been prepared in accordance with the Prospectus Rules made under Section 84 of the Financial Services and Markets Act 2000. This Summary conveys the essential characteristics and risks associated with Northern 3 VCT PLC ("the Company") and the Offer Shares and should be read as an introduction to the Prospectus. Any decision to invest in the Offer Shares should be based on consideration of the Prospectus as a whole by an Investor. Where a claim relating to the information contained in a prospectus is brought before a court, the plaintiff investor might, under the national legislation of the EEA states, have to bear the costs of translating the prospectus before legal proceedings are initiated. Civil liability attaches to those persons who are responsible for the Summary, including any translation of the Summary, only if the Summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus.

**Investors are advised to obtain appropriate financial advice on the consequences and suitability of their investing in a Venture Capital Trust ("VCT") before doing so. An investment in the Company is only suitable for Investors who are capable of evaluating the risks and merits of such an investment, and who have sufficient resources to bear any loss that may arise.**

### Objectives of the Company

The Company is managed by NVM Private Equity Limited ("NVM"). It invests mainly in unquoted venture capital holdings and aims to provide high long-term tax-free returns to shareholders through a combination of dividend yield and capital growth.

### Income

The Board has a stated objective of paying an annual dividend of at least 4p per Offer Share, subject to the availability of sufficient distributable profits. Set out below is a table illustrating the returns to Shareholders on Offer Shares assuming an annual dividend of 4p per Offer Share is paid. Investors should note that the target minimum annual dividend of 4p per Offer Share is an objective and is not guaranteed.

Illustrative Returns per Offer Share (after 30% income tax relief)				
Net of tax offer price <sup>1</sup>	Target annual dividends	Tax-free yield	Gross equivalent yield	
			40% taxpayer <sup>2</sup>	50% taxpayer <sup>2</sup>
66.5p	4p	6.0% p.a.	8.0% p.a.	9.4% p.a.

<sup>1</sup> The returns listed are based on the Initial Offer Price of 95p multiplied by 70%, to reflect initial income tax relief of 30%. Investors should note that they will be required to pay the full offer price and claim the income tax relief separately.

<sup>2</sup> The gross equivalent yield is the yield on a non-VCT UK dividend that would result in a net yield of 4.21% (being a 4p dividend divided by 95p, the Initial Offer Price), assuming a 40% taxpayer and 50% taxpayer respectively.

### Summary of Investment policy

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

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

The target size range for VCT qualifying investments is from approximately £250,000 to £1 million (the maximum permitted within any tax year), with an average investment of over £500,000.

The net proceeds of the Offer will initially be invested in a portfolio of cash, listed Fixed Income Securities and a range of other securities. The Fixed Income Securities portfolio will consist of sterling-denominated financial instruments and Fixed Income Securities issued by the UK Government, European Union governments and major UK and international companies and institutions, in order to protect the capital invested by concentrating on investment instruments of high credit quality.

The net proceeds of the Offer will be put on deposit or invested in listed Fixed Income Securities and a range of other securities, with a view to maintaining capital value, until suitable qualifying investment opportunities are found that fit the Company's requirements. The Company's long term objective is to invest approximately 80% of its net assets in venture capital investments, at which point it is envisaged that the approximate split of the Company's investments will be:

- **20%** in cash and near cash investments (including listed Fixed Income Securities);
- **70%** in a spread of established unquoted companies (including companies quoted on AIM and PLUS); and
- **10%** in early-stage unquoted companies with high growth potential.

The portfolio of Qualifying Investments will be diversified by investing in a broad range of VCT-qualifying industry sectors and by holding investments in companies at different stages of maturity in the corporate development cycle. The normal investment holding period will be in the range from three to seven years. Up to approximately 10% by value of the Company's investments may be in early stage companies with high growth potential.

It is not intended that the Company will take on any long term borrowings.

### Risk Factors

- **Tax Reliefs** – if the Company does not maintain VCT qualifying status then this could result in adverse tax consequences for Investors who could lose the initial 30% UK income tax relief and all other tax reliefs associated with their investment.
- **Liquidity** – although the Company's Offer Shares will be listed and the Company operates a buy-back policy, it is unlikely that there will be a liquid market in the Offer Shares as the initial income tax relief is only available to those subscribing for new shares. Therefore, it may prove difficult for Shareholders to sell their Offer Shares. In addition, there is no guarantee that the market price of shares in VCTs will fully reflect their underlying net asset value or the ability to buy and sell at that price. Shares in VCTs normally trade at a discount to their net asset value.
- **Investment Performance** – the Company will predominantly invest in small unquoted companies, which by their nature are higher risk than larger "blue-chip" companies. Shares in such companies may not be publicly traded or freely marketable and may, therefore, be difficult to realise.
- **Manager's Performance** – the past performance of investments made by the Manager or funds managed by the Manager should not be regarded as an indication of the performance of investments to be made by the Company.
- **Investment Restrictions** – the Company's ability to obtain maximum value from its investments may be limited by the requirements imposed in order to maintain the VCT status of the Company. Changes in legislation concerning VCTs in general, and Qualifying Investments and qualifying trades

in particular, which could be applied retrospectively and may limit the number of new qualifying investment opportunities and/or reduce the level of returns which would otherwise have been achievable.

- **Speculative Risk** – the value of the Offer Shares and the income derived from them may go down as well as up and Shareholders may not receive back the full amount invested.

### The Manager

The Company's venture capital investment portfolio is managed by NVM, which specialises in investing in smaller UK companies of the type qualifying under the VCT legislation. NVM was established in 1988 by the executive team previously employed directly by Northern Investors Company and currently manages funds in excess of £175 million through its offices in Newcastle upon Tyne, Reading and Manchester.

NVM's 12 investment executives have together a total of over 180 years' experience in the venture capital industry. NVM is authorised and regulated by the Financial Services Authority. NVM's team of investment professionals aims to ensure that the Company gains access to some of the best opportunities available to the industry and by carrying out extensive due diligence procedures seeks to identify those companies which potentially offer the best possible risk/return scenarios. NVM generates more than 400 investment opportunities a year but less than 10% of these opportunities are invested in by the Company and the other funds managed by NVM (*source: NVM*).

### Track Record of the Manager

NVM manages three generalist VCTs and Northern Investors Company, a generalist investment trust (which invests jointly with the VCTs managed by NVM). The respective returns of those generalist VCTs to investors who subscribed at launch are as follows:

Track Record of NVM's Generalist VCT Funds					
	Tax year of launch	Net cost <sup>1</sup>	Total Return to date <sup>2</sup>	Increase over net cost (%)	Movement in FTSE All Share (%) <sup>3</sup>
Northern Venture Trust – Ordinary shares	1995/96	80p	166.3p	+108%	+128%
Northern 2 VCT	1998/99	80p	123.5p	+54%	+33%
Northern 3 VCT	2001/02	80p	113.9p	+42%	+42%
Northern Venture Trust – C shares	2005/06	60p	84.8p	+41%	+2%

1 Net cost is the initial offer price of 100p per share less the income tax relief available to investors in each of the VCTs.  
2 Total Return is cumulative dividends paid (including the tax credits where reclaimable) plus the most recently announced net asset value for each VCT in pence per share.  
3 The movement in the FTSE All-Share Index is the total return measure of this index (i.e. it includes income) and is calculated from 5 April in the tax year of launch of each VCT up to 31 December 2009.  
(*Source: announcements made by the relevant VCT through a regulatory information service and FTSE All-Share (total return) Index.*)

**Please note that the past performance of the Manager and of the funds it manages may not be repeated and is not a guide to the future performance of the Company and no projection is implied or should be inferred.**

## Directors

*The Company has five Directors, all of whom are non-executive. Tim Levett is an executive director of the Manager.*

**James Ferguson BA (Chairman)** was chairman and managing director of Stewart Ivory Limited from 1989 until 2000. He is chairman of Value & Income Trust plc, The Monks Investment Trust PLC, Edinburgh US Tracker Trust plc and The Scottish Oriental Smaller Companies Trust plc, a non-executive director of The Independent Investment Trust plc and a former deputy chairman of the Association of Investment Companies. He was appointed to the Board in 2001.

**Chris Fleetwood BA FCA** is currently chairman of the Darlington Building Society, the Onyx Group Limited and Adit North and is the managing partner of io solutions, e-business strategy advisers. Formerly, he was the group chief executive of Whessoe plc from 1988 until 2000. He was appointed to the Board in 2001.

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

**Tim Levett MBA** is the executive chairman of NVM. He joined Northern Investors Company in 1985 and became investment director of NVM in 1988, with overall responsibility for NVM's investment activities. He became chairman of NVM in 2008. He is a non-executive director of the Company and of a number of NVM's portfolio companies. He was appointed to the Board in 2001.

**John Waddell LLB** is chief executive of Archangel Informal Investment Limited, a Scottish-based syndicate of individual private equity investors, and was previously a director of Noble Grossart Limited. He was appointed to the Board in 2007.

## Substantial Investments by the Board and the Executives of the Manager

By the time the Offer closes, the Directors and the executives of the Manager will beneficially own over 550,000 Shares in the Company.

## Taxation Benefits for Investors

The principal UK tax reliefs which are available on a maximum investment of £200,000 per individual in each of the 2009/10 and 2010/11 tax years, are as follows:

- **Income tax relief of up to 30%** of the amount subscribed provided that the VCT shares are held for at least five years. Relief is restricted to the amount which reduces the Investor's income tax liability to nil.
- **Tax-free dividends, which may include capital distributions**, from a VCT.
- **Capital gains tax exemption** on the disposal of shares in a VCT.

## The Offer

- The Offer is for a total of up to 15,000,000 Offer Shares at an issue price of 95.0p per Offer Share (unless adjusted by the pricing formula).
- The minimum investment for each Applicant is £5,000.
- The subscription list for the Offer will open on 22 January 2010 and will close on 5 April 2010 for the 2009/10 tax year and on 12 May 2010 for the 2010/11 tax year (unless previously extended or fully subscribed earlier).

22 January 2010