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2010

Northern 3 VCT PLC

Annual report and financial statements
31 March 2010

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nvm private equity

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

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Financial Summary

	31 March 2010	31 March 2009
Net assets	£32 4m	£24 3m
Net asset value per share	90 2p	84 0p
Return per share		
Revenue	1 7p	2 6p
Capital	8 2p	(13 0)p
Total	9 9p	(10 4)p
Dividend per share declared in respect of the year		
Revenue	1 5p	2 5p
Capital	2 5p	1 5p
Total	4 0p	4 0p
Cumulative return to shareholders since launch		
Net asset value per share	90 2p	84 0p
Dividends paid per share*	24 9p	20 9p
Net asset value plus dividends paid per share	115 1p	104 9p
Share price at end of period	76 0p	45 5p

* Excluding proposed final dividend

Key dates

Results announced	20 May 2010	
Shares quoted ex dividend	16 June 2010	
Annual general meeting	1 July 2010	(11 30am, The Balmoral 1 Princes Street Edinburgh EH2 2EQ)
Final dividend paid (to shareholders on register on 18 June 2010)	9 July 2010	

Chairman's Statement

The portfolio has generally proved resilient, with some encouraging successes.

I am glad to report that Northern 3 VCT has made good progress over the past year despite the challenges posed by the economic and financial climate

Results and dividend

The net asset value (NAV) per share at 31 March 2010 was 90 2p, an increase of 7 4% from the corresponding figure of 84 0p at 31 March 2009 The total return for the year as shown in the income statement was 9 9p per share, equivalent to 11 8% of the opening NAV

An interim dividend of 2 0p per share was paid in January 2010 and the directors propose a final dividend also of 2 0p per share, making a total of 4 0p for the year – unchanged from the previous year This is in line with the board's stated minimum dividend objective and we will aim to maintain a satisfactory flow of dividends to shareholders in future periods, though the income from our investments continues to be adversely affected by low interest rates

Investment portfolio

The business review on pages 6 to 10 gives details of recent developments in the investment portfolio The rate of new investment activity showed a welcome increase over the previous year, and we also made additional investments in several existing portfolio companies in order to finance growth and where appropriate reduce exposure to bank lending

Some of our investments have continued to be affected by adverse market conditions but despite this the portfolio has generally proved resilient, with some encouraging successes The sale of the diagnostics company DxS in September 2009 has been widely recognised as an excellent result, which led to our colleague Tim Levett being presented with the prestigious BVCA/Real Deals Deal of the Year Award for 2010 on behalf of NVM Private Equity – a splendid accolade won in competition with the entire UK venture capital industry Satisfactory exits were also achieved from the investments in Liquidlogic and Abermed

Investment policy

Investment returns on cash and near-cash assets have continued to be very low over the past year The directors have reviewed the company's approach to the short-term deployment of funds held for future investment in qualifying venture capital holdings and have decided to bring a resolution to the 2010 annual general meeting which would amend the company's investment policy so as to permit the use of a wider range of financial instruments with a view to generating a better return on funds

Shareholder ıssues

The company's latest public offer of new ordinary shares closed on 12 May 2010 with a total of £12 7 million (before deducting issue costs) raised This is a satisfactory outcome and I would like to thank our new shareholders for their support

A year ago your directors felt it appropriate in the light of the very difficult market conditions then prevailing, to suspend the company's policy of buying back shares in the market at a fixed discount of 10% to NAV Following a further review, it was announced in November 2009 that the company would in future buy back shares at a 15% discount and we have subsequently purchased a total of 200,000 shares in the market for cancellation We also made a special tender offer to purchase up to 10% of the company's issued capital at a 1% discount to NAV, on the basis that the proceeds would be re-invested in new shares under the public share offer mentioned above The tender offer was taken up in respect of 2,858,255 shares, representing 9 9% of the issued capital, and the shares were duly re-purchased by the company on 1 March 2010 at a cost of £2 5 million

We continue to support efforts to promote the secondary market in VCT shares, whose attractions can only be enhanced by the current UK regime of low interest rates, high personal tax rates and restrictions on pension contributions

VCT qualifying status

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

VAT on management fees

Following HM Revenue & Customs' announcement in 2008 that investment management fees paid by VCTs should have been exempt from VAT, repayment has been obtained of £280,000 of VAT paid on management fees for the period from 2005 to 2008 Our managers have not at this stage been able to obtain repayment in respect of earlier periods, where claims are subject to time limits but discussions are continuing

Board of directors

John Hustler, who was chairman of the company for the first seven years of its existence has indicated that he will be retiring from the board in September 2010 Regrettably this is necessary in order to avoid a deemed conflict with his role as chairman of Northern Venture Trust PLC, following the introduction of new FSA rules relating to the independence of listed company chairmen On behalf of shareholders and the board, I thank John for his valuable service and wise counsel, which we shall miss

Outlook

Any assessment of the future prospects for small and medium-sized businesses must take into account the poor state of the public finances, as a result of which higher taxation and reduced public sector spending can be expected Recent economic data suggest that the UK may now be slowly emerging from recession, though a relapse seems entirely possible This is a climate in which a highly selective approach to new investments will remain essential, whilst our managers continue their supportive monitoring of the existing portfolio Nevertheless it has been a feature of past economic cycles that attractive opportunities can become available following a time of recession, and we would therefore expect to see some upturn in investment activity over the next 12 months

James Ferguson
Chairman

Directors and Advisers

James Ferguson BA (Chairman)
aged 62
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 Independent Investment Trust plc and a former deputy chairman of the Association of Investment Companies He was appointed to the board in 2001, and became chairman in 2009

Chris Fleetwood BA FCA
aged 58
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, and is chairman of Onyx Group Limited, Adit North and Darlington Building Society He was appointed to the board in 2001

John Hustler FCA MSI CF
aged 63
was for ten years a corporate finance partner at KPMG, where he was head of venture capital, he formed Hustler Venture Partners Limited, a specialist adviser to small firms, in 1993 He is non-executive chairman of Northern Venture Trust PLC and Octopus Titan VCT 2 plc and a non-executive director of Hygea VCT plc He was appointed to the board in 2001

Tim Levett MBA
aged 61
is the chairman of NVM Private Equity Limited, having been a co-founder of NVM in 1988 He is a non-executive director of several unquoted companies He was appointed to the board in 2001

John Waddell LLB
aged 54
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

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The company's objective is to provide high long-term tax-free returns to investors through a combination of dividend yield and capital growth.

This review has been prepared by the directors in accordance with the requirements of Section 417 of the Companies Act 2006, and forms part of the directors' report to shareholders The company s independent auditors are required by law to report on whether the information given in the directors' report (including the business review) is consistent with the financial statements The auditors' opinion is included in their report on page 28

Objectives and investment policy

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

The company is a Venture Capital Trust approved by HM Revenue & Customs In order to maintain approved status, the company must comply on a continuing basis with the provisions of Section 274 of the Income Tax Act 2007 In particular the company is required at all times to hold at least 70% of its investments (as defined in the legislation) in VCT-qualifying holdings, of which at least 30% must comprise eligible ordinary shares For this purpose a "VCT-qualifying holding" consists of up to £1 million invested in any one year in new shares or securities of a UK unquoted company (which may be quoted on AIM) which is carrying on a qualifying trade and whose gross assets at the time of investment do not exceed a prescribed limit The definition of "qualifying trade" excludes certain activities such as property investment and development, financial services and asset leasing

The company's investment policy has been designed to enable the company to comply with the VCT qualifying conditions set out above The directors intend that the long-term disposition of the company's assets will be approximately 80% in a portfolio of VCT-qualifying unquoted and AIM investments and 20% in other investments (including but not restricted to listed fixed-interest securities and bank deposits), 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 A resolution will be proposed at the annual general meeting on 1 July 2010 to give the directors greater flexibility in the range of other investment instruments employed Within the VCT-qualifying portfolio investments will be structured using various listed and unlisted investment instruments, including ordinary and preference shares, loan stocks and convertible securities, to achieve an appropriate balance of income and capital growth, having regard to the VCT legislation The portfolio will be diversified by investing in a broad range of VCT-qualifying industry sectors and by holding investments in companies at different stages of maturity in the corporate development cycle The normal investment holding period will be in the range from three to seven years Up to approximately 10% by value of the company's investments may be in early stage companies with high growth potential

The target size range for VCT-qualifying investments is from approximately £250,000 to £1 million (the maximum permitted within any tax year), with an average investment of over £500 000 As a result, and based on the company's present gross assets of approximately £32 million, no single investment would normally represent in excess of 3 1% of the company s total assets at the time of acquisition However shareholders should be aware that the company's VCT-qualifying investments are held with a view to long-term capital growth as well as income and will often have limited marketability, as a result it is possible that individual holdings may grow in value to the point where they represent a significantly higher proportion of total assets prior to a realisation opportunity being available Investments will normally be made using the company's equity shareholders' funds and it is not intended that the company will take on any long-term borrowings

The company is entitled to participate pro rata to net assets in all investment opportunities developed by NVM Private Equity Limited (NVM) and regularly invests alongside the four other funds managed by NVM, enabling the funds together to undertake investment commitments in any one investee company of up to approximately £7 million Under a co-investment scheme introduced in 2006, NVM executives are required to invest personally alongside the funds in each new investee company on a predetermined basis

Investment management

NVM has acted as the company's investment manager since inception NVM has an experienced team of venture capital executives based in its offices in Newcastle upon Tyne and Reading and currently has approximately £185 million under management in four VCTs and one investment trust

The board's management engagement committee reviews the terms of NVM's appointment as investment manager on a regular basis The principal terms of the company's management agreement with NVM are set out in Note 3 to the financial statements

Overview of the year

During the year under review Northern 3 VCT achieved a total return to ordinary shareholders, before dividends, of 10 2p per share, equivalent to 12 1% of the opening net asset value per share of 84 0p The movement in total net assets and net asset value per share is summarised in Table 2

The net cash outflow from the venture capital portfolio was £0 3 million, comprising sale proceeds of £5 6 million less new investments of £5 9 million Portfolio cash flow over the past five years is summarised in Table 1

Table 1 Venture capital portfolio cash flow

Year ended	New investment £000	Disposal proceeds £000	Net inflow/ (outflow) £000
30 September 2005	4,733	288	(4,445)
30 September 2006	2,867	1,183	(1,684)
31 March 2008 (18 month period)	9,211	3,738	(5,473)
31 March 2009	2 237	3,404	1,167
31 March 2010	5 948	5,637	(311)
Total	24,996	14,250	(10,746)

After taking account of other cash flows, the company's total cash balances increased over the year by £6 7 million, to £9 5 million In addition the company holds listed fixed-interest investments valued at £5 0 million

Dividends

The directors have declared dividends of 4 0p per share in respect of the year comprising 1 5p revenue dividend and a 2 5p capital distribution

Investment portfolio

During the year ended 31 March 2010 five new holdings were added to the venture capital portfolio at a cost of £4 5 million, and additional investments totalling £1 4 million were made in existing portfolio companies The portfolio at 31 March 2010 comprised 37 holdings with an aggregate value of £17 8 million

A summary of the venture capital holdings at 31 March 2010 is given on page 11, with information on the fifteen largest investments on pages 12 to 15

New investments

The new investments completed during the year were

- **Phusion Healthcare (£995,000) –** development of healthcare products, London
- **Britspace Group (£794,000) –** manufacture of modular buildings Hull (acquired through a restructuring of Britspace Holdings)
- **Lanner Group (£475,000) –** developer of business process simulation software, Redditch

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

	£000	Pence per ordinary share
Net asset value at 31 March 2009	24,323	84 0
Net revenue (investment income less revenue expenses and tax)	486	1 7
Capital surplus arising on investments		
Realised net gains on disposals	1,651	5 6
Movements in fair value of investments	1,058	3 6
Management expenses allocated to capital account (net of tax relief)	(297)	(1 0)
Total return for the year as shown in income statement	2,898	9 9
Proceeds of issue of new shares (net of expenses)	9,073	–
Shares re-purchased for cancellation	(2,725)	0 3
Total return for the year before dividends	9,246	10 2
Net asset value at 31 March 2010 before dividends recognised	33,569	94 2
Dividends recognised in the financial statements for the year	(1,157)	(4 0)
Net asset value at 31 March 2010	32,412	90 2

Business Review

- **Kerridge Commercial Systems (£1,244,000)** – developer of software for the distribution sector Hungerford
- **RCC Lifesciences (£995,000)** – acquisition vehicle for lifescience businesses Manchester

Investment realisations

Details of investment sales during the year are given in Note 10 on page 38 The most significant realisations (original cost or sales proceeds in excess of £0 3m) in the year are summarised in Table 3

The sale of **DxS** in September 2009 to Qiagen, a NASDAQ-traded biotechnology group, was the highlight of the year, realising sales proceeds of £3 5 million and representing Northern 3 VCT's most successful exit since its inception in 2001 DxS was an early-stage investment which NVM funds backed in 2001 and which your company invested in as part of a secondary round of funding in 2004 and a subsequent round of financing in 2006 taking the total invested to £327,000 Further receipts of up to £2 5 million may become due depending on the achievement of specified commercial milestones over the next three years Other successes during the year were the sale of **Abermed** to International SOS and the software developer **Liquidlogic** which was acquired by System C Healthcare

Britspace Holdings was the subject of a financial restructuring in which funds managed by NVM reinvested their sale proceeds in a new parent company, **Britspace Group** On a disappointing note the investments in **Foreman Roberts Group** and **John Laing Partnership** both of which were fully provided against in the preceding year, were written off following financial re-structuring

Portfolio composition

The pie charts above show the composition of the investment portfolio at 31 March 2010 according to age, industry sector, financing stage and whether quoted or unquoted The portfolio is well diversified and the company has continued to invest primarily in manufacturing and service businesses which meet the managers key criteria of good value, growth potential, strong management and ability to generate cash

Table 3 Significant investment realisations

Company	Date of original investment	Original cost £000	Sales proceeds £000	Realised surplus/ (deficit) £000
Abermed	2005	375	675	300
Britspace Holdings	2002	1,201	805	(396)
DxS	2001	327	3 516	3,189
Foreman Roberts Group	2007	1,000	–	(1,000)
John Laing Partnership	2003	305	–	(305)
Leda Holdings	2004	420	6	(414)
Liquidlogic	2002	49	363	314

It is pleasing that some of our portfolio companies which have endured difficult trading conditions in the past 18 months have made encouraging progress despite very difficult trading conditions for SMEs Improved performances at **Promanex Group Holdings**, **IG Doors** and **Crantock Bakery** have all resulted in an increase in value from the preceding year During the year additional investments were made in **Promanex Group Holdings**, **Astbury Marsden Holdings** **Arleigh International** and **Wear Inns** and the board remains willing to provide further financial backing to those companies where a strong business case exists Whilst the trading outlook for a number of the portfolio companies is more promising than it was in 2009 conditions will remain extremely challenging as the UK economy gradually recovers from recession The directors will continue to adopt a prudent approach when valuing the portfolio

Valuation policy

Unquoted investments are valued in accordance with the accounting policy set out on page 33, which takes account of current industry guidelines for the valuation of venture capital portfolios Provision against cost is made where an investment is under-performing significantly, and investments are not normally revalued upwards within 12 months of acquisition

As at 31 March 2010 the number of investments falling into each valuation category was as shown in Table 4

Key performance indicators

The directors regard the following as the key indicators pertaining to the company's performance

Net asset value and total return to shareholders the following charts show the movement in net asset value and total return (net asset value plus cumulative dividends) per share over the past five financial years

Dividend distributions

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

Total expense ratio the following chart shows total annual running expenses (including investment management fees charged to capital reserve but excluding performance-related fees) as a percentage of the average net assets attributable to shareholders for each of the past five financial years

Table 4 Investment valuation by category

Category	Number of investments	Valuation £000	% of portfolio by value
Unquoted investments at directors' valuation			
Earnings multiple	11	7 581	42 6
Original cost	8	6,829	38 4
Original cost less provision	5	691	3 9
Net assets	1	313	1 8
Quoted investments at bid price			
Listed on London Stock Exchange	1	39	0 2
Quoted on AIM	11	2,323	13 1
Total	**37**	**17,776**	**100 0**

Business Review

Maintenance of VCT qualifying status the directors believe that the company has at all times since inception complied with the VCT qualifying conditions laid down by HM Revenue & Customs

Risk management

The board carries out a regular review of the risk environment in which the company operates The main areas of risk identified by the board are as follows

Investment risk the majority of the company's investments are in small and medium-sized unquoted companies which are VCT qualifying holdings, and which by their nature entail a higher level of risk and lower liquidity than investments in large quoted companies The directors and the managers aim to limit the risk attaching to the portfolio as a whole by careful selection, close monitoring and timely realisation of investments, by carrying out rigorous due diligence procedures and by maintaining a wide spread of holdings in terms of financing stage and industry sector The board reviews the investment portfolio with the managers on a regular basis

Financial risk as most of the company's investments involve a medium- to long-term commitment and are relatively illiquid, the directors consider that it is inappropriate to finance the company's activities through borrowing except on an occasional short-term basis Accordingly they seek to maintain a proportion of the company's assets in cash or cash equivalents in order to be in a position to take advantage of new unquoted investment opportunities The company has very little direct exposure to foreign currency risk and does not enter into derivative transactions

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

Stock market risk Some of the company's investments are quoted on the AIM market and will be subject to market fluctuations upwards and downwards External factors such as terrorist activity can negatively impact stock markets worldwide and the AIM market is no exception to this In times of adverse sentiment there tends to be very little, if any, market demand for shares in the smaller companies quoted on AIM

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

Internal control risk the board regularly reviews the system of internal controls, both financial and non-financial operated by the company and the manager These include controls designed to ensure that the company's assets are safeguarded and that proper accounting records are maintained

VCT qualifying status risk the company is required at all times to observe the conditions laid down in the Income Tax Act 2007 for the maintenance of approved VCT status The loss of such approval could lead to the company losing its exemption from corporation tax on capital gains, to investors being liable to pay income tax on dividends received from the company and, in certain circumstances to investors being required to repay the initial income tax relief on their investment The manager keeps the company's VCT qualifying status under continual review and reports to the board on a quarterly basis The board has also retained PricewaterhouseCoopers LLP to undertake an independent VCT status monitoring role

Future prospects

The changing political landscape and the slow rate of recovery of the UK economy will continue to pose challenges to the companies we have invested in Following the successful outcome to the recent public share offer, the company is in a strong position to take advantage of the increased level of venture capital enquiries that it is seeing

By order of the Board

C D Mellor
Secretary

20 May 2010

Investment Portfolio

as at 31 March 2010

	Cost £000	Valuation £000	% of net assets by value
Fifteen largest venture capital investments (see pages 12 to 15)			
Promanex Group Holdings	1 595	1 595	4 9
Kerridge Commercial Systems	1 244	1 244	3 8
Axial Systems Holdings	1 004	1 023	3 2
Phusion Healthcare	995	995	3 1
RCC Lifesciences	995	995	3 1
CloserStill Holdings	743	946	2 9
Advanced Computer Software*	381	872	2 7
Wear Inns	839	839	2 6
Paladin Group	861	831	2 6
Optilan Group	1,000	821	2 5
Crantock Bakery	442	772	2 4
Envirotec	456	708	2 2
Arleigh International	452	677	2 1
IG Doors	500	600	1 8
Britspace Group	794	583	1 8
	12,301	13,501	41 7
Other venture capital investments			
Lanner Group	475	475	1 5
IDOX*	298	457	1 4
Promatic Group	570	428	1 3
Andor Technology*	201	402	1 2
KPJ Software Services	362	362	1 1
S&P Coil Products	186	339	1 0
Direct Valeting	324	324	1 0
Longhirst Venues	125	313	1 0
e-know net	225	281	0 9
IS Pharma*	277	216	0 7
Brulines Group*	184	186	0 6
Astbury Marsden Holdings	1 120	120	0 4
Warmseal Windows (Newcastle)	339	85	0 3
Cello Group*	251	73	0 2
Shieldtech*	247	60	0 2
Gentronix	238	59	0 2
Connaught**	59	39	0 1
Adept Telecom*	235	25	0 1
Twenty*	198	17	–
Spectrum Interactive*	163	11	–
Summit Corporation*	122	3	–
Frontier Foods	542	–	–
Total venture capital investments	19,042	17,776	54 9
Total listed fixed-interest investments	4 963	5,002	15 4
Total fixed asset investments	24 005	22,778	70 3
Net current assets		9 634	29 7
Net assets		32,412	100 0

* Quoted on AIM

** Listed on London Stock Exchange

Fifteen Largest Venture Capital Investments

PROMANEX GROUP HOLDINGS LIMITED

Cost	£1,595 000
Valuation	£1,595,000
Basis of valuation	Cost
Equity held	14 4%
Business/location	Provider of engineering and maintenance services Nuneaton
History	Management buy-out from venture capital ownership March 2007 led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT
Income in year	Nil

Audited financial information

Year ended 30 September	2008 £m	2007* £m
Sales	74 4	37 1
Profit/(loss) before tax	(6 6)	1 0
Profit/(loss) after tax	(6 7)	0 9
Net assets/(liabilities)	(5 4)	1 3

*7 months ended 30 September

KERRIDGE COMMERCIAL SYSTEMS LIMITED

Cost	£1,244,000
Valuation	£1,244,000
Basis of valuation	Cost
Equity held	5 9%
Business/location	Software developer for wholesale and retail distribution sectors Hungerford
History	Management buy-out from ADP Inc, March 2010, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust Northern 2 VCT Northern AIM VCT
Income in year	Nil

Audited financial information

First audited accounts will be for the period ending 30 June 2010

AXIAL SYSTEMS HOLDINGS LIMITED

Cost	£1,004,000
Valuation	£1,023,000
Basis of valuation	Earnings multiple
Equity held	8 2%
Business/location	Supplier of distributed network management solutions, Maidenhead
History	Management buy-out from private ownership, March 2008, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT, Northern AIM VCT
Income in year	Dividends nil, loan stock interest £43,000

Audited financial information

Period ended 31 May	2009* £m
Sales	21 9
Profit before tax	-
Loss after tax	(0 3)
Net assets	1 3

*14 months ended 31 May

PHUSION HEALTHCARE LIMITED

Cost	£995,000
Valuation	£995,000
Basis of valuation	Cost
Equity held	15 8%
Business/location	Development of healthcare products, London
History	Acquisition capital financing in July 2009, led by NVM
Other NVM funds investing	Northern Venture Trust Northern 2 VCT
Income in year	Nil

Audited financial information

First audited accounts will be for the period ending 30 June 2010

RCC LIFESCIENCES LIMITED

Cost	£995,000
Valuation	£995,000
Basis of valuation	Cost
Equity held	15 8%
Business/location	Development of lifescience products London
History	Acquisition capital financing in March 2010, led by NVM
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT
Income in year	Nil

Audited financial information

First audited accounts will be for the period ending 31 March 2011

CLOSERSTILL HOLDINGS LIMITED

Cost	£743,000
Valuation	£946,000
Basis of valuation	Earnings multiple
Equity held	8 9%
Business/location	Business-to-business exhibition management, London
History	Acquisition capital financing in September 2008, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust Northern 2 VCT
Income in year	Dividends nil, loan stock interest £19,000

Audited financial information

First audited accounts will be for the period ending 31 December 2009

ADVANCED COMPUTER SOFTWARE PLC

Cost	£381,000
Valuation	£872,000
Basis of valuation	Bid price (AIM)
Equity held	0 6%
Business/location	Provider of software to the healthcare sector, London
History	Reverse take-over of an AIM listed company and additional fundraising, August 2008
Other NVM funds investing	Northern Venture Trust, Northern AIM VCT, Northern 2 VCT
Income in year	Nil

Audited financial information

Period ended 28 February	2009* £m
Sales	7 3
Profit before tax	1 5
Loss after tax	1 2
Net assets	25 4

* 14 months ended 28 February

WEAR INNS LIMITED

Cost	£839,000
Valuation	£839,000
Basis of valuation	Cost
Equity held	10 3%
Business/location	Owner of managed public houses Newcastle upon Tyne
History	Acquisition capital financing in February 2006, led by NVM
Other NVM funds investing	Northern Investors Company Northern Venture Trust, Northern 2 VCT
Income in year	Dividends nil, loan stock interest £28 000

Audited financial information

Year ended 31 March	2009 £m	2008 £m
Sales	2 7	2 4
Loss before tax	(0 1)	(0 3)
Loss after tax	(0 1)	(0 3)
Net assets	–	0 1

Fifteen Largest Venture Capital Investments

PALADIN GROUP LIMITED

Cost	£861,000
Valuation	£831,000
Basis of valuation	Earnings multiple
Equity held	6 0%
Business/location	Provider of property management services, Bath
History	Development capital investment, June 2006 led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT
Income in year	Dividends nil, loan stock interest £24 000

Audited financial information

Year ended 31 March	2009 £m	2008* £m
Sales	20 5	15 7
Profit before tax	0 7	0 7
Profit after tax	0 4	0 4
Net assets	6 5	5 8

OPTILAN GROUP LIMITED

Cost	£1,000,000
Valuation	£821,000
Basis of valuation	Earnings multiple
Equity held	7 2%
Business/location	Telecommunications systems integrator, Coventry
History	Management buy-out from private ownership, March 2008, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust Northern 2 VCT, Northern AIM VCT
Income in year	Nil

Audited financial information

Period ended 31 October	2008* £m
Sales	19 3
Profit before tax	0 8
Profit after tax	0 6
Net assets	3 0

*7 months ended 31 October

CRANTOCK BAKERY LIMITED

Cost	£442,000
Valuation	£772,000
Basis of valuation	Earnings multiple
Equity held	6 2%
Business/location	Manufacture of premium hand-made Cornish pasties, Newquay
History	Management buy-out/buy-in from private ownership, October 2002, led by NVM
Other NVM funds investing	Northern Investors Company Northern AIM VCT, Northern 2 VCT
Income in year	Dividends £8,000, loan stock interest £67,000

Audited financial information

Year ended 30 September	2008 £m	2007 £m
Sales	9 3	8 8
Profit before tax	0 2	0 4
Profit after tax	0 1	–
Net assets	1 5	1 5

ENVIROTEC LIMITED

Cost	£456,000
Valuation	£708,000
Basis of valuation	Earnings multiple
Equity held	4 9%
Business/location	Manufacture of air curtains and air handling equipment High Wycombe
History	Management buy-out from institutional investor, January 2005, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 3 VCT
Income in year	Dividends £52,000, loan stock interest £47 000

Audited financial information

Year ended 28 February	2009 £m	2008 £m
Sales	18 6	16 7
Profit before tax	2 1	2 6
Profit after tax	1 3	1 7
Net assets	4 2	3 3

ARLEIGH INTERNATIONAL LIMITED

Cost	**£452,000**
Valuation	**£677,000**
Basis of valuation	Earnings multiple
Equity held	5 8%
Business/location	Suppliers of accessories and spares to the holiday home and boating markets, Nuneaton
History	Management buy-out from Firstserve, October 2004 led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT,
Income in year	Dividends £102 000, loan stock interest £20,000

Audited financial information

Year ended 31 December	2009 £m	2008 £m
Sales	12 0	10 6
Profit before tax	0 9	0 6
Profit after tax	0 6	0 4
Net assets	1 7	1 3

IG DOORS LIMITED

Cost	**£500,000**
Valuation	**£600,000**
Basis of valuation	Earnings multiple
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 £50 000

Audited financial information

Year ended 31 December	2009 £m	2008 £m
Sales	14 7	14 8
Profit/(loss) before tax	0 1	(0 5)
Profit/(loss) after tax	0 1	(0 4)
Net assets	1 2	0 6

BRITSPACE GROUP LIMITED

Cost	**£794,000**
Valuation	**£583,000**
Basis of valuation	Earnings multiple
Equity held	13 5%
Business/location	Manufacturer of modular buildings, Hull
History	Acquired Britspace Holdings Limited in November 2009
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern AIM VCT, Northern 2 VCT
Income in year	Dividends nil, loan stock interest £8 000

Audited financial information

First audited accounts will be for the period ending 31 March 2010

Shareholder Information

The trust invests mainly in unquoted venture capital holdings.

The Company

Northern 3 VCT PLC is a Venture Capital Trust (VCT) launched in September 2001 The company invests mainly in unquoted venture capital holdings with its remaining assets invested in a portfolio of listed fixed-interest investments and bank deposits

The company is a member of the Association of Investment Companies (AIC)

Northern 3 VCT PLC is managed by NVM Private Equity Limited (NVM), an independent specialist firm of venture capital managers based in Newcastle upon Tyne and Reading NVM also acts as manager of four other listed investment companies, Northern Investors Company PLC, Northern Venture Trust PLC, Northern AIM VCT PLC and Northern 2 VCT PLC and has a total of approximately £185 million under management

Venture Capital Trusts

Venture Capital Trusts (VCTs) were introduced by the Chancellor of the Exchequer in the November 1994 Budget, the relevant legislation being contained in the Finance Act 1995 VCTs are intended to provide a means whereby private individuals can invest in small unquoted trading companies in the UK, with an incentive in the form of a range of tax benefits With effect from 6 April 2006, the benefits to eligible investors include

- income tax relief at up to 30% on new subscriptions of up to £200,000 per tax year, provided the shares are held for at least five years,
- exemption from income tax on dividends paid by VCTs (such dividends may include the VCT's capital gains as well as its income), and
- exemption from capital gains tax on disposals of shares in VCTs

Subscribers for shares in VCTs between 6 April 2004 and 5 April 2006 were entitled to income tax relief at 40% rather than 30% and the shares had to be held for at least three years rather than five years Prior to 6 April 2004, subscribers for shares in VCTs were entitled to income tax relief at 20% and could also obtain capital gains deferral relief Capital gains deferred by pre-6 April 2004 subscriptions are not affected by the subsequent changes in VCT tax reliefs

Financial calendar

The company's financial calendar for the year ending 31 March 2011 is as follows

November 2010
Half-yearly financial report for six months ending 30 September 2010 published

January 2011
Interim dividend paid

May 2011
Final dividend and results for year to 31 March 2011 announced

May 2011
Annual report and accounts published

July 2011
Annual general meeting, final dividend paid

Share price

The company's share price is carried daily in the Financial Times, the Daily Telegraph, the Newcastle Journal and The Herald The company's FTSE Actuaries classification is "Investment Companies - VCTs"

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

Share price information can also be obtained via the NVM website at **www nvm co uk**

Dividend reinvestment plan

The company operates a dividend reinvestment plan, giving shareholders the option of reinvesting their dividends in existing shares purchased in the market Information about the plan can be obtained from the Company Secretary (see page 5 for contact details)

Directors' Report

The directors have managed the affairs of the company with the intention of maintaining its status as an approved venture capital trust.

The directors present their report and the audited financial statements for the year ended 31 March 2010

Activities and status

The principal activity of the company during the year was the making of long term equity and loan investments, mainly in unquoted companies

The directors have managed the affairs of the company with the intention of maintaining its status as an approved venture capital trust for the purposes of Section 274 of the Income Tax Act 2007 The directors consider that the company was not at any time up to the date of this report a close company within the meaning of Section 414 of the Income and Corporation Taxes Act 1988 The company s registered number is 4280530

The directors are required by the articles of association to propose an ordinary resolution at the company's annual general meeting in 2015 that the company should continue as a venture capital trust for a further five year period, and at each fifth subsequent annual general meeting thereafter If any such resolution is not passed, the directors shall within four months convene an extraordinary general meeting to consider proposals for the reorganisation or winding-up of the company

Business review

The directors are required by Section 417 of the Companies Act 2006 to include a business review in their report to shareholders The business review is set out on pages 6 to 10 and is included in the directors report by reference

Corporate governance

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

Results and dividend

The return on ordinary activities after tax for the year of £2,898,000 has been transferred to reserves

The final dividend of 2 0p per share for the year ended 31 March 2009 and the interim dividend of 2 0p per share for the year ended 31 March 2010 were paid during the year at a cost of £1,157,000 and have been charged to reserves

The proposed final dividend of 2 0p per share for the year ended 31 March 2010 will, if approved by shareholders, be paid on 9 July 2010 to shareholders on the register on 18 June 2010

Provision of information to auditors

Each of the directors who held office at the date of approval of this directors report confirms that, so far as he is aware, there is no relevant audit information of which the company s auditors are unaware and that he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

Going concern

After making the necessary enquiries the directors believe that it is appropriate to continue to apply the going concern basis in preparing the financial statements

Directors

The directors of the company during the year and their interests in respect of which transactions are notifiable to the company under Disclosure and Transparency Rule 3 1 2R (and so far as the company is, or ought upon reasonable enquiry to become, aware, the interests of their connected persons) in the issued ordinary shares of 5p of the company as at 31 March 2010 are shown in Table 1

All of the directors' share interests were held beneficially There have been no changes in the directors' share interests between 31 March 2010 and the date of this report

Table 1 Directors' interests in ordinary shares

	31 March 2010	1 April 2009
J G D Ferguson (Chairman)	176,734	102,800
C J Fleetwood	25,577	15,300
J R Hustler	23,742	25,100
T R Levett	169,182	117,300
J M O Waddell	7,283	5,000

Directors' Report

None of the directors has a contract of service with the company and, except as mentioned below under the heading "Management" no contract or arrangement subsisted during or at the end of the year in which any director was materially interested and which was significant in relation to the company's business

Directors' and officers' liability insurance

The company has, as permitted by the Companies Act 2006, maintained insurance cover on behalf of the directors and secretary indemnifying them against certain liabilities which may be incurred by any of them in relation to the company

Creditor payment policy

The company's payment policy for the forthcoming financial year is to agree terms of payment before business is transacted and to settle accounts in accordance with those terms There were no amounts owing to trade creditors at 31 March 2010

Management

NVM Private Equity Limited (NVM) has acted as investment adviser and manager to the company since incorporation The principal terms of the company s management agreement with NVM are set out in Note 3 to the financial statements Mr T R Levett is an executive director of NVM

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

As required by the Listing Rules, the directors confirm that in their opinion the continuing appointment of NVM as investment manager on the terms agreed is in the interests of the company s shareholders as a whole

In reaching this conclusion the directors have taken into account the performance of the investment portfolio and the efficient and effective service provided by NVM to the company

Share capital - purchase of shares

During the year the company purchased for cancellation 3,142 764 of its own shares, representing 8 7% of the called-up share capital of the company, for a consideration of £2,725,000 Purchases were made in line with the company's policy of purchasing available shares at a discount to net asset value

At the 2009 annual general meeting shareholders authorised the company to purchase in the market up to 2,893,903 ordinary shares (equivalent to approximately 10% of the then issued ordinary share capital) at a minimum price of 5p per share and a maximum price per share of not more than 105% of the average market value for the ordinary shares in the company for the five business days prior to the date on which the ordinary shares were purchased As at 31 March 2010 284 509 shares had been purchased for a consideration of £193 000 under this authority, which at that date remained effective in respect of 2,609,394 shares, the authority will lapse at the conclusion of the 2010 annual general meeting of the company on 1 July 2010

At a general meeting on 12 January 2010 shareholders authorised the company to purchase up to 10% in aggregate of the issued share capital of the company under the enhanced share buyback scheme On 1 March 2010 2,858,255 shares (representing 9 9% of the then issued ordinary share capital) were purchased under this authority for a consideration of £2,518,000

Share capital - issue of shares

During the year the company issued 163,424 new ordinary shares of 5p for a cash consideration of £139,000 through the company's dividend investment scheme (which has now been replaced by a new dividend reinvestment plan, details of which can be obtained from the Company Secretary) and 9,961,101 new ordinary shares of 5p for a cash consideration of £9,463 000 through an offer for subscription Details of allotments during the year are given in Note 15 to the financial statements

Fixed assets

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

Annual general meeting

Notice of the 2010 annual general meeting to be held on 1 July 2010 is set out in a separate circular to shareholders along with explanatory comments on the resolutions

Substantial shareholdings

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

Independent auditors

KPMG Audit Plc have indicated their willingness to continue as auditors of the company and resolutions to re-appoint them and to authorise the directors to fix their remuneration will be proposed at the annual general meeting

By order of the Board

C D MELLOR
Secretary

20 May 2010

The board currently comprises five directors, all of whom are non-executive.

This report has been prepared by the directors in accordance with the requirements of the Companies Act 2006 A resolution to approve the report will be proposed at the annual general meeting

The company's independent auditors, KPMG Audit Plc, are required to give their opinion on certain information included in this report, as indicated below Their report on these and other matters is set out on page 28

Board of directors

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

Remuneration policy

The board considers that directors' fees should reflect the time commitment required and the high level of responsibility borne by directors and should be broadly comparable to those paid by similar companies It is not considered appropriate that directors' remuneration should be performance-related, and none of the directors is eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits in respect of their services as non-executive directors of the company Mr T R Levett is entitled to participate in performance incentive arrangements established for the benefit of certain executives of NVM, as described in the directors' report on page 18

Directors' fees were reviewed by the nomination committee during its meeting in March 2010 when it was recommended that fees should be increased to £19,500 (previously £18,000) per annum for the chairman and £14,500 (previously £13,500) for other directors for the year ending 31 March 2011 The articles of association place an overall limit (currently £100,000 per annum) on directors' remuneration

Directors' fees (audited information)

The fees paid to individual directors in respect of the years ended 31 March 2010 and 31 March 2009 are shown in Table 1

Table 1 Directors' fees

	Year ended 31 March 2010 £	Year ended 31 March 2009 £
J G D Ferguson (Chairman)	18,000	14,450
C J Fleetwood	13,500	13,500
J R Hustler	13,500	17,050
T R Levett	–	–
J M O Waddell	13,500	13,500

Mr T R Levett waived his entitlement to directors' fees in respect of both years

Terms of appointment

The articles of association provide that directors shall retire and be subject to re-election at the first annual general meeting after their appointment and at least every three years thereafter None of the directors has a service contract with the company On being appointed or re-elected, directors receive a letter from the company setting out the terms of their appointment and their specific duties and responsibilities A director's appointment may be terminated on three months' notice being given by the company and in certain other circumstances

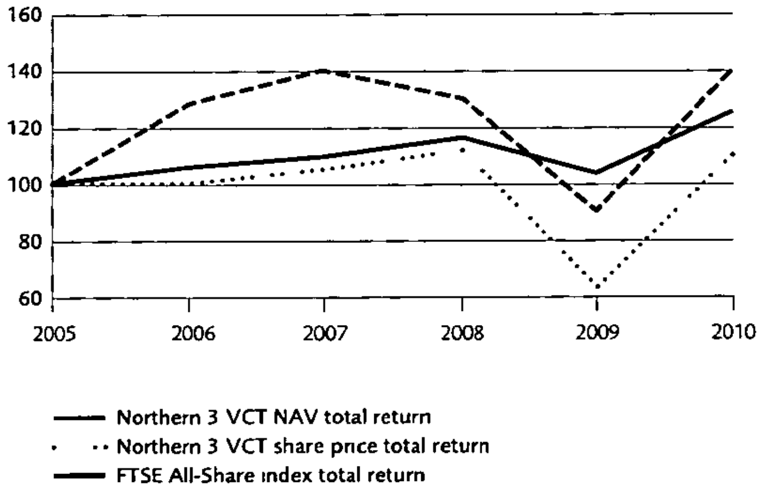
Company performance

The graph on the right compares the total return (assuming all dividends are re-invested) to ordinary shareholders in the company over the five years ended 31 March 2010 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 20 May 2010

Return to shareholders in Northern 3 VCT PLC
Five years to 31 March 2010 (March 2005 = 100)



The company is committed to maintaining high standards in corporate governance.

The board of Northern 3 VCT PLC has considered the principles and recommendations of the Association of Investment Companies Code of Corporate Governance (AIC Code) by reference to the related Association of Investment Companies Corporate Governance Guide for Investment Companies (AIC Guide) The AIC Code, as explained by the AIC Guide addresses all the principles set out in Section 1 of the Combined Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the company The AIC Code can be viewed at **www theaic co uk/ Documents/Technical/AICCodeof CorporateGovernanceMarch2009 pdf**

The board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the Combined Code), will provide better information to shareholders

The company is committed to maintaining high standards in corporate governance and during the year ended 31 March 2010 complied with the recommendations of the AIC Code and the relevant provisions of Section 1 of the Combined Code, except as set out below

The Combined Code includes provisions relating to the role of the chief executive, executive directors remuneration and the need for an internal audit function For the reasons set out in the AIC Guide, and in the preamble to the Combined Code, the board considers these provisions are not relevant to the position of Northern 3 VCT PLC, which is an externally managed venture capital trust The company has therefore not reported further in respect of these provisions

Board of directors

The company has a board of five non-executive directors, the majority of whom are considered to be independent of the company's investment manager, NVM The board meets regularly on a quarterly basis and on other occasions as required The board is responsible to shareholders for the effective stewardship of the company s affairs and has a formal schedule of matters specifically reserved for its decision which include

- consideration of long-term strategic issues,
- valuation of the unquoted investment portfolio, and
- ensuring the company's compliance with good practice in corporate governance matters

A brief biographical summary of each director is given on page 4

The chairman, Mr J G D Ferguson, leads the board in the determination of its strategy and in the achievement of its objectives The chairman is responsible for organising the business of the board, ensuring its effectiveness and setting its agenda, and has no involvement in the day to day business of the company He facilitates the effective contribution of the directors and ensures that they receive accurate, timely and clear information and that they communicate effectively with shareholders

The board has established a formal process, led by the chairman, for the annual evaluation of the performance of the board, its principal committees and individual directors The directors are made aware on appointment that their performance will be subject to regular evaluation The performance of the chairman is evaluated by a meeting of the other board members under the leadership of Mr C J Fleetwood

The company secretary, Mr C D Mellor is responsible for advising the board through the chairman on all governance matters All of the directors have access to the advice and services of the company secretary, who has administrative responsibility for the meetings of the board and its committees Directors may also take independent professional advice at the company's expense where necessary in the performance of their duties As all of the directors are non-executive, it is not considered appropriate to identify a member of the board as the senior non-executive director of the company

The company's articles of association and the schedule of matters reserved to the board for decision provide that the appointment and removal of the company secretary is a matter for the board

The company's articles of association require that one third of the directors should retire by rotation each year and seek re-election at the annual general meeting, and that directors newly appointed by the board should seek re-appointment at the next annual general meeting The board complies with the requirement of the Combined Code that all directors are required to submit themselves for re-election at least every three years

Independence of directors

The board regularly reviews the independence of its members and is satisfied that (with the exception of Mr T R Levett who is a director and employee of NVM, the company s investment manager) the company's directors are independent in character and judgement and there are no relationships or circumstances which could affect their objectivity Mr J R Hustler is a non-executive director of Northern Venture Trust, which is also managed by NVM, but after careful consideration the board has concluded that Mr Hustler s independence is not affected by this relationship

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

Board committees

The board has appointed three standing committees to make recommendations to the board in specific areas The board does not have a separate remuneration committee, as the company has no employees or executive directors Detailed information relating to the remuneration of directors is given in the directors' remuneration report on pages 10 and 11

Audit Committee

During the year the audit committee comprised

Mr C J Fleetwood (Chairman)
Mr J G D Ferguson
Mr J R Hustler
Mr J M O Waddell

The audit committee's terms of reference include the following roles and responsibilities

- monitoring and making recommendations to the board in relation to the company's published financial statements and other formal announcements relating to the company s financial performance,
- monitoring and making recommendations to the board in relation to the company's internal control (including internal financial control) and risk management systems
- periodically considering the need for an internal audit function,
- making recommendations to the board in relation to the appointment, re-appointment and removal of the external auditors and approving the remuneration and terms of engagement of the external auditors,
- reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements
- monitoring the extent to which the external auditors are engaged to supply non-audit services and
- ensuring that the investment manager has arrangements in place for the investigation and follow-up of any concerns raised confidentially by staff in relation to the propriety of financial reporting or other matters

The committee reviews its terms of reference and its effectiveness annually and recommends to the board any changes required as a result of the review The terms of reference are available on request from the company secretary and on the NVM Private Equity website, **www nvm co uk** The audit committee meets three times per year and has direct access to KPMG Audit Plc the company's external auditors The board considers that the members of the committee are independent and have collectively the skills and experience required to discharge their duties effectively, and that the chairman of the committee meets the requirements of the Combined Code as to recent and relevant financial experience

The company does not have an independent internal audit function as it is not deemed appropriate given the size of the company and the nature of the company's business However, the committee considers annually whether there is a need for such a function and if so would recommend this to the board

During the year ended 31 March 2010 the audit committee discharged its responsibilities by

- reviewing and approving the external auditors' terms of engagement and remuneration,
- reviewing the external auditors' plan for the audit of the company's financial statements, including identification of key risks and confirmation of auditor independence,
- reviewing NVM's statement of internal controls operated in relation to the company's business and assessing the effectiveness of those controls in minimising the impact of key risks
- reviewing periodic reports on the effectiveness of NVM's compliance procedures
- reviewing the appropriateness of the company s accounting policies,
- reviewing the company's draft annual financial statements, half-yearly results statement and interim management statements prior to board approval,
- reviewing the external auditors' detailed reports to the committee on the annual financial statements, and
- recommending to the board and shareholders the reappointment of KPMG Audit plc as the auditors of the company

Corporate Governance

Nomination Committee
During the year the nomination committee comprised

Mr J G D Ferguson (Chairman)
Mr C J Fleetwood
Mr J R Hustler
Mr T R Levett
Mr J M O Waddell

The nomination committee considers the selection and appointment of directors and makes annual recommendations to the board as to the level of directors' fees The committee monitors the balance of skills knowledge and experience offered by board members and satisfies itself that they are able to devote sufficient time to carry out their role efficiently and effectively When recommending new appointments to the board the committee draws on its members' extensive business experience and range of contacts to identify suitable candidates, the use of formal advertisements and external consultants is not considered cost-effective given the company's size New directors are provided with briefing material relating to the company, its investment managers and the venture capital industry as well as to their own legal responsibilities as directors The committee has written terms of reference which are reviewed annually and are available on request from the company secretary and on the NVM Private Equity website, **www nvm co uk**

Management Engagement Committee
During the year the management engagement committee comprised

Mr J G D Ferguson (Chairman)
Mr C J Fleetwood
Mr J R Hustler
Mr J M O Waddell

The management engagement committee undertakes a periodic review of the performance of the investment manager NVM, and of the terms of the management agreement including the level of fees payable and the length of the notice period The principal terms of the agreement are set out in Note 3 to the financial statements on page 34

Following the latest review by the committee the board concluded that the continuing appointment of NVM was in the interests of the company and its shareholders as a whole NVM has demonstrated its commitment to and expertise in venture capital investment over an extended period, as a result of which the company has established a consistent long-term performance record NVM has also performed its company secretarial and accounting duties efficiently and effectively

Attendance at board and committee meetings
Table 1 sets out the number of formal board and committee meetings held during the year ended 31 March 2010 and the number attended by each director compared with the maximum possible attendance

Corporate responsibility
The board aims to ensure that the company takes a positive approach to corporate responsibility, in relation both to itself and to the companies it invests in This entails maintaining a responsible attitude to ethical, environmental, governance and social issues, and the encouragement of good practice in investee companies The board seeks to avoid investing in companies which do not operate within relevant ethical, environmental and social legislation or otherwise fail to comply with appropriate industry standards

Investor relations
In fulfilment of the chairman's obligations under the Combined Code the chairman gives feedback to the board on issues raised with him by shareholders with a view to ensuring that members of the board develop an understanding of the views of shareholders about their company The board recognises the value of maintaining regular communications with shareholders Formal reports are sent to shareholders at the half-year and year-end stages, and an opportunity is given to shareholders at the annual general meeting to question the board and the investment manager on matters relating to the company s operation and performance Proxy voting figures for each resolution are announced at general meetings and are made available publicly following the relevant meeting

Further information can also be obtained via the NVM website at **www nvm co uk**

Internal control
The directors have overall responsibility for ensuring that there are in place systems of internal control, both financial and non-financial, and for reviewing their effectiveness The purpose of the internal financial controls is to ensure that proper accounting records are maintained, the company's assets are safeguarded and the financial information used within the business and for publication is accurate and reliable, such a system can provide only reasonable and not absolute assurance against material misstatement or loss The board regularly reviews financial performance and results with the investment manager Responsibility for accounting, secretarial services and physical custody of documents of title relating to venture capital investments has been contractually delegated to NVM under the management agreement NVM has established its

Table 1 Directors' attendance at meetings

	Board	Audit Committee	Nomination Committee	Management Engagement Committee
Number of meetings held	7	3	1	1
Attendance (actual/possible)				
J G D Ferguson (Chairman)	7/7	3/3	1/1	1/1
C J Fleetwood	7/7	3/3	1/1	1/1
J R Hustler	7/7	3/3	1/1	1/1
T R Levett	7/7	N/A	1/1	N/A
J M O Waddell	7/7	3/3	1/1	1/1

own system of internal controls in relation to these matters, details of which have been reviewed by the audit committee

Non-financial internal controls include the systems of operational and compliance controls maintained by the investment manager in relation to the company's business as well as the management of key risks as referred to in the section headed "Risk management" below

The directors confirm that by means of the procedures set out above, and in accordance with "Internal Controls Guidance for Directors on the Combined Code", published by the Institute of Chartered Accountants in England and Wales, they have established a continuing process for identifying, evaluating and managing the significant potential risks faced by the company and have reviewed the effectiveness of the internal control systems This process has been in place throughout and subsequent to the accounting period under review

Risk management

Risk management is discussed in the Business Review on page 10

Share capital, rights attaching to the shares and restrictions on voting and transfer

As at 31 March 2010 35 920,800 ordinary shares were in issue (as at that date none of the issued shares were held by the company as treasury shares) Subject to any suspension or abrogation of rights pursuant to relevant law or the company's articles of association, the shares confer on their holders (other than the company in respect of any treasury shares) the following principal rights

(a) the right to receive out of profits available for distribution such dividends as may be agreed to be paid (in the case of a final dividend in an amount not exceeding the amount recommended by the board as approved by shareholders in general meeting or in the case of an interim dividend in an amount determined by the board) All dividends unclaimed for a period of 12 years after having become due for payment are forfeited automatically and cease to remain owing by the company,

(b) the right, on a return of assets on a liquidation reduction of capital or otherwise, to share in the surplus assets of the company remaining after payment of its liabilities pari passu with the other holders of ordinary shares, and

(c) the right to receive notice of and to attend and speak and vote in person or by proxy at any general meeting of the company On a show of hands every member present or represented and voting has one vote and on a poll every member present or represented and voting has one vote for every share of which that member is the holder, the appointment of a proxy must be received not less than 48 hours before the time of the holding of the relevant meeting or adjourned meeting or, in the case of a poll taken otherwise than at or on the same day as the relevant meeting or adjourned meeting be received after the poll has been demanded and not less than 24 hours before the time appointed for the taking of the poll

These rights can be suspended If a member, or any other person appearing to be interested in shares held by that member, has failed to comply within the time limits specified in the company's articles of association with a notice pursuant to Section 793 of the Companies Act 2006 (notice by company requiring information about interests in its shares), the company can until the default ceases suspend the right to attend and speak and vote at a general meeting and if the shares represent at least 0 25% of their class the company can also withhold any dividend or other money payable in respect of the shares (without any obligation to pay interest) and refuse to accept certain transfers of the relevant shares

Shareholders, either alone or with other shareholders, have other rights as set out in the company's articles of association and in company law (principally the Companies Act 2006)

A member may choose whether his shares are evidenced by share certificates (certificated shares) or held in electronic (uncertificated) form in CREST (the UK electronic settlement system) Any member may transfer all or any of his shares, subject in the case of certificated shares to the rules set out in the company's articles of association or in the case of uncertificated shares to the regulations governing the operation of CREST (which allow the directors to refuse to register a transfer as therein set out), the transferor remains the holder of the shares until the name of the transferee is entered in the register of members The directors may refuse to register a transfer of certificated shares in favour of more than four persons jointly or where there is no adequate evidence of ownership or the transfer is not duly stamped (if so required) The directors may also refuse to register a share transfer if it is in respect of a certificated share which is not fully paid up or on which the company has a lien provided that, where the share transfer is in respect of any share admitted to the Official List maintained by the UK Listing Authority, any such discretion may not be exercised so as to prevent dealings taking place on an open and proper basis, or if in the opinion of the directors (and with the concurrence of the UK Listing Authority) exceptional circumstances so warrant, provided that the exercise of such power will not disturb the market in those shares Whilst there are no squeeze-out and sell out rules relating to the shares in the company's articles of association, shareholders are subject to the compulsory acquisition provisions in Sections 974 to 991 of the Companies Act 2006

Amendment of articles of association

The company s articles of association may be amended by the members of the company by special resolution (requiring a majority of at least 75% of the persons voting on the relevant resolution)

Corporate Governance

Appointment and replacement of directors

A person may be appointed as a director of the company by the shareholders in general meeting by ordinary resolution (requiring a simple majority of the persons voting on the relevant resolution) or by the directors, no person, other than a director retiring by rotation or otherwise, shall be appointed or reappointed as a director at any general meeting unless he is recommended by the directors or, not less than seven nor more than 42 clear days before the date appointed for the meeting, notice is given to the company of the intention to propose that person for appointment or re-appointment in the form and manner set out in the company's articles of association

Each director who is appointed by the directors (and who has not been elected as a director of the company by the members at a general meeting held in the interval since his appointment as a director of the company) is to be subject to election as a director of the company by the members at the first annual general meeting of the company following his appointment At each annual general meeting of the company one third of the directors for the time being, or if their number is not three or an integral multiple of three the number nearest to but not exceeding one third, are to be subject to re-election

The Companies Act 2006 allows shareholders in general meeting by ordinary resolution (requiring a simple majority of the persons voting on the relevant resolution) to remove any director before the expiration of his or her period of office, but without prejudice to any claim for damages which the director may have for breach of any contract of service between him or her and the company A person also ceases to be a director if he or she resigns in writing, ceases to be a director by virtue of any provision of the Companies Act, becomes prohibited by law from being a director, becomes bankrupt or is the subject of a relevant insolvency procedure, or becomes of unsound mind, or if the board so decides following at least six months' absence without leave or if he or she becomes subject to relevant procedures under the mental health laws, as set out in the company's articles of association

Powers of the directors

The company's articles of association specify that, subject to the provisions of the Companies Act 2006 and articles of association of the company and any directions given by shareholders by special resolution, the business of the company is to be managed by the directors, who may exercise all the powers of the company whether relating to the management of the business or not In particular the directors may exercise on behalf of the company its powers to purchase its own shares to the extent permitted by shareholders Authority was given at the company's 2009 annual general meeting to make market purchases of up to 2,893,903 ordinary shares at any time up to the 2010 annual general meeting and otherwise on the terms set out in the relevant resolution, and authority is being sought at the annual general meeting to be held on 1 July 2010 as set out in a separate circular

By order of the Board

C D MELLOR
Secretary 20 May 2010

Directors' Responsibility Statement

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Standards)

The financial statements are required by law to give a true and fair view of the state of affairs of the company at the end of the financial period and of the return of the company for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

In relation to the financial statements for the year ended 31 March 2010, each of the directors confirms that to the best of his knowledge

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

The directors are also responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

Under applicable law and regulations, the directors are also responsible for preparing a directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations

The company's financial statements are published on the NVM website, **www nvm co uk** The maintenance and integrity of this website is the responsibility of NVM and not of the company The work carried out by KPMG Audit Plc as independent auditors of the company does not involve consideration of the maintenance and integrity of the website and accordingly they accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website Visitors to the website should be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdiction

By order of the Board

C D MELLOR
Secretary 20 May 2010

Independent Auditors' Report

To the members of NORTHERN 3 VCT PLC

We have audited the financial statements of Northern 3 VCT PLC for the year ended 31 March 2010 set out on pages 30 to 43 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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 auditors' 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

As explained more fully in the Directors' Responsibility Statement set out on page 27 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at **www frc org uk/apb/scope/UKP**

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2010 and of its total return for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

In our opinion

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following

Under the Companies Act 2006 we are required to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Under the Listing Rules we are required to review

- the directors' statement, set out on page 17 in relation to going concern, and
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review

Simon Pashby

Simon Pashby
(Senior Statutory Auditor)
for and on behalf of
KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Edinburgh 20 May 2010

Financial Statements

Income Statement
for the year ended 31 March 2010

	Notes	Year ended 31 March 2010 Revenue £000	Capital £000	Total £000	Year ended 31 March 2009 Revenue £000	Capital £000	Total £000
Gain on disposal of investments	9	–	1,651	1,651	–	814	814
Movements in fair value of investments	9	–	1,058	1,058	–	(4 460)	(4 460)
		–	2,709	2,709	–	(3,646)	(3,646)
Income	2	926	–	926	1,249	–	1,249
Investment management fee	3	(130)	(390)	(520)	(140)	(420)	(560)
Recoverable VAT	4	–	–	–	67	213	280
Other expenses	5	(217)	–	(217)	(213)	–	(213)
Return on ordinary activities before tax		579	2,319	2 898	963	(3 853)	(2,890)
Tax on return on ordinary activities	6	(93)	93	–	(208)	61	(147)
Return on ordinary activities after tax		486	2,412	2,898	755	(3,792)	(3,037)
Return per share	8	1 7p	8 2p	9 9p	2 6p	(13 0)p	(10 4)p
Dividends paid/proposed in respect of the year	7	1 5p	2 5p	4 0p	2 5p	1 5p	4 0p

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

Reconciliation of Movements in Shareholders' Funds
for the year ended 31 March 2010

	Notes	Year ended 31 March 2010 £000	Year ended 31 March 2009 £000
Equity shareholders' funds at 1 April 2009		24,323	28 645
Return on ordinary activities after tax		2,898	(3,037)
Dividends recognised in the period	7	(1,157)	(575)
Net proceeds of share issues	15	9,073	63
Shares purchased for cancellation	15	(2,725)	(773)
Equity shareholders' funds at 31 March 2010		32,412	24,323

- The accompanying notes are an integral part of this statement

Balance Sheet
as at 31 March 2010

	Notes	31 March 2010 £000	31 March 2009 £000
Fixed assets			
Investments	9	22,778	20,909
Current assets			
Debtors	13	317	848
Cash and deposits		9,510	2 785
		9,827	3,633
Creditors (amounts falling due within one year)	14	(193)	(219)
Net current assets		9 634	3,414
Net assets		32,412	24,323
Capital and reserves			
Called-up equity share capital	15	1,796	1,447
Share premium	16	16,656	8,089
Capital redemption reserve	16	345	188
Capital reserve	16	14,488	16,432
Revaluation reserve	16	(1,227)	(2 424)
Revenue reserve	16	354	591
Total equity shareholders' funds		32,412	24 323
Net asset value per share	17	90 2p	84 0p

• The accompanying notes are an integral part of this statement

The financial statements on pages 30 to 43 were approved by the directors on 20 May 2010 and are signed on their behalf by

J G D Ferguson
Director

C J Fleetwood
Director

Cash Flow Statement
for the year ended 31 March 2010

	Year ended 31 March 2010 £000	Year ended 31 March 2010 £000	Year ended 30 March 2009 £000	Year ended 30 March 2009 £000
Net cash inflow from operating activities		868		42
Taxation				
Corporation tax paid		(174)		(143)
Financial investment				
Purchase of investments	(9,818)		(2,234)	
Sale/repayment of investments	10 658		4,879	
Net cash inflow from financial investment		840		2,645
Equity dividends paid		(1,157)		(575)
Net cash inflow before financing		377		1,969
Financing				
Issue of ordinary shares	9,602		72	
Share issue expenses	(529)		(9)	
Purchase of ordinary shares for cancellation	(2,725)		(773)	
Net cash inflow/(outflow) from financing		6,348		(710)
Increase in cash and deposits		6,725		1 259

	Year ended 31 March 2010 £000	Year ended 30 March 2009 £000
Reconciliation of return before tax to net cash flow from operating activities		
Return on ordinary activities before tax	2,898	(2,890)
Gain on disposal of investments	(1,651)	(814)
Movements in fair value of investments	(1 058)	4 460
(Increase)/decrease in debtors	531	(583)
Increase/(decrease) in creditors	148	(131)
Net cash inflow from operating activities	868	42

Analysis of movement in net funds

	1 April 2009 £000	Cash flows £000	31 March 2010 £000
Cash and deposits	2,785	6,725	9 510

Notes to the Financial Statements
for the year ended 31 March 2010

1 Accounting policies

A summary of the principal accounting policies, all of which have been consistently applied throughout the year and the preceding year, is set out below

a Basis of accounting

The financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments, and in accordance with UK Generally Accepted Accounting Practice (UK GAAP) Where presentational guidance set out in the Statement of Recommended Practice (SORP) "Financial Statements of Investment Trust Companies", revised in January 2009, is consistent with the requirements of UK GAAP, the directors have sought to prepare the financial statements on a consistent basis compliant with the recommendations of the SORP

b Valuation of investments

Purchases and sales of investments are recognised in the financial statements at the date of transaction (trade date)

The company's investments have been designated by the directors as fair value through profit and loss at the time of acquisition and are measured at subsequent reporting dates at fair value In the case of investments quoted on a recognised stock exchange, fair value is established by reference to the closing bid price on the relevant date or the last traded price, depending on the convention of the exchange on which the investment is quoted In the case of unquoted investments fair value is established in accordance with industry guidelines by using measurements of value such as price of recent transaction, earnings multiple and net assets, where no reliable fair value can be estimated using such techniques, unquoted investments are carried at cost subject to provision for impairment where necessary

Gains and losses arising from changes in fair value of investments are recognised as part of the capital return within the income statement and allocated to the revaluation reserve Transaction costs attributable to the acquisition or disposal of investments are charged to capital return within the income statement

Those venture capital investments that may be termed associated undertakings are carried at fair value as determined by the directors in accordance with the company's normal policy and are not equity accounted as required by the Companies Act 2006 The directors consider that, as these investments are held as part of the company's portfolio with a view to the ultimate realisation of capital gains equity accounting would not give a true and fair view of the company's interests in these investments Quantification of the effect of this departure is not practicable Carrying investments at fair value is specifically permitted under Financial Reporting Standard 9 "Associates and Joint Ventures", where venture capital entities hold investments as part of a portfolio

c Income

Dividends receivable on quoted equity shares are brought into account on the ex-dividend date Dividends receivable on unquoted equity shares are brought into account when the company's right to receive payment is established and there is no reasonable doubt that payment will be received Fixed returns on non-equity shares and debt securities are recognised on an effective interest rate basis, provided there is no reasonable doubt that payment will be received in due course

d Expenses

All expenses are accounted for on an accruals basis Expenses are charged to revenue return within the income statement except that

- expenses which are incidental to the acquisition or disposal of an investment are allocated to capital return as incurred, and
- expenses are split and allocated partly to capital return where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated, and accordingly the basic element of the investment management fee has been allocated 25% to revenue return and 75% to capital return, in order to reflect the directors' expected long-term view of the nature of the investment returns of the company The performance-related element of the investment management fee has been charged 100% to capital return

e Revenue and capital

The revenue column of the income statement includes all income and revenue expenses of the company The capital column includes realised and unrealised gains and losses on investments and that part of the investment management fee which is allocated to capital return

f Taxation

UK corporation tax payable is provided on taxable profits at the current rate The tax charge for the year is allocated between revenue return and capital return on the "marginal basis" as recommended in the SORP

Provision is made for deferred taxation on all timing differences calculated at the current rate of tax relevant to the benefit or liability

g Dividends payable

Dividends payable are recognised as distributions in the financial statements when the company's liability to make payment has been established

2 Income

	Year ended 31 March 2010 £000	Year ended 31 March 2009 £000
Franked investment income		
Unquoted companies	191	74
Quoted companies	21	16
Interest receivable		
Bank deposits*	22	101
Loans to unquoted companies	461	708
Listed fixed-interest investments	183	350
Sundry income*	48	–
	926	1 249

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

3 Investment management fee

	Year ended 31 March 2010			Year ended 31 March 2009		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Investment management fee						
Basic	130	390	520	134	401	535
Performance-related	–	–	–	–	–	–
Irrecoverable VAT thereon	–	–	–	6	19	25
	130	390	520	140	420	560

NVM Private Equity Limited (NVM) provides investment management and secretarial services to the company under an agreement dated 24 September 2001, which may be terminated at any time by not less than twelve months' notice being given by either party

NVM receives a fixed basic management fee of 2 06% per annum of net assets, calculated half-yearly as at 31 March and 30 September and payable quarterly in advance The fee was increased from 2 0% with effect from 1 April 2009 to compensate NVM for the adverse effect of the exemption of management fees from VAT NVM is also entitled to receive a performance-related fee of up to 1 0% which is payable if the company's total return per share (net asset growth plus dividend paid) in a financial year is two or more times the target, reducing on a predetermined scale to nil if total return is equal to or less than the target The target for the year ended 31 March 2010 was 7 0% The directors may at their discretion adjust the total return calculation to reflect any negative return in a previous period and accordingly it has been decided that no performance-related fee will be payable in respect of the year ended 31 March 2010 NVM bears the cost of Sarasin & Partners fees for managing the listed fixed-interest portfolio

NVM also provides administrative and secretarial services to the company for a fee of £44,000 per annum (linked to the movement in the RPI) This fee is included in other expenses (see Note 5)

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

The total running costs of the company, excluding performance-related management fees and any irrecoverable VAT thereon, are capped at 3 5% of its net assets and NVM has agreed that any excess will be refunded by way of a reduction in its fees

4 Recoverable VAT

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

5 Other expenses

	Year ended 31 March 2010 £000	Year ended 31 March 2009 £000
Administrative and secretarial services	44	42
Directors remuneration	59	59
Auditors remuneration - audit services	16	15
Legal and professional expenses	21	16
Irrecoverable VAT	11	19
Other expenses	66	62
	217	213

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

6 Tax on return on ordinary activities

	Year ended 31 March 2010			Year ended 31 March 2009		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
(a) Analysis of charge/(credit) for the year						
UK corporation tax payable/(recoverable) on the return for the year	93	(93)	–	208	(61)	147
(b) Tax reconciliation						
Return on ordinary activities before tax	579	2,319	2,898	963	(3,853)	(2,890)
Return on ordinary activities multiplied by the standard rate of UK corporation tax of 28% (2009 28%)	162	649	811	270	(1,079)	(809)
Effect of						
UK dividends not subject to tax	(59)	–	(59)	(25)	–	(25)
Capital returns not subject to tax	–	(462)	(462)	–	(228)	(228)
Unrealised adjustments to fair value	–	(296)	(296)	–	1,249	1,249
Marginal relief	(10)	10	–	(8)	(3)	(11)
Increase in surplus management expenses	–	6	6	–	–	–
Adjustment to tax charge in respect of prior periods	–	–	–	(28)	–	(28)
Current tax charge/(credit) for the period	93	(93)	–	208	(61)	147

(c) Factors which may affect future tax charges
The company has not recognised a deferred tax asset in respect of surplus management expenses carried forward of £23,000 (31 March 2009 £nil), as the company may not generate sufficient taxable income in the foreseeable future to utilise these expenses There is no other unprovided deferred taxation

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

Notes to the Financial Statements

for the year ended 31 March 2010

7 Dividends

	Year ended 31 March 2010			Year ended 31 March 2009		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
(a) Recognised as distributions in the financial statements for the year						
Previous year's second final dividend	318	260	578	–	–	–
Current year's interim dividends	405	174	579	402	173	575
	723	434	1,157	402	173	575
(b) Paid and proposed in respect of the year						
Interim paid - 2 0p (2009 2 0p) per share	405	174	579	402	173	575
Final proposed - 2 0p (2009 2 0p) per share	36	682	718	318	261	579
	441	856	1,297	720	434	1,154

The revenue dividends paid and proposed in respect of the year form the basis for determining whether the company has complied with the requirements of Section 274 of the Income Tax Act 2007 as to the distribution of investment income

The proposed final dividend of 2 0p per share for the year ended 31 March 2010 is subject to approval by shareholders at the annual general meeting on 1 July 2010 and has not been recognised as a liability in these financial statements

8 Return per share

The calculation of the return per share is based on the return on ordinary activities after tax for the year of £2 898 000 (2009 negative £3,037 000) and on 29,185,666 (2009 29,132,520) shares, being the weighted average number of shares in issue during the year

9 Investments

All investments are designated as fair value through profit or loss on initial recognition, therefore all gains and losses arise on investments designated at fair value through profit or loss

Financial Reporting Standard 29 'Financial Instruments Disclosures' (FRS 29) requires an analysis of investments valued at fair value based on the reliability and significance of the information used to measure their fair value The level is determined by the lowest (that is the least reliable or independently observable) level of input that is significant to the fair value measurement for the individual investment in its entirety, as follows

- Level 1 – investments with quoted prices in an active market
- Level 2 – investments whose fair value is based directly on observable current market prices or indirectly being derived from market prices
- Level 3 – investments whose fair value is determined using a valuation technique based on assumptions that are not supported by observable current market prices or based on observable market data

	31 March 2010 £000	31 March 2009 £000
Level 1		
Quoted venture capital investments	2,362	1,603
Listed fixed-interest investments	5,002	5,700
Level 2		
None	–	–
Level 3		
Unquoted venture capital investments	15,414	13,606
	22,778	20,909

9 Investments continued

Movements in investments during the year are summarised as follows

	Venture capital – unquoted Level 3 £000	Venture capital – quoted Level 1 £000	Listed fixed-interest Level 1 £000	Total £000
Book cost at 1 April 2009	14,221	2,999	6,113	23,333
Fair value adjustment at 1 April 2009	(615)	(1,396)	(413)	(2,424)
Fair value at 1 April 2009	13,606	1,603	5 700	20,909
Movements in the year				
Purchases at cost	5,991	61	3,870	9,922
Disposals – proceeds	(5,566)	(175)	(5 021)	(10,762)
– net realised gains	1,187	74	390	1,651
Movements in fair value	196	799	63	1,058
Fair value at 31 March 2010	15 414	2,362	5,002	22,778
Comprising				
Book cost at 31 March 2010	16,424	2,618	4 963	24 005
Fair value adjustment at 31 March 2010	(1,010)	(256)	39	(1,227)
	15,414	2,362	5,002	22,778
Equity shares	3,718	2 362	–	6,080
Preference shares	210	–	–	210
Interest-bearing securities	11 486	–	5,002	16 488
	15,414	2,362	5,002	22,778

The gains and losses included in the above table have all been recognised in the Income Statement on page 30

FRS 29 requires disclosure by class of financial instrument, if the effect of changing one or more inputs to reasonably possible alternative assumptions would result in a significant change to the fair value measurement The information used in determination of the fair value of Level 3 investments is chosen with reference to the specific underlying circumstances and position of each investee company On that prudent basis the directors consider that the impact of changing one or more of the inputs to reasonably possible alternative assumptions would not change the fair value significantly

At 31 March 2010 there were commitments totaling £1,717,000 (31 March 2009 £nil) in respect of investments approved by the manager but not yet completed

Notes to the Financial Statements
for the year ended 31 March 2010

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 carrying value £000
Abermed	375	527	675	148
Advanced Computer Software	49	58	115	57
Britspace Holdings	1,201	735	805	70
DxS	327	2,587	3,516	929
Foreman Roberts Group	1,000	–	–	–
Intercytex Group	250	8	–	(8)
John Laing Partnership	305	–	–	–
Leda Holdings	420	131	6	(125)
Liquidlogic	49	288	363	75
Pivotal Laboratories Holdings (deferred proceeds)	–	–	44	44
Other	254	146	217	71
	4,230	4,480	5,741	1,261

11 Unquoted investments

The cost and carrying value of material investments in unquoted companies held at 31 March 2010 are shown below For this purpose any investment included in the table of the fifteen largest venture capital investments on pages 12 to 15, or in the corresponding table in the previous year's annual report is regarded as material

	31 March 2010		31 March 2009	
	Total cost £000	Carrying value £000	Total cost £000	Carrying value £000
Promanex Group Holdings Limited				
Ordinary shares	178	178	100	–
Loan stock	1,417	1,417	900	500
	1 595	1,595	1,000	500
Kerridge Commercial Systems Limited				
Ordinary shares	125	125	–	–
Loan stock	1,119	1,119	–	–
	1,244	1,244	–	–
Axial Systems Holdings Limited				
Ordinary shares	145	164	145	242
Loan stock	859	859	859	859
	1,004	1 023	1 004	1,101
Phusion Healthcare Limited				
Ordinary shares	100	100	–	–
Loan stock	895	895	–	–
	995	995	–	–
RCC Lifesciences Limited				
Ordinary shares	100	100	–	–
Loan stock	895	895	–	–
	995	995	–	–
CloserStill Holdings Limited				
Ordinary shares	142	345	142	142
Loan stock	601	601	601	601
	743	946	743	743

11 Unquoted investments continued

	31 March 2010 Total cost £000	31 March 2010 Carrying value £000	31 March 2009 Total cost £000	31 March 2009 Carrying value £000
Wear Inns Limited				
Ordinary shares	208	208	178	176
Loan stock	631	631	208	208
	839	839	386	384
Paladin Group Limited				
Ordinary shares	256	226	256	522
Loan stock	605	605	605	605
	861	831	861	1,127
Optilan Group Limited				
Ordinary shares	179	–	179	–
Loan stock	821	821	821	821
	1,000	821	1,000	821
Crantock Bakery Limited				
Ordinary shares	90	419	90	205
Loan stock	352	352	352	352
	442	772	442	557
Envirotec Limited				
Ordinary shares	106	288	106	472
Loan stock	350	420	350	350
	456	708	456	822
Arleigh International Limited				
Ordinary shares	21	246	21	216
Loan stock	431	431	189	189
	452	677	210	405
IG Doors Limited				
Ordinary shares	50	150	50	–
Loan stock	450	450	450	250
	500	600	500	250
Britspace Group Limited				
Ordinary shares	467	256	–	–
Loan stock	327	327	–	–
	794	583	–	–
Frontier Foods Limited				
Ordinary shares	157	–	157	157
Loan stock	385	–	385	385
	542	–	542	542
DxS Limited				
Ordinary shares	–	–	32	2,292
Loan stock	–	–	295	295
	–	–	327	2,587
Britspace Holdings Limited				
Ordinary shares	–	–	443	-
Loan stock	–	–	758	735
	–	–	1,201	735
Abermed Limited				
Ordinary shares	–	–	38	190
Loan stock	–	–	337	337
	–	–	375	527

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

Notes to the Financial Statements

for the year ended 31 March 2010

12 Significant interests

There are no shareholdings in companies where the company's holding at 31 March 2010 represents (1) more than 20% of the allotted equity share capital of any class, (2) more than 20% of the total allotted share capital or (3) more than 20% of the assets of the company itself

13 Debtors

	31 March 2010 £000	31 March 2009 £000
Prepayments and accrued income	158	152
Other debtors	159	696
	317	848

14 Creditors (amounts falling due within one year)

	31 March 2010 £000	31 March 2009 £000
Accruals and deferred income	193	45
Corporation tax payable	–	174
	193	219

15 Called-up equity share capital

	31 March 2010 £000	31 March 2009 £000
Authorised		
50,000,000 (2009 50,000,000) ordinary shares of 5p	2,500	2,500
Allotted and fully paid		
35,920,800 (2009 28,939,039) ordinary shares of 5p	1,796	1,447

The capital of the company is managed in accordance with its investment policy with a view to the achievement of its investment objective, as set out on pages 6 and 7 The company is not subject to externally imposed capital requirements

During the year the company issued 163,424 ordinary shares of 5p for cash at an average premium of 80 1p per share in connection with the dividend investment scheme and 9 961 101 shares at a premium of 90 0p per share through an offer for subscription 3,142,764 shares were re-purchased for cancellation at a cost of £2,725,000

16 Reserves

	Share premium £000	Capital redemption reserve £000	Capital reserve £000	Revaluation reserve £000	Revenue reserve £000
At 1 April 2009	8,089	188	16,432	(2,424)	591
Premium on issue of ordinary shares	9,096	–	–	–	–
Share issue expenses	(529)	–	–	–	–
Shares purchased for cancellation	–	157	(2,725)	–	–
Realised on disposal of investments	–	–	1,651	–	–
Transfer on disposal of investments	–	–	(139)	139	–
Movements in fair value of investments	–	–	–	1,058	–
Management fee capitalised net of associated tax	–	–	(297)	–	–
Revenue return on ordinary activities after tax	–	–	–	–	486
Dividends recognised in the year	–	–	(434)	–	(723)
At 31 March 2010	16 656	345	14,488	(1,227)	354

At 31 March 2010, distributable reserves amounted to £14,881,000 (31 March 2009 £16,610,000), comprising the capital reserve, the revenue reserve and that part of the revaluation reserve relating to holding gains/losses on readily realisable listed fixed-interest investments

17 Net asset value per share

The calculation of net asset value per share as at 31 March 2010 is based on net assets of £32,412,000 (2009 £24,323,000) divided by the 35,920,800 (2009 28 939,039) ordinary shares in issue at that date

18 Financial instruments

The company's financial instruments comprise equity and fixed-interest investments, cash balances and liquid resources including debtors and creditors The company holds financial assets in accordance with its investment policy of investing mainly in a portfolio of VCT-qualifying unquoted and AIM-quoted securities whilst holding a proportion of its assets in cash or near-cash investments in order to provide a reserve of liquidity

Fixed asset investments (see note 9) are valued at fair value For quoted investments this is either bid price or the latest traded price, depending on the convention of the exchange on which the investment is quoted Unquoted investments are carried at fair value as determined by the directors in accordance with current venture capital industry guidelines The fair value of all other financial assets and liabilities is represented by their carrying value in the balance sheet

In carrying on its investment activities the company is exposed to various types of risk associated with the financial instruments and markets in which it invests The most significant types of financial risk facing the company are market risk, credit risk and liquidity risk The company's approach to managing these risks is set out below together with a description of the nature and amount of the financial instruments held at the balance sheet date

Market risk

The company's strategy for managing investment risk is determined with regard to the company's investment objective, as outlined in the business review on pages 6 to 10 The management of market risk is part of the investment management process and is a central feature of venture capital investment The company's portfolio is managed in accordance with the policies and procedures described in the corporate governance statement on pages 22 to 26, having regard to the possible effects of adverse price movements, with the objective of maximising overall returns to shareholders Investments in unquoted companies, by their nature, usually involve a higher degree of risk than investments in companies quoted on a recognised stock exchange, though the risk can be mitigated to a certain extent by diversifying the portfolio across business sectors and asset classes The overall disposition of the company's assets is monitored by the board on a quarterly basis

Details of the company's investment portfolio at the balance sheet date are set out on page 11 An analysis of investments between debt and equity instruments is given in Note 9

7 3% (31 March 2009 6 6%) by value of the company's net assets comprises equity securities listed on the London Stock Exchange or quoted on AIM A 5% movement in the bid price of these securities as at 31 March 2010 would have changed net assets and the total return for the year by £118,000 (31 March 2009 £80,000)

47 6% (31 March 2009 55 9%) by value of the company's net assets comprises investments in unquoted companies held at fair value The valuation methods used by the company include the application of a price/earnings ratio derived from listed companies with similar characteristics and consequently the value of the unquoted element of the portfolio can be indirectly affected by price movements on the London Stock Exchange A 5% movement in the valuation of the unquoted investments at 31 March 2010 would have changed net assets and the total return for the year by £770,000 (31 March 2009 £680,000)

Interest rate risk

Some of the company's financial assets are interest-bearing, of which some are at fixed rates and some variable As a result, the company is exposed to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates

Notes to the Financial Statements

for the year ended 31 March 2010

18 Financial instruments continued

a) Fixed rate investments

The table below summarises weighted average effective interest rates for the company's fixed rate interest-bearing financial instruments

	31 March 2010			31 March 2009		
	Total fixed rate portfolio £000	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Total fixed rate portfolio £000	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Listed fixed-interest investments	5,002	4 3%	1 2	5,700	4 8%	0 9
Short-term cash deposits	–	–	–	1 600	–	0 2
Fixed-rate investments in unquoted companies	2,003	10 6%	1 5	1,180	9 9%	1 3
	7,005			8 480		

Due to the relatively short period to maturity of the fixed rate investments held within the portfolio, it is considered that an increase or decrease of 25 basis points in interest rates as at the reporting date would not have had a significant effect on the company's net assets or total return for the year

(b) Floating rate investments

The company's floating rate investments comprise floating-rate loans to unquoted companies and cash held in interest-bearing deposit accounts The benchmark rate which determines the rate of interest receivable on such investments is the UK bank base rate, which was 0 5% at 31 March 2010 (31 March 2009 0 5%) The amounts held in floating rate investments at the balance sheet date were as follows

	31 March 2010 £000	31 March 2009 £000
Floating rate loans to unquoted companies	9,483	6,413
Interest-bearing deposit accounts	9,510	1,185
	18,993	7,598

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the company The investment manager and the board carry out a regular review of counterparty risk The carrying values of financial assets represent the maximum credit risk exposure at the balance sheet date

At 31 March 2010 the company's financial assets exposed to credit risk comprised the following

	31 March 2010 £000	31 March 2009 £000
Listed fixed-interest investments	5,002	5,700
Short-term cash deposits	–	1,600
Fixed-rate investments in unquoted companies	2,003	1,180
Floating rate loans to unquoted companies	9,483	6,413
Interest-bearing deposit accounts	9 510	1,185
Accrued dividends and interest receivable	158	143
	26,156	16,221

18 Financial instruments continued

Credit risk relating to listed fixed-interest investments is mitigated by investing in a portfolio of investment instruments of high credit quality, comprising securities issued by the UK Government, European Union governments and major UK and international companies and institutions Credit risk relating to loans to and preference shares in unquoted companies is considered to be part of market risk

Those assets of the company which are traded on recognised stock exchanges are held on the company s behalf by third party custodians (Bank of New York in the case of listed fixed-interest investments and Brewin Dolphin Limited in the case of quoted equity securities) Bankruptcy or insolvency of a custodian could cause the company s rights with respect to securities held by the custodian to be delayed or limited

Credit risk arising on transactions with brokers relates to transactions in quoted securities awaiting settlement Risk relating to unsettled transactions is considered to be low due to the short settlement period involved and the high credit quality of the brokers used The board further mitigates the risk by monitoring the quality of service provided by the brokers

The company's interest-bearing deposit accounts are maintained with major UK clearing banks

There were no significant concentrations of credit risk to counterparties at 31 March 2010 or 31 March 2009 No individual investment exceeded 4 4% of the company's net assets at 31 March 2010 (31 March 2009 5 9%)

Liquidity risk

The company's financial assets include investments in unquoted equity securities which are not traded on a recognised stock exchange and which generally may be illiquid As a result, the company may not be able to realise some of its investments in these instruments quickly at an amount close to their fair value in order to meet its liquidity requirements or to respond to specific events such as a deterioration in the creditworthiness of any particular issuer

The company's listed fixed-interest investments are considered to be readily realisable as they are of high credit quality as outlined above

The company's liquidity risk is managed on a continuing basis by the investment manager in accordance with policies and procedures laid down by the board The company s overall liquidity risks are monitored on a quarterly basis by the board

The company maintains sufficient investments in cash and readily realisable securities to pay accounts payable and accrued expenses At 31 March 2010 these investments were valued at £14,512,000 (31 March 2009 £8,485,000)

19 Contingent liabilities

At 31 March 2010 the company had a potential liability of £623,000 (31 March 2009 £696,000) in respect of guarantees given to secure certain liabilities and obligations of investee companies

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