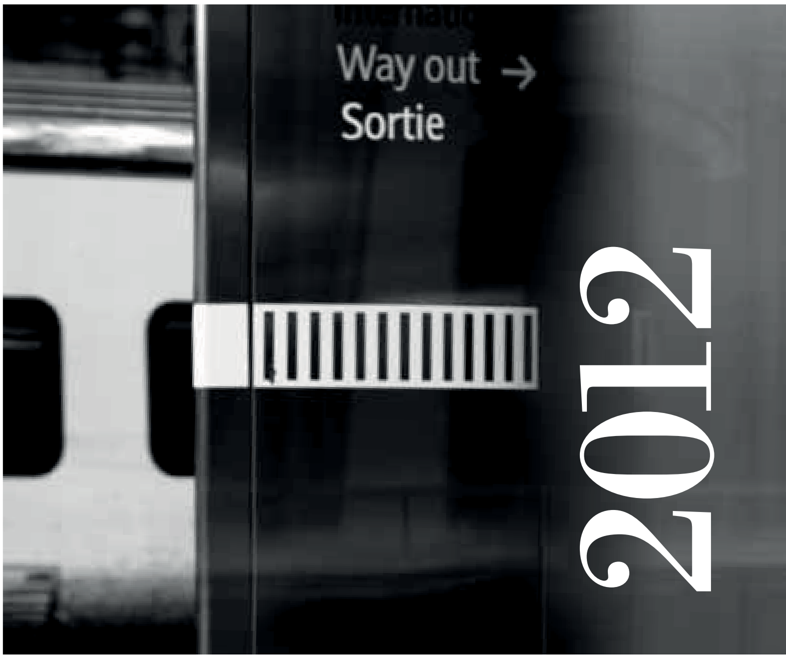
Northern 3 VCT PLC

Annual report and financial statements
31 March 2012



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.

Contents

Financial summary

Year ended 31 March:	2012	2011
Net assets	£47.8m	£37.4m
Net asset value per share	96.7p	92.2p
Return per share		
Revenue	2.4p	1.4p
Capital	6.8p	4.5p
Total	9.2p	5.9p
Dividend per share declared in respect of the year	5.0p	4.5p
Cumulative return to shareholders since launch		
Net asset value per share	96.7p	92.2p
Dividends paid per share*	33.4p	28.9p
Net asset value plus dividends paid per share	130.1p	121.1p
Share price at end of year	80.0p	75.0p
Share price discount to net asset value	17.3%	18.7%

*Excluding proposed final dividend

Key dates

Results announced
18 May 2012

Shares quoted ex dividend
20 June 2012

Annual general meeting
5 July 2012 (11.30am, Life Bioscience Centre, Times Square, Newcastle upon Tyne NE1 4EP)

Final dividend paid (to shareholders on register on 22 June 2012)
13 July 2012

Chairman's statement

The venture capital portfolio has again performed well despite the continuing weakness of the UK economy.

Northern 3 VCT has had an eventful year during which we have completed a successful merger with Northern AIM VCT, raised additional funds through a top-up share issue, achieved growth in NAV per share and increased the annual dividend to 5.0p per share.

Results and dividend

The NAV per share at 31 March 2012 was 96.7p, an increase of 4.9% over the corresponding figure of 92.2p as at 31 March 2011. The NAV total return per share for the year as shown in the income statement was 9.2p (last year 5.9p), equivalent to 10.0% of the opening NAV. Over the same period the FTSE All-Share index (total return) increased by 1.4%.

An interim dividend of 2.0p per share, unchanged from the preceding year, was paid in January 2012. It was announced in February that your board had decided to increase the target for the company's annual dividend from 4.5p to 5.0p per share. Accordingly a final dividend of 3.0p per share is now proposed, making a total of 5.0p for the year (last year 4.5p). This will be made up of 2.2p from revenue and 2.8p from capital, which compares with 1.4p and 3.1p last year. Subject to approval by shareholders at the annual general meeting, the final dividend will be paid on 13 July 2012 to shareholders on the register on 22 June 2012.

Share issues during the year

In August 2011 we announced proposals for a merger of Northern 3 VCT with Northern AIM VCT, a smaller VCT also managed by NVM Private Equity. Following approval by the shareholders of both companies, the merger was effected in September 2011 by means of a scheme of reconstruction whereby the net assets of Northern AIM VCT, valued at £5.6 million, were transferred to Northern 3 VCT in exchange for the allotment of 5,950,459 new shares at a price of 93.5p in Northern 3 VCT to the former Northern AIM VCT shareholders. Then in March 2012 we allotted a further 3,635,028 shares to investors for cash at a price of 99p, adding to the funds available for our future investment activities. I believe that both of these transactions have been beneficial to the company and on behalf of the board I would like to thank our new shareholders and our existing investors for their support.

Investment portfolio

The venture capital portfolio has again performed well despite the continuing weakness of the UK economy, and credit is due to the management teams of our investee companies for their achievements. In addition to the 20 holdings (six of which were new to our company) acquired through the merger with Northern AIM VCT, four new investments were completed during the year at a cost of £3.1 million. Proceeds of disposals during the year totalled £3.9 million, including £2.1 million from the sale of Promanex Group Holdings to Costain Group and a further £0.6 million in deferred consideration from the sale of DxS in 2009.

We have continued to adopt a diversified approach to the investment of our liquid funds. The portfolio of relatively short-dated corporate bonds has produced a steady income, whilst the investment of approximately £5 million into higher-yielding UK blue chip listed equities has generated a useful and growing income with the added benefit, as this is written, of a modest increase in capital value.

James Ferguson *Chairman*

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.

VCT legislation

The Government announced at the time of the 2011 Budget over a year ago that the VCT rules would be changed with effect from April 2012, so as to relax the limits on the size of qualifying companies and increase the amount of funding which companies can raise from VCTs. In July 2011 HM Treasury published a consultation paper confirming its intention to implement these reforms, with a new annual limit of £10 million on the amount any qualifying company could raise from VCTs, and also to refocus VCT investment on "genuine risk capital investments".

Subsequently a degree of uncertainty has been created by the draft legislation contained in the 2012 Finance Bill, published on 29 March, which included some significant changes to the previous proposals – in particular a reduction to £5 million in the annual investment limit per company. The VCT industry is still awaiting clarification from HM Treasury and the European Commission in relation to several specific issues, which in the short term has led to a number of investments by VCTs having to be postponed despite in some cases having been previously approved by HM Revenue & Customs. Your board believes that generalist VCTs such as Northern 3 VCT have been a highly effective catalyst to economic growth, corporate development, technological innovation, job creation and the generation of tax and other revenues for the Treasury and it is to be hoped that the future legislative framework will reflect this.

Outlook

Your company has almost doubled in size over the past three years and now has net assets of over £47 million. During this period of growth we have been careful to maintain our focus on the enhancement of NAV and dividends per share, for the benefit of all shareholders. It seems unlikely that there will be a significant improvement in the economy or the financial markets over the next 12 months, but our investments continue to display an encouraging resilience and this should enable the company to make further progress despite the challenging environment.

James Ferguson
Chairman — 18 May 2012

Directors and advisers

James Ferguson BA (Chairman)

aged 64, 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 60, 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, chairman of Adit Northern and Darlington Building Society, and is a director of Digital City Business Trading Limited and NCFE Limited. He was appointed to the board in 2001.

Tim Levett MBA

aged 63, is executive chairman of NVM Private Equity Limited, which he co-founded in 1988. He is a non-executive director of several unquoted companies. He was appointed to the board in 2001.

John Waddell LLB

aged 55, 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.

Secretary and registered office

Christopher Mellor FCA MCSI
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Registered number

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Investment advisers

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Juxon House
100 St Paul's Churchyard
London EC4M 8BU

Speirs & Jeffrey Limited
36 Renfield Street
Glasgow G2 1NA

Independent auditors

KPMG Audit Plc
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EG

Taxation advisers

PricewaterhouseCoopers LLP
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Solicitors

SJ Berwin LLP
10 Queen Street Place
London EC4R 1BE

Stockbrokers

Singer Capital Markets Limited
1 Hanover Street
London W1S 1YZ

Bankers

Barclays Bank PLC
71 Grey Street
Newcastle upon Tyne NE1 6EF

Registrars

Equiniti Limited
Aspect House
Spencer Road
Lancing BN99 6DA
Shareholder helpline: 0800 028 2349

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 and equity 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 three other listed investment companies, Northern Investors Company PLC, Northern Venture Trust PLC and Northern 2 VCT PLC, and has a total of over £200 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 2013 is as follows:

November 2012
Half-yearly financial report for six months ending 30 September 2012 published

January 2013
Interim dividend paid

May 2013
Final dividend and results for year ending 31 March 2013 announced; annual report and financial statements published

July 2013
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 4 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 4 for contact details).

Business review

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 26.

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" currently consists of up to £1 million invested in any one tax 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 and number of employees at the time of investment do not exceed prescribed limits. The definition of "qualifying trade" excludes certain activities such as property investment and development, financial services and asset leasing.

The 2012 Finance Bill includes proposals to (i) increase the limits on gross assets and employee numbers, (ii) remove the £1 million limit on the amount which a VCT can invest in a qualifying holding in any one tax year and (iii) place an overall limit of £5 million on the amount which any company can raise from VCTs and other State Aided funds within a 12 month period. The Finance Bill has not yet been enacted and the proposals are also subject to European Commission approval.

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-quoted investments and 20% in other investments (including but not restricted to listed fixed-interest and equity 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. 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, with an average investment of over £500,000. As a result, and based on the company's present gross assets of approximately £48 million, no single investment would normally represent in excess of 2% 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 other funds managed by NVM. 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.

Table 1: Venture capital portfolio cash flow

Year ended	New investment £000	Sales proceeds £000	Net inflow/ (outflow) £000
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)
31 March 2011	4,956	1,951	(3,005)
31 March 2012	3,658	3,888	230
Total	**26,010**	**18,618**	**(7,392)**

Table 2: Movements in net assets and net asset value per share

	£000	Pence per ordinary share
Net asset value at 31 March 2011	37,428	92.2
Net revenue (investment income less revenue expenses and tax)	1,045	2.4
Capital surplus arising on investments:		
Realised net gains on disposals	628	1.4
Movements in fair value of investments	3,023	6.9
Management expenses allocated to capital account (net of tax relief)	(695)	(1.5)
Total return for the year as shown in income statement	4,001	9.2
Issue of new shares – public offer (net of expenses)	3,418	–
Issue of new shares – merger (net of expenses)	5,482	(0.3)
Shares re-purchased for cancellation	(600)	0.1
Net movement for the year before dividends	12,301	9.0
Net asset value at 31 March 2012 before dividends recognised	49,729	101.2
Dividends recognised in the financial statements for the year	(1,931)	(4.5)
Net asset value at 31 March 2012	**47,798**	**96.7**

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 over £200 million under management in three 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.

Merger with Northern AIM VCT

On 14 September 2011 shareholders approved resolutions giving effect to a proposed merger with Northern AIM VCT through a scheme of reconstruction whereby Northern AIM VCT was placed in members' voluntary liquidation and its net assets were transferred to Northern 3 VCT in exchange for new shares in the company. The merger was completed on 26 September 2011 and the company allotted 5,950,459 new ordinary shares at a deemed price of 93.5p in consideration for the net assets of Northern AIM VCT which at that date amounted to £5.6 million, including unquoted and AIM-quoted venture capital investments with a fair value of £5.1 million.

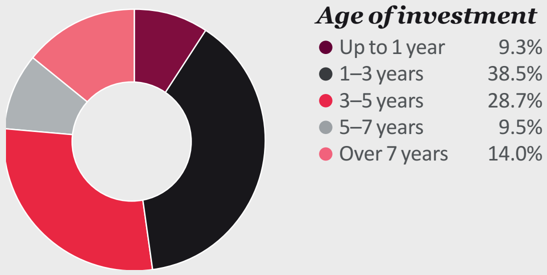
Overview of the year

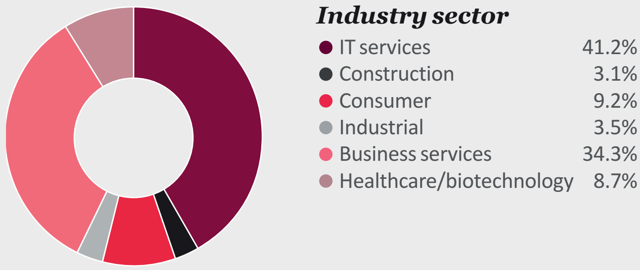
During the year under review Northern 3 VCT achieved an NAV total return to ordinary shareholders, before dividends, of 9.2p per share, equivalent to 10.0% of the opening net asset value per share of 92.2p. The movement in total net assets and net asset value per share is summarised in Table 2.

The net investment in the venture capital portfolio during the year was £4.9 million, comprising new investments for cash of £3.7 million and investments acquired on the merger with Northern AIM VCT PLC of £5.1m, less sales proceeds and repayments of £3.9 million. Portfolio cash flow over the past five years is summarised in Table 1.

After taking account of other cash flows, the company's total cash balances increased over the year by £4.6 million to £8.5 million. In addition the company holds listed fixed-interest and equity investments valued at £8.5 million.

Business review continued





Dividends

The directors have declared or proposed dividends totalling 5.0p per share in respect of the year, comprising 2.2p revenue dividend and a 2.8p capital distribution.

Investment portfolio

During the year ended 31 March 2012, four new holdings were added to the venture capital portfolio at a cost of £3.1 million, and additional investments totalling £0.6 million were made in existing portfolio companies. The portfolio at 31 March 2012 comprised 45 holdings with an aggregate value of £31.1 million.

A summary of the venture capital holdings at 31 March 2012 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:

- **Tinglobal Holdings (£988,000)** – supplier of refurbished mid-range computer equipment, Cirencester
- **Lineup Systems (£974,000)** – multi-channel advertising and media software business, London
- **Volumatic (£1,000,000)** – manufacturer of intelligent cash handling equipment, Birmingham
- **Brady (£175,000)** – AIM-quoted developer of commodity trading and risk management software, Cambridge

The investment in Volumatic was an addition to a previous investment of £995,000 in Evolve Investments which acquired Volumatic in the year.

Investments acquired from Northern AIM VCT PLC

During the year Northern 3 VCT merged with Northern AIM VCT and acquired holdings in 20 venture capital investments, six of which were new to Northern 3 VCT. The new investments acquired, all AIM-quoted, were:

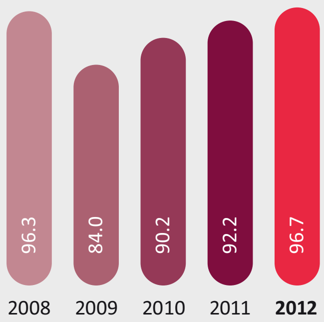
- **Pilat Media Global (£248,000)** – software provider for the broadcasting industry, London
- **Quadnetics Group (£170,000)** – design and installation of CCTV systems, Burgess Hill
- **Bond International Software (£146,000)** – software provider for the recruitment sector, Goring
- **Prologic (£97,000)** – software provider for the fashion industry, Berkhamsted
- **Jelf Group (£177,000)** – provider of commercial insurance, corporate healthcare and financial services, Bristol
- **Nationwide Accident Repair Services (£290,000)** – repairer of motor vehicles and claim management provider, Witney

Additional holdings in **Advanced Computer Software Group**, **Andor Technology**, **Axial Systems Holdings**, **Brulines Group**, **Cello Group**, **Crantock Bakery**, **IDOX**, **IG Doors**, **Kerridge Commercial Systems**, **Longhirst Venues**, **Optilan Group**, **Sinclair IS Pharma**, **Spectrum Interactive** and **Twenty** were acquired as a result of the merger.

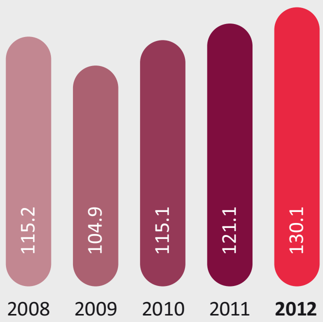
Investment realisations

Details of investment sales during the year are given in Note 9 on page 35. The most significant realisations (original cost or sales proceeds in excess of £0.3m) are summarised in Table 3.

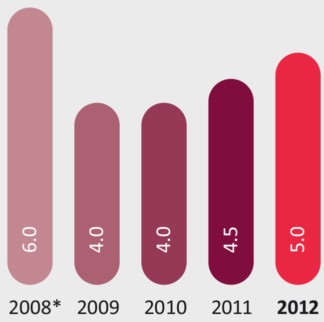
Promanex Group Holdings was sold to Costain Group for cash in August 2011 in a deal which not only generated a capital surplus over the original cost, but also facilitated the payment of approximately £0.5 million of rolled up investment income not previously recognised in Northern 3 VCT's accounts. A further £0.6 million of deferred proceeds from the 2009 sale of **DxS** was recognised during the year. **Britspace Group**, which had been written down to nil value in the 31 March 2011 accounts, was sold for a nominal sum following a period of underperformance.



Net asset value (p)

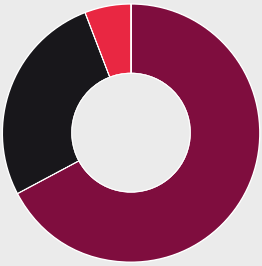


Net asset value plus cumulative dividends paid per share (p)

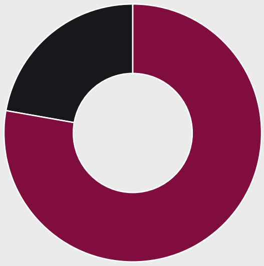


Dividend per share (p)

*18 month period



Financing stage
- Expansion 67.3%
- MBO/MBI 27.0%
- Early stage 5.7%



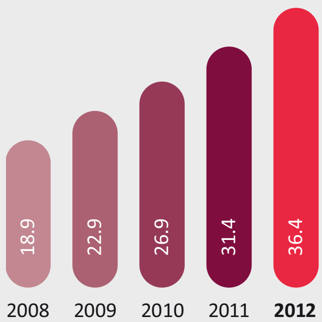
Quotation
- Unquoted 77.9%
- AIM 22.1%

Table 3: Significant investment realisations

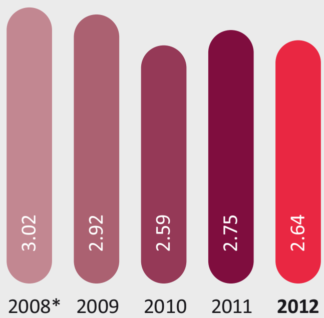
Company	Date of original investment	Original cost £000	Sales proceeds £000	Realised surplus/ (deficit) £000
Envirotec – loan stock repayment	2005	280	336	56
DxS – deferred consideration	2001	–	645	645
Promanex Group Holdings – trade sale	2007	1,695	2,136	441
Britspace Group – trade sale	2002	860	–	(860)

Table 4: Investment valuation by category

Category	Number of investments	Valuation £000	% of portfolio by value
Unquoted investments at directors' valuation			
Earnings multiple	17	15,550	49.9
Original cost	6	5,398	17.3
Original cost less provision	3	625	2.0
Net assets	5	2,704	8.7
Quoted investments at bid price			
Quoted on AIM	14	6,869	22.1
Total	**45**	**31,146**	**100.0**



Cumulative dividends per share (p)



Total expense ratio (%)

*Annualised

Portfolio composition

The pie charts above show the composition of the venture capital portfolio at 31 March 2012 by value 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.

Our portfolio companies have generally made good progress during the year under review, despite the continuation of challenging conditions in the UK economy and financial markets. The trend in the underlying trading results of many companies has been positive and this has been reflected in the directors' valuation of investments at 31 March 2012.

CloserStill Holdings and **Kerridge Commercial Systems**, the two largest investments by value, have seen strong value growth in the year as both businesses continue to perform strongly. In the AIM quoted portfolio there have been significant gains for **IDOX** and **Advanced Computer Software Group**.

Valuation policy

Unquoted investments are valued in accordance with the accounting policy set out on page 31, 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.

As at 31 March 2012 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 charts at the bottom of the page opposite show the movement in net asset value and total return (net asset value plus cumulative dividends) per share over the past five financial years.

Business review continued

Dividend distributions: the charts on pages 8 and 9 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 chart on page 9 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.

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 principal risks and uncertainties identified by the board are as follows:

Investment risk: the majority of the company's investments are in small and medium-sized unquoted and AIM quoted 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 aim to limit the risk attaching to the portfolio as a whole by careful selection 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 investment 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 London Stock Exchange or 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.

Credit risk: the company holds a number of financial instruments and cash deposits and is dependent on the counterparties discharging their commitment. The directors review the creditworthiness of counterparties to these instruments and cash deposits in addition to ensuring no significant concentration of credit risk is with any one counterparty.

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.

Political risk: in order to maintain its approval as a VCT, the company is required to comply with current VCT legislation in the UK as well as the European Commission's State Aid rules. Politically motivated changes to the UK legislation or the State Aid rules in the future could have an adverse effect on the company's ability to achieve satisfactory investment returns whilst retaining its VCT approval. The board and the manager monitor political developments and where appropriate seek to make representations either directly or through the relevant trade bodies.

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.

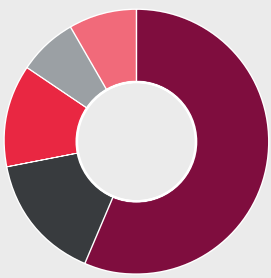
Future prospects

The venture capital portfolio is making encouraging progress and we believe there are good prospects of an increased level of investment activity during the coming year.

By order of the Board

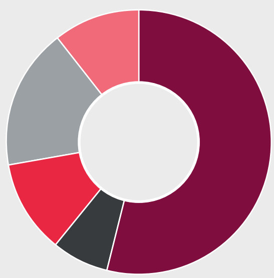
C D Mellor
Secretary 18 May 2012

Asset allocation



31 March 2012

31 March 2012		31 March 2011
56.6%	Venture capital – unquoted	54.0%
15.6%	Venture capital – AIM quoted	7.1%
12.5%	Listed equity	11.2%
7.2%	Listed fixed interest	17.2%
8.1%	Cash and short term deposits	10.5%



31 March 2011

Investment portfolio

as at 31 March 2012

	Cost £000	Valuation £000	% of net assets by value
Fifteen largest venture capital investments (see pages 12 to 15)			
Kerridge Commercial Systems	1,661	3,803	8.0
CloserStill Holdings	743	2,038	4.3
Volumatic	1,995	1,995	4.2
Advanced Computer Software Group*	762	1,700	3.6
IDOX*	660	1,608	3.4
Paladin Group	1,013	1,261	2.6
Axial Systems Holdings	1,293	1,255	2.6
Control Risks Group Holdings	746	1,037	2.2
Kitwave One	1,000	1,015	2.1
Wear Inns	839	1,011	2.1
Tinglobal Holdings	988	988	2.1
IG Doors	688	977	2.0
Lineup Systems	974	974	2.0
RCC Lifesciences	995	965	2.0
Cawood Scientific	825	942	2.0
	15,182	21,569	45.2
Other venture capital investments			
Andor Technology*	598	868	1.8
Sinclair IS Pharma*	753	721	1.5
Arleigh International	433	685	1.4
Promatic Group	701	642	1.3
Optilan Group	1,125	625	1.3
Mantis Deposition Holdings	556	556	1.2
Closer2 Investments	549	549	1.1
Lanner Group	475	456	1.0
Brulines Group*	368	370	0.8
Direct Valeting	235	349	0.7
e-know.net	225	339	0.7
Pilat Media Global*	390	338	0.7
Altacor	336	336	0.7
KPJ Software Services	362	327	0.7
Longhirst Venues	355	291	0.6
Envirotec	176	248	0.5
Quadnetics*	170	239	0.5
Cello Group*	349	237	0.5
S&P Coil Products	90	205	0.4
Nationwide Accident Repair Services*	290	202	0.4
Brady*	175	200	0.4
Jelf Group*	177	174	0.4
Crantock Bakery	845	164	0.3
Gentronix	313	133	0.3
Prologic*	97	128	0.3
Spectrum Interactive	226	110	0.2
Adept Telecom*	236	79	0.2
Summit Corporation*	122	6	–
Warmseal Windows (Newcastle)	339	–	–
Astbury Marsden Holdings	1,177	–	–
Total venture capital investments	27,425	31,146	65.1
Total listed equity investments	5,000	5,363	11.2
Total listed fixed-interest investments	3,073	3,097	6.5
Total fixed asset investments	35,498	39,606	82.8
Net current assets		8,192	17.2
Net assets		47,798	100.0

* Quoted on AIM

Fifteen largest private equity investments

Kerridge Commercial Systems

Cost	£1,661,000
Valuation	£3,803,000
Basis of valuation	Earnings multiple
Equity held	7.1% (NVM funds total 45.0%)
Business/location	Software developer for wholesale and retail distribution sectors, Hungerford
History	Management buy-out from ADP Inc, March 2010, led by NVM Private Equity
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT
Income in year	Dividends nil, loan interest £99,000

Audited financial information:

Year ended 30 September	2011 £m	2010* £m
Sales	18.9	11.6
Profit before tax	1.2	0.7
Profit after tax	0.9	0.5
Net assets	2.4	1.7

*6 months ended 30 September

Closerstill Holdings

Cost	£743,000
Valuation	£2,038,000
Basis of valuation	Earnings multiple
Equity held	8.9% (NVM funds total 47.6%)
Business/location	Business-to-business exhibition management, London
History	Acquisition capital financing in September 2008, led by NVM Private Equity
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT
Income in year	Dividends nil, loan stock interest £30,000

Audited financial information:

Year ended 31 December	2010 £m	2009* £m
Sales	4.7	1.7
Profit/(loss) before tax	0.2	(1.0)
Profit/(loss) after tax	0.2	(1.0)
Net assets	0.9	0.5

*16 months ended 31 December

Volumatic

Cost	£1,995,000
Valuation	£1,995,000
Basis of valuation	Cost
Equity held	15.5% (NVM funds total 46.5%)
Business/location	Manufacturer of intelligent cash handling equipment, Birmingham
History	Management buy-out from venture capital ownership, March 2012, led by NVM Private Equity
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 2013

Advanced Computer Software Group

Cost	£762,000
Valuation	£1,700,000
Basis of valuation	Bid price (AIM)
Equity held	1.1% (NVM funds total 2.3%)
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 2 VCT
Income in year	Nil

Audited financial information:

Year ended 28 February	2011 £m	2010 £m
Sales	95.4	30.2
Profit before tax	3.1	4.2
Profit after tax	4.2	3.2
Net assets	84.6	78.6

IDOX

Cost	£660,000
Valuation	£1,608,000
Basis of valuation	Bid price (AIM)
Equity held	1.6% (NVM funds total 2.6%)
Business/location	Developer of software products for document, content and information management, London
History	Holding acquired through a share placing on AIM in 2007
Other NVM funds investing	Northern Venture Trust
Income in year	Nil

Audited financial information:

Year ended 31 October	2011 £m	2010 £m
Sales	38.6	31.3
Profit before tax	5.6	4.9
Profit after tax	4.5	3.6
Net assets	34.4	31.0

Paladin Group

Cost	£1,013,000
Valuation	£1,261,000
Basis of valuation	Earnings multiple
Equity held	8.7% (NVM funds total 53.1%)
Business/location	Provider of property management services, Bath
History	Development capital investment, June 2006, led by NVM Private Equity
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT
Income in year	Dividends nil, loan stock interest £37,000

Audited financial information:

Year ended 31 March	2011 £m	2010 £m
Sales	16.6	19.6
Profit/(loss) before tax	0.1	(1.1)
Profit/(loss) after tax	0.1	(0.9)
Net assets	1.2	1.2

Axial Systems Holdings

Cost	£1,293,000
Valuation	£1,255,000
Basis of valuation	Earnings multiple
Equity held	10.0% (NVM funds total 45.7%)
Business/location	Supplier of distributed network management solutions, Maidenhead
History	Management buy-out from private ownership, March 2008, led by NVM Private Equity
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT
Income in year	Dividends nil, loan stock interest £48,000

Audited financial information:

Year ended 31 May	2011 £m	2010 £m
Sales	17.1	18.3
Profit before tax	0.4	0.2
Profit after tax	0.1	–
Net assets	1.4	1.3

Control Risks Group Holdings

Cost	£746,000
Valuation	£1,037,000
Basis of valuation	Earnings multiple
Equity held	1.3% (NVM funds total 10.4%)
Business/location	Specialist risk consultancy, London
History	Growth capital financing in March 2011, led by NVM Private Equity
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT
Income in year	Dividends £37,000

Audited financial information:

Year ended 31 March	2011 £m	2010 £m
Sales	172.8	136.6
Profit before tax	8.9	5.1
Profit after tax	4.9	4.2
Net assets	15.4	8.3

Fifteen largest private equity investments
continued

Kitwave One

Cost	£1,000,000
Valuation	£1,015,000
Basis of valuation	Earnings multiple
Equity held	4.9% (NVM funds total 38.3%)
Business/location	Wholesaler of confectionery, soft drinks, snacks, beers, wines and tobacco, North Shields
History	Growth capital investment in March 2011, led by NVM Private Equity
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT
Income in year	Dividends nil, loan stock interest £59,000

Audited financial information:

First audited accounts will be for the period ended 30 April 2012

Wear Inns

Cost	£839,000
Valuation	£1,011,000
Basis of valuation	Net assets
Equity held	10.3% (NVM funds total 52.0%)
Business/location	Owner of managed public houses, Newcastle upon Tyne
History	Acquisition capital financing in February 2006, led by NVM Private Equity
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT
Income in year	Dividends nil, loan stock interest £63,000

Audited financial information:

Year ended 31 March	2011 £m	2010 £m
Sales	6.3	3.8
Profit/(loss) before tax	0.1	(0.1)
Profit/(loss) after tax	0.1	(0.1)
Net assets	0.2	0.1

Tinglobal Holdings

Cost	£988,000
Valuation	£988,000
Basis of valuation	Cost
Equity held	12.8% (NVM funds total 38.4%)
Business/location	Supplier of refurbished mid-range computer equipment, Cirencester
History	Management buy-out from venture capital ownership in June 2011, led by NVM Private Equity
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 May 2012

IG Doors

Cost	£688,000
Valuation	£977,000
Basis of valuation	Earnings multiple
Equity held	8.1% (NVM funds total 35.0%)
Business/location	Manufacture of steel and GRP composite doors, Cwmbran
History	Management buy-out from Expamet International, November 2003, led by NVM Private Equity
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT
Income in year	Dividends £13,000, loan stock interest £33,000

Audited financial information:

Year ended 31 December	2010 £m	2009 £m
Sales	18.6	14.7
Profit before tax	1.4	0.1
Profit after tax	0.9	0.1
Net assets	2.3	1.2

Lineup Systems

Cost	£974,000
Valuation	£974,000
Basis of valuation	Cost
Equity held	17.4% (NVM funds total 52.2%)
Business/location	Multi-channel advertising and media software, London
History	Development capital financing, December 2011, led by NVM Private Equity
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 2012

RCC Lifesciences

Cost	£995,000
Valuation	£965,000
Basis of valuation	Net assets
Equity held	15.8% (NVM funds total 47.4%)
Business/location	Development of lifescience products, London
History	Acquisition capital financing in March 2010, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT
Income in year	Nil

Audited financial information:

Year ended 31 January	2011* £m
Sales	–
Loss before tax	(0.1)
Loss after tax	(0.1)
Net assets	0.2

*13 months ended 31 March

Cawood Scientific

Cost	£825,000
Valuation	£942,000
Basis of valuation	Earnings multiple
Equity held	9.1% (NVM funds total 48.0%)
Business/location	Laboratory services for land-based industries, Bracknell/Cawood
History	Management buy-out financing in December 2010, led by NVM Private Equity
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT
Income in year	Dividends nil, loan stock interest £59,000

Audited financial information:

Period ended 31 March	2011* £m
Sales	2.3
Profit before tax	–
Loss after tax	–
Net assets	0.6

*11 months ended 31 March

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 2012.

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. On 26 September 2011 the company acquired the net assets of Northern AIM VCT for a consideration of £5.6 million which was satisfied by the issue of 5,950,459 new ordinary shares in the company.

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 Chapter 2 of Part 10 of the Corporation Tax Act 2010.

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 20 to 24 is included in the directors' report by reference.

Results and dividend

The return on ordinary activities after tax for the year of £4,001,000 has been transferred to reserves.

The second interim dividend of 2.5p per share in respect of the year ended 31 March 2011 and an interim dividend of 2.0p per share in respect of the year ended 31 March 2012 were paid during the year at a cost of £1,931,000 and have been charged to reserves.

The proposed final dividend of 3.0p per share for the year ended 31 March 2012 will, if approved by shareholders at the annual general meeting, be paid on 13 July 2012 to shareholders on the register on 22 June 2012.

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 could reasonably be expected 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 2012 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 2012 and the date of this 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

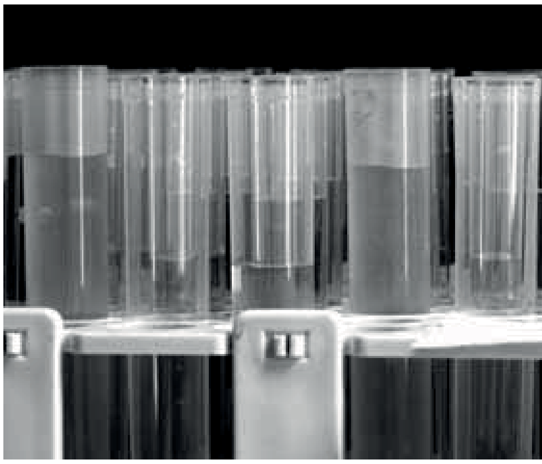
The company has, as permitted by the Companies Act 2006, maintained insurance cover on behalf of the directors and secretary indemnifying them against certain liabilities which may be incurred by any of them in relation to the company.

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 2012.

Table 1: Directors' interests in ordinary shares

	31 March 2012	31 March 2011
J G D Ferguson (Chairman)	203,857	176,734
C J Fleetwood	25,577	25,577
T R Levett	200,922	169,182
J M O Waddell	7,283	7,283



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 756,037 of its own shares, representing 1.9% of the called-up share capital of the company at the beginning of the year, for a consideration of £600,000. Purchases were made in line with the company's policy of purchasing available shares at a discount to net asset value.

At the 2011 annual general meeting shareholders authorised the company to purchase in the market up to 4,043,480 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 2012 756,037 shares had been purchased under this authority, which at that date remained effective in respect of 3,287,443 shares; the authority will lapse at the conclusion of the 2012 annual general meeting of the company on 5 July 2012.

Share capital – issue of shares

During the year the company issued 3,635,028 new ordinary shares of 5p for a cash consideration of £3,599,000 through public offers for subscription. In addition the company issued 5,950,459 new ordinary shares of 5p in order to effect the merger with Northern AIM VCT PLC.

Fixed assets

Movements in fixed asset investments during the year are set out in Note 8 to the financial statements.

Annual general meeting

Notice of the 2012 annual general meeting to be held on 5 July 2012 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 18 May 2012

Directors' remuneration report

The board currently comprises four 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 26.

Board of directors

The board currently comprises four 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 17.

Directors' fees were reviewed by the nomination committee during its meeting in March 2012, when it was recommended that fees should remain at £20,000 per annum for the chairman and £15,000 for other directors for the year ending 31 March 2013. 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 2012 and 31 March 2011 are shown in Table 1.

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 any director who was not appointed or re-appointed at one of the preceding two annual general meetings shall retire and be subject to re-election at each annual general meeting. 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 opposite compares the total return (assuming all dividends are re-invested) to ordinary shareholders in the company over the five years ended 31 March 2012 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.

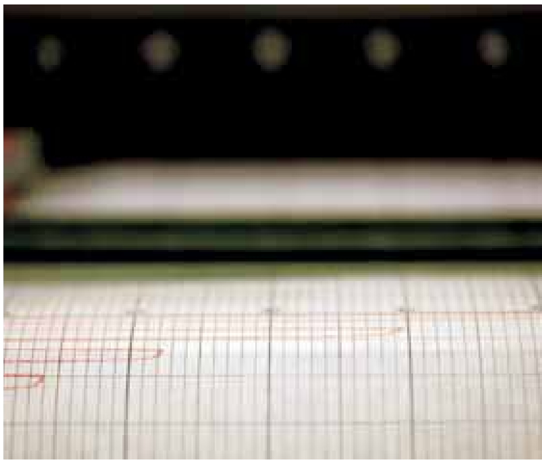
By order of the Board

C D Mellor
Secretary
18 May 2012

Table 1: Directors' fees

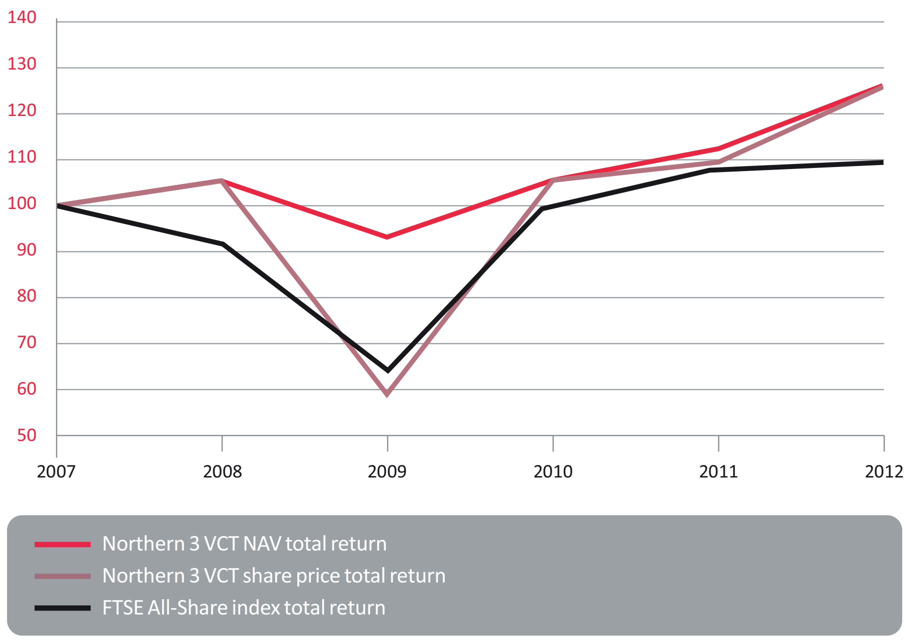
	Year ended 31 March 2012	Year ended 31 March 2011
J G D Ferguson	20,000	19,500
C J Fleetwood	15,000	14,500
J R Hustler (retired 23 September 2010)	–	6,750
T R Levett	–	–
J M O Waddell	15,000	14,500

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



Return to shareholders in Northern 3 VCT PLC

Five years to 31 March 2012 (March 2007 = 100)



Corporate governance

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 the UK Corporate Governance 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 CorporateGovernance March2010.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 UK Corporate Governance 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 2012 complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except as set out below.

The UK Corporate Governance 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 UK Corporate Governance 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 four non-executive directors, the majority of whom are considered to be independent of the company's investment manager, NVM Private Equity. 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 UK Corporate Governance 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.

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/her 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 18 and 19.

Audit Committee

During the year the audit committee comprised:

Mr C J Fleetwood (Chairman)
Mr J G D Ferguson
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 UK Corporate Governance Code as to recent and relevant financial experience.

Corporate governance continued

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 2012 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 Private Equity'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 Private Equity'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, including the proposed fair value of investments as determined by the directors;
- 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.

Nomination Committee

During the year the nomination committee comprised:

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

The management engagement committee undertakes a periodic review of the performance of the investment manager, NVM Private Equity, 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 32.

Following the latest review by the committee, the board concluded that the continuing appointment of NVM Private Equity was in the interests of the company and its shareholders as a whole. NVM Private Equity 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 Private Equity 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 2012 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 UK Corporate Governance 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 Private Equity website at **www.nvm.co.uk**.

Table 1: Directors' attendance at meetings

	Board	Audit committee	Nomination committee	Management engagement committee
Number of meetings held	5	3	1	1
Attendance (actual/possible):				
J G D Ferguson (Chairman)	5/5	3/3	1/1	1/1
C J Fleetwood	5/5	3/3	1/1	1/1
T R Levett	5/5	N/A	1/1	N/A
J M O Waddell	5/5	3/3	1/1	1/1

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 Private Equity under the management agreement. NVM Private Equity has established its 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" .

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 2012 49,404,252 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 the Companies Act 2006.

Corporate governance continued

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).

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 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, except where the Companies Act 2006 or the articles of association of the company otherwise require. 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 2011 annual general meeting to make market purchases of up to 4,043,480 ordinary shares at any time up to the 2012 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 5 July 2012 as set out in a separate circular.

By order of the Board

C D Mellor
Secretary — 18 May 2012

Directors' responsibilities 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 Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss 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 judgements 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.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and 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.

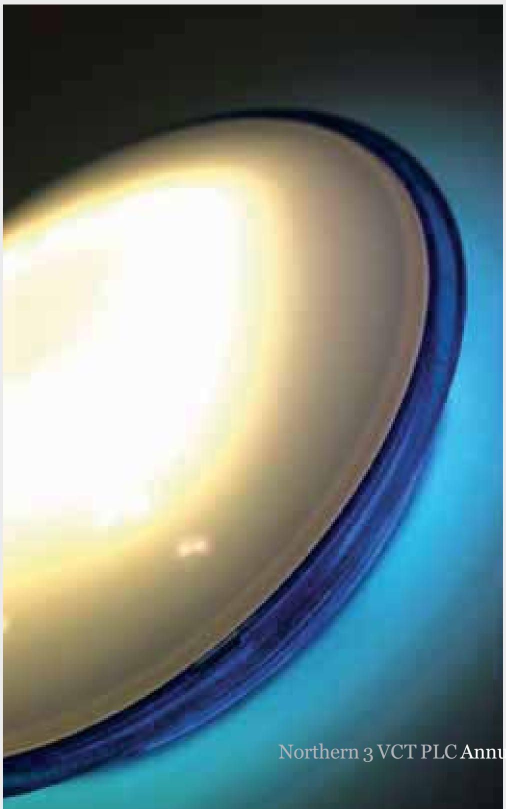
The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable 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 the company faces.

By order of the Board

C D Mellor
Secretary 18 May 2012



Independent auditor's 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 2012 set out on pages 28 to 40. 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement set out on page 25, 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, and express an opinion on, 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 web-site at **www.frc.org.uk/apb/scope/private.cfm**.

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 2012 and of its profit 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; or
- a corporate governance statement has not been prepared by the company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 16, in relation to going concern;
- the part of the corporate governance statement on pages 20 to 24 relating to the company's compliance with the nine provisions of the June 2010 UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the board on directors' remuneration.

Catherine Burnet (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc,
Statutory Auditor

Chartered Accountants
Edinburgh

18 May 2012

Financial statements

Income statement

for the year ended 31 March 2012

	Notes	Revenue £000	Year ended 31 March 2012 Capital £000	Total £000	Revenue £000	Year ended 31 March 2011 Capital £000	Total £000
Gain on disposal of investments	8	–	628	628	–	778	778
Movements in fair value of investments	8, 16	–	3 ,023	3 ,023	–	1,361	1,361
		–	3,651	3,651	–	2,139	2,139
Income	2	1,746	–	1,746	1 ,100	–	1 ,100
Investment management fee	3	(208)	(894)	(1,102)	(173)	(603)	(776)
Recoverable VAT		–	–	–	25	74	99
Other expenses	4	(283)	(11)	(294)	(268)	–	(268)
Return on ordinary activities before tax		1,255	2,746	4,001	684	1,610	2,294
Tax on return on ordinary activities	5	(210)	210	–	(148)	147	(1)
Return on ordinary activities after tax		1,045	2,956	4,001	536	1,757	2,293
Return per share	7	2.4p	6.8p	9.2p	1.4p	4.5p	5.9p
Dividends paid/proposed in respect of the year	6	2.2p	2.8p	5.0p	1.4p	3.1p	4.5p

- 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 2012

	Notes	Year ended 31 March 2012 £000	Year ended 31 March 2011 £000
Equity shareholders' funds at 1 April 2011		37,428	32,412
Return on ordinary activities after tax		4,001	2,293
Dividends recognised in the year	6	(1,931)	(1,556)
Net proceeds of share issues	15	3,418	5,002
Shares issued on merger	11	5,482	–
Shares purchased for cancellation	15	(600)	(723)
Equity shareholders' funds at 31 March 2012		47,798	37,428

- The accompanying notes are an integral part of this statement.

Balance sheet

as at 31 March 2012

	Notes	31 March 2012 £000	31 March 2011 £000
Fixed assets			
Investments	8	39,606	33,746
Current assets			
Debtors	13	192	397
Cash and deposits		8,511	3,940
		8,703	4,337
Creditors (amounts falling due within one year)	14	(511)	(655)
Net current assets		8,192	3,682
Net assets		47,798	37,428
Capital and reserves			
Called-up equity share capital	15	2,470	2,029
Share premium	16	3,219	21,378
Capital redemption reserve	16	430	392
Capital reserve	16	36,756	12,307
Revaluation reserve	16	4,042	743
Revenue reserve	16	881	579
Total equity shareholders' funds		47,798	37,428
Net asset value per share	17	96.7p	92.2p

- The accompanying notes are an integral part of this statement.

The financial statements on pages 28 to 40 were approved by the directors on 18 May 2012 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 2012

	Year ended 31 March 2012 £000	Year ended 31 March 2011 £000
Net cash inflow from operating activities	528	197
Taxation		
Corporation tax paid	–	–
Financial investment		
Purchase of investments	(4,798)	(12,741)
Sale/repayment of investments	7,429	4,251
Net cash inflow/(outflow) from financial investment	2,631	(8,490)
Acquisitions		
Cash and deposits acquired on merger	604	–
Equity dividends paid	(1,931)	(1,556)
Net cash inflow/(outflow) before financing	1,832	(9,849)
Financing		
Issue of ordinary shares	3,598	5,301
Share issue expenses	(259)	(299)
Purchase of ordinary shares for cancellation	(600)	(723)
Net cash inflow from financing	2,739	4,279
Increase/(decrease) in cash at bank	4,571	(5,570)
Reconciliation of return before tax to net cash flow from operating activities		
Revenue return on ordinary activities before tax	4,001	2,294
Gain on disposal of investments	(628)	(778)
Movements in fair value of investments	(3,023)	(1,361)
Decrease/(increase) in debtors	230	(80)
(Decrease)/increase in creditors	(52)	122
Net cash inflow from operating activities	528	197

Analysis of movement in net funds	1 April 2011 £000	Cash flows £000	31 March 2012 £000
Cash and deposits	3,940	4,571	8,511

Notes to the financial statements

for the year ended 31 March 2012

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 on a going concern basis 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.

(h) Provisions

A provision is recognised in the balance sheet when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. No provision is established where a reliable estimate of the obligation cannot be made. Provisions are allocated to revenue or capital depending on the nature of the circumstances.

(i) Capital reserve

The following are accounted for in the capital reserve: gains or losses on the realisation of investments; realised and unrealised exchange differences of a capital nature; the cost of repurchasing ordinary shares, including stamp duty and transaction costs; and other capital charges and credits charged to this account in accordance with the above policies.

(j) Revaluation reserve

Changes in fair value of investments are dealt with in this reserve.

Notes to the financial statements continued

for the year ended 31 March 2012

2. Income

	Year ended 31 March 2012 £000	Year ended 31 March 2011 £000
Franked investment income		
Unquoted companies	104	97
Quoted companies	336	61
Interest receivable		
Bank deposits*	12	19
Loans to unquoted companies	1,153	728
Listed fixed-interest investments	141	186
Sundry income*	–	9
	1,746	1,100

* 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 2012			Year ended 31 March 2011		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Investment management fee:						
Basic	208	623	831	173	518	691
Performance-related	–	271	271	–	85	85
	208	894	1,102	173	603	776

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 basic management fee, payable quarterly in advance, at the rate of 2.06% per annum of net assets calculated half-yearly as at 31 March and 30 September. 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 £45,000 per annum (linked to the movement in the RPI). This fee is included in other expenses (see Note 4).

NVM is also entitled to receive a performance-related management fee equivalent to 14.2% of the amount, if any, by which the total return in each financial year (expressed as a percentage of opening net asset value) exceeds a performance hurdle. The hurdle is a composite rate based on 7% on average long-term investments and the higher of base rate and 3% on average cash and near-cash investments during the year. Following a period in which net assets decline, a "high water mark" will apply to the calculation of the performance-related fee but will be then adjusted downwards to the extent that a positive return is achieved in the following financial year. The performance-related management fee is subject to an overall cap of 2.25% of net assets.

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. Other expenses

	Year ended 31 March 2012 £000	Year ended 31 March 2011 £000
Administrative and secretarial services	46	44
Directors' remuneration	54	56
Auditors' remuneration – audit services	20	19
Legal and professional expenses	24	15
Share issue promoter's commission	29	25
Irrecoverable VAT	20	12
Other expenses	90	97
	283	268

Information on directors' remuneration is given in the directors' remuneration report on pages 18 and 19.

5. Tax on return on ordinary activities

	Year ended 31 March 2012			Year ended 31 March 2011		
	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	210	(210)	–	148	(147)	1
(b) Tax reconciliation						
Return on ordinary activities before tax	1,255	2,746	4,001	684	1,610	2,294
Return on ordinary activities multiplied by the standard rate of UK corporation tax of 26% (2011 28%)	326	714	1,040	192	451	643
Effect of:						
UK dividends not subject to tax	(114)	–	(114)	(44)	–	(44)
Capital returns not subject to tax	–	(163)	(163)	–	(218)	(218)
Unrealised adjustments to fair value	–	(786)	(786)	–	(381)	(381)
Marginal relief	(2)	2	–	–	–	–
Increase in surplus management expenses	–	23	23	–	2	2
Adjustment to tax charge in respect of prior periods	–	–	–	–	(1)	(1)
Current tax charge/(credit) for the year	210	(210)	–	148	(147)	1

(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 £109,000 (31 March 2011 £27,000), 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.

The Government has announced its attention to further reduce the UK corporation tax rate to 23% by 1 April 2014.

Notes to the financial statements continued

for the year ended 31 March 2012

6. Dividends

	Year ended 31 March 2012 Revenue £000	Capital £000	Total £000	Year ended 31 March 2011 Revenue £000	Capital £000	Total £000
(a) Recognised as distributions in the financial statements for the year						
Previous year's second interim dividend	283	728	1,011	–	–	–
Previous year's final dividend	–	–	–	39	741	780
Current year's interim dividend	460	460	920	272	504	776
	743	1,188	1,931	311	1,245	1,556
b) Paid and proposed in respect of the year						
Interim paid – 2.0p (2011 2.0p) per share	460	460	920	272	504	776
Second interim declared – nil (2011 2.5p) per share	–	–	–	284	730	1,014
Final proposed – 3.0p (2011 nil) per share	593	889	1,482	–	–	–
	1,053	1,349	2,402	556	1,234	1,790

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.

7. Return per share

The calculation of the return per share is based on the return on ordinary activities after tax for the year of £4,001,000 (2011 £2,293,000) and on 43,501,946 (2011 38,787,115) shares, being the weighted average number of shares in issue during the year.

8. 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 2012 £000	31 March 2011 £000
Level 1		
Quoted venture capital investments	6,869	2,669
Listed equity investments	5,363	4,237
Listed fixed-interest investments	3,097	6,493
Level 2		
None	–	–
Level 3		
Unquoted venture capital investments	24,277	20,347
	39,606	33,746

8. 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 equity Level 1 £000	Listed fixed-interest Level 1 £000	Total £000
Book cost at 1 April 2011	20,030	2,174	3,987	6,473	32,664
Fair value adjustment at 1 April 2011	317	495	250	20	1,082
Fair value at 1 April 2011	20,347	2,669	4,237	6,493	33,746
Movements in the year:					
Purchases at cost	5,359	3,415	1,013	126	9,913
Disposals – proceeds	(3,473)	(415)	–	(3,541)	(7,429)
– net realised gains/(losses)	641	56	–	(69)	628
Movements in fair value	1,403	1,144	113	88	2 ,748
Fair value at 31 March 2012	24,277	6,869	5,363	3,097	39,606
Comprising:					
Book cost at 31 March 2012	22,279	5,146	5,000	3,073	35,498
Fair value adjustment at 31 March 2012	1,998	1,723	363	24	4,108
	24,277	6,869	5,363	3,097	39,606
Equity shares	9,637	6,869	5,363	–	21,869
Preference shares	193	–	–	–	193
Interest-bearing securities	14,447	–	–	3,097	17,544
	24,277	6,869	5,363	3,097	39,606

The gains and losses included in the above table have all been recognised in the income statement on page 28.

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 2012 there were commitments totalling £2,233,000 (31 March 2011 £613,000) in respect of investments approved by the manager but not yet completed.

9. 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
Andor Technology	14	58	85	27
Twenty	210	42	–	(42)
DxS – deferred consideration	–	–	645	645
Bond International Software	146	146	144	(2)
IDOX	73	114	186	72
IG Doors – loan stock repayment	175	194	194	–
Promanex Group Holdings	1,695	2,134	2,136	2
Britspace Group	860	66	–	(66)
Envirotec – loan stock repayment	280	336	336	–
Other	98	101	162	61
	3,551	3,191	3,888	697

Notes to the financial statements continued

for the year ended 31 March 2012

10. Unquoted investments

The cost and carrying value of material investments in unquoted companies held at 31 March 2012 are shown below. For this purpose any investment included in the table of the fifteen largest venture capital investments on page 11, or in the corresponding table in the previous year's annual report, is regarded as material.

	31 March 2012 Total cost £000	31 March 2012 Carrying value £000	31 March 2011 Total cost £000	31 March 2011 Carrying value £000
Kerridge Commercial Systems				
Ordinary shares	318	2,460	125	1,049
Loan stock	1,343	1,343	1,119	1,119
	1,661	3,803	1,244	2,168
CloserStill Holdings				
Ordinary shares	142	1,437	142	528
Loan stock	601	601	601	601
	743	2,038	743	1,129
Volumatic (formerly Evolve Investments)				
Ordinary shares	216	216	100	100
Loan stock	1,779	1,779	895	895
	1,995	1,995	995	995
Paladin Group				
Ordinary shares	256	504	256	192
Loan stock	757	757	605	605
	1,013	1,261	861	797
Axial Systems Holdings				
Ordinary shares	219	181	145	282
Loan stock	1,074	1,074	859	859
	1,293	1,255	1,004	1,141
Control Risks Group Holdings				
Ordinary shares	746	1,037	746	746
Kitwave One				
Ordinary shares	102	117	102	102
Loan stock	898	898	898	898
	1,000	1,015	1,000	1,000
Wear Inns				
Ordinary shares	208	380	208	208
Loan stock	631	631	631	631
	839	1,011	839	839
Tinglobal Holdings				
Ordinary shares	228	228	–	–
Loan stock	760	760	–	–
	988	988	–	–
IG Doors				
Ordinary shares	355	619	50	356
Loan stock	333	358	321	370
	688	977	371	726
Lineup Systems				
Ordinary shares	174	174	–	–
Loan stock	800	800	–	–
	974	974	–	–
RCC Lifesciences				
Ordinary shares	100	70	100	100
Loan stock	895	895	895	895
	995	965	995	995

10. Unquoted investments *continued*

	31 March 2012		31 March 2011	
	Total cost £000	Carrying value £000	Total cost £000	Carrying value £000
Cawood Scientific				
Ordinary shares	95	212	95	95
Loan stock	730	730	730	730
	825	942	825	825
Promanex Group Holdings				
Ordinary shares	–	–	178	617
Loan stock	–	–	1,517	1,517
	–	–	1,695	2,134
Promatic Group				
Ordinary shares	59	–	59	59
Loan stock	642	642	642	642
	701	642	701	701

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

11. Merger with Northern AIM VCT PLC

During the year the company merged with Northern AIM VCT PLC. The company acquired the assets and liabilities of Northern AIM VCT PLC at fair value, as set out below.

	Book and fair value £000
Venture capital investments	5,116
Debtors	25
Cash	604
Creditors	(183)
Net current assets	446
Net assets acquired	5,562
Discharged by the allotment of 5,950,459 shares in Northern 3 VCT PLC	5,562

12. Significant interests

There are no shareholdings in companies where the company's holding at 31 March 2012 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 2012 £000	31 March 2011 £000
Prepayments and accrued income	192	298
Other debtors	–	99
	192	397

Notes to the financial statements continued

for the year ended 31 March 2012

14. Creditors (amounts falling due within one year)

	31 March 2012 £000	31 March 2011 £000
Accruals and deferred income	447	316
Provision for investment liabilities (Note 19)	64	339
Corporation tax payable	–	–
	511	655

15. Called-up equity share capital

	31 March 2012 £000	31 March 2011 £000
Allotted and fully paid:		
49,404,252 (2011 40,574,802) ordinary shares of 5p	2,470	2,029

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 page 6. The company is not subject to externally imposed capital requirements.

During the year the company issued 3,635,028 ordinary shares of 5p for cash at an average premium of 94.0p per share through offers for subscription and 5,950,459 ordinary shares of 5p at a premium of 88.5p in exchange for the net assets of Northern AIM VCT. 756,037 shares were re-purchased for cancellation at a cost of £600,000.

16. Reserves

	Share premium £000	Capital redemption reserve £000	Capital reserve £000	Revaluation reserve £000	Revenue reserve £000
At 1 April 2011	21,378	392	12,307	743	579
Premium on issue of ordinary shares	8,680	–	–	–	–
Share issue expenses	(259)	–	–	–	–
Shares purchased for cancellation	–	38	(600)	–	–
Cancellation of share premium account	(26,580)	–	26,580	–	–
Share premium cancellation expenses	–	–	(11)	–	–
Realised on disposal of investments	–	–	628	–	–
Transfer on disposal of investments	–	–	(276)	276	–
Movements in fair value of investments	–	–	–	2,748	–
Movements in provision for investment liabilities (Note 19)	–	–	–	275	–
Management fee capitalised net of associated tax	–	–	(684)	–	–
Revenue return on ordinary activities after tax	–	–	–	–	1,045
Dividends recognised in the year	–	–	(1,188)	–	(743)
At 31 March 2012	3,219	430	36,756	4,042	881

At 31 March 2012 distributable reserves amounted to £38,024,000 (31 March 2011 £13,156,000), 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 and equity investments.

On 14 September 2011 shareholders approved a special resolution to cancel the share premium account of the company. Court consent to the cancellation was granted on 2 March 2012, and accordingly on that date the share premium account was cancelled and an equivalent sum was credited to the capital reserve (which is a distributable reserve).

17. Net asset value per share

The calculation of net asset value per share as at 31 March 2012 is based on net assets of £47,798,000 (2011 £37,428,000) divided by the 49,404,252 (2011 40,574,802) 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.

18. Financial instruments *continued*

Fixed asset investments (see Note 8) 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 page 6. 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 20 to 24, 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 8.

25.6% (31 March 2011 18.5%) 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 2012 would have changed net assets and the total return for the year by £612,000 (31 March 2011 £345,000).

50.8% (31 March 2011 54.4%) 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 2012 would have changed net assets and the total return for the year by £1,214,000 (31 March 2011 £1,017,000).

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.

(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 2012			31 March 2011		
	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	3,097	3.0%	1.6	6,493	3.0%	1.6
Fixed-rate investments in unquoted companies	1,427	9.7%	1.5	1,500	9.8%	2.2
	4,524			7,993		

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 period.

(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 2012 (31 March 2011 0.5%). The amounts held in floating rate investments at the balance sheet date were as follows:

	31 March 2012 £000	31 March 2011 £000
Floating rate loans to unquoted companies	13,020	11,938
Interest-bearing deposit accounts	8,511	3,940
	21,531	15,878

Notes to the financial statements continued

for the year ended 31 March 2012

18. Financial instruments *continued*

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 2012 the company's financial assets exposed to credit risk comprised the following:

	31 March 2012 £000	31 March 2011 £000
Listed fixed-interest investments	3,097	6,493
Fixed-rate investments in unquoted companies	1,427	1,500
Floating rate loans to unquoted companies	13,020	11,938
Interest-bearing deposit accounts	8,511	3,940
Accrued dividends and interest receivable	178	290
	26,233	24,161

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 (The Bank of New York Mellon Corporation in the case of listed fixed-interest investments and nominee companies of Brewin Dolphin Limited or Speirs & Jeffrey 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 2012 or 31 March 2011. No individual financial asset exposed to credit risk exceeded 8.7% of the company's net assets at 31 March 2012 (31 March 2011 6.2%).

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 2012 these investments were valued at £11,608,000 (31 March 2011 £14,670,000).

19. Contingencies

At 31 March 2011 a provision of £339,000 was made in respect of liabilities expected to arise under guarantees given to secure certain liabilities and obligations of an investee company. The provision was treated as an unrealised loss in the revaluation reserve and was included in creditors (amounts falling due within one year). During the year ended 31 March 2012 payments totalling £66,000 were made under the guarantees and treated as realised capital losses, and £209,000 of the provision has been released, leaving a residual provision of £64,000 as at 31 March 2012. There were no unprovided contingent liabilities at 31 March 2012 or 2011.

At 31 March 2012 contingent assets not recognised in the financial statements in respect of potential deferred proceeds from the sale of investee companies amounted to approximately £395,000 (31 March 2011 £1,105,000). The extent to which these amounts will become receivable in due course is dependent on future events.

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