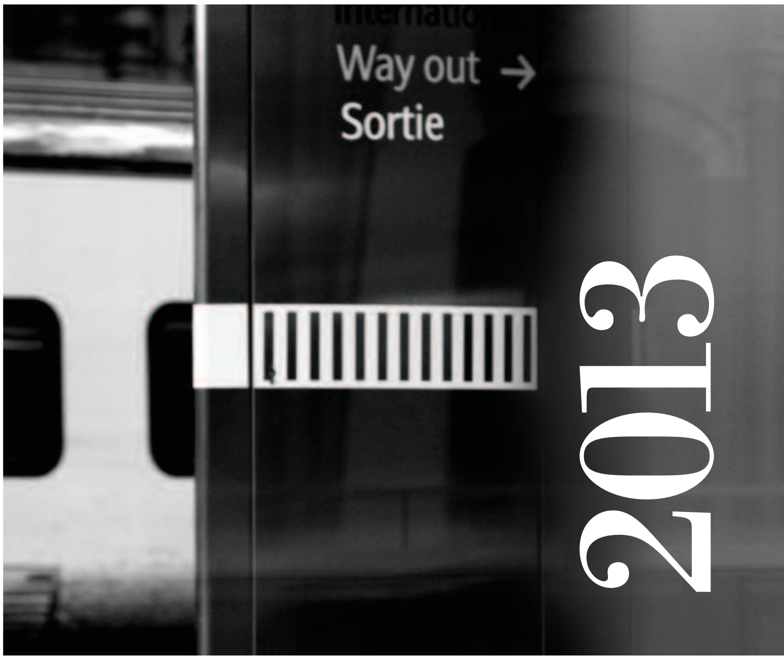
Northern 3 VCT PLC

Annual report and financial statements
31 March 2013



Best Information to Shareholders Awards 2013
Best VCT Report & Accounts

aic
The Association of Investment Companies

INVESTMENT COMPANY OF THE YEAR AWARDS 2012
WINNER
VCTs

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:	2013	2012
Net assets	£50.6m	£47.8m
Net asset value per share	104.6p	96.7p
Return per share		
Revenue	1.8p	2.4p
Capital	10.7p	6.8p
Total	12.5p	9.2p
Dividend per share declared in respect of the year	5.5p	5.0p
Cumulative return to shareholders since launch		
Net asset value per share	104.6p	96.7p
Dividends paid per share*	38.4p	33.4p
Net asset value plus dividends paid per share	143.0p	130.1p
Mid-market share price at end of year	89.25p	80.0p
Share price discount to net asset value	14.7%	17.3%

*Excluding proposed final dividend

Key dates

Results announced
13 May 2013

Shares quoted ex dividend
3 July 2013

Annual general meeting
17 July 2013 (11.30am, Life Bioscience Centre, Times Square, Newcastle upon Tyne NE1 4EP)

Final dividend paid (to shareholders on register on 5 July 2013)
26 July 2013

Chairman's statement

The venture capital portfolio has continued to perform well in an unhelpful economic environment.

Northern 3 VCT has made good progress during the past year. Two significant landmarks were passed in that net assets now exceed £50 million whilst the NAV per share rose to over 100p. Also, we are proposing that the annual dividend be increased from 5.0p to 5.5p per share. It was pleasing that Northern 3 VCT and the other Northern VCTs were declared winners of the Best VCT category at the *Investment Week* Investment Company of the Year Awards for 2012, sponsored by the Association of Investment Companies and Trustnet.

Results and dividend

The NAV per share at 31 March 2013 was 104.6p, an increase of 8.2% over the corresponding figure of 96.7p as at 31 March 2012. The NAV total return per share for the year as shown in the income statement was 12.5p (last year 9.2p), equivalent to 12.9% of the opening NAV. This satisfactory result was based on continuing strong investment performance across both the quoted and the unquoted portfolios. The income received from investments fell to £1.5 million from £1.7 million last year, due to the fact that last year's total included a non-recurring receipt of £0.5 million on the sale of Promanex Group Holdings in August 2011.

Your board announced in February 2012 that the target level of annual dividend to shareholders had been increased from 4.5p to 5.0p per share. For the year ended 31 March 2013 we have already declared an unchanged interim dividend of 2.0p per share, which was paid in January 2013. In the light of the results for the year we are proposing to increase the final dividend from 3.0p to 3.5p per share, making a total of 5.5p for the year (last year 5.0p). Subject to approval by shareholders at the annual general meeting, the final dividend will be paid on 26 July 2013 to shareholders on the register on 5 July 2013.

Investment portfolio

The venture capital portfolio has continued to perform well in an unhelpful economic environment. Four new unquoted holdings were acquired during the year at a cost of £3.8 million, with a further £2.0 million invested in existing portfolio companies. Closerstill Holdings and Paladin Group were sold successfully.

Our AIM-quoted investments, including those acquired through the merger with Northern AIM VCT in 2011, had a good year and made an important contribution to the overall result.

In a period of derisory returns on cash, our policy of allocating part of the company's surplus liquidity to listed blue-chip equities has continued to generate a growing income as well as an increase in capital.

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.

Share capital

It was announced in January 2013 that following a review by the board, the company would in future buy back its own shares in the market at a discount of 10% (reduced from 15%). We believe that this level of discount strikes a fair balance between the interests of continuing shareholders and those who wish to sell. The policy will be reviewed regularly in the light of market conditions. The objective is to maintain the company's quoted share price at a 10% discount to the latest published NAV per share; the share price at 31 March 2013 actually represents a 14.7% discount to the NAV announced today, but we would expect the share price to move now that the updated result is in the market. During the year 1,085,990 shares were bought back for cancellation at an average price of 83.1p.

James Ferguson *Chairman*

No new shares in the company were issued during the year. Cash reserves are now at a relatively low level and your board is considering the possibility of launching a public offer of shares later in 2013, possibly in conjunction with the other Northern VCTs. We will be writing to shareholders about this in due course.

Dividend reinvestment

The dividend reinvestment plan introduced in January 2010, whereby shareholders can opt to have their dividends re-invested in existing ordinary shares in the company, has not been a great success in terms either of its take-up by shareholders or of its impact on secondary market trading in the company's shares. We have therefore decided to withdraw the scheme with immediate effect and replace it with a dividend reinvestment scheme under which participants' dividends will be invested in new ordinary shares. This will not only provide the company with additional funds for investment but also enable shareholders to benefit from the tax reliefs available to investors in new VCT shares, including initial income tax relief at 30%. More details are given in a separate circular which is being sent to shareholders with the annual report. Shareholders wishing to take part in the scheme should make sure that they have the appropriate election in place.

VCT legislation and regulation

This has become a frequently recurring topic. Shareholders will be aware that the 2012 Finance Act relaxed the size limits for VCT-qualifying investee companies, but also introduced a new £5 million cap on the amount of funding which a company can raise from VCTs within a 12 month period. Management buy-outs can be VCT-qualifying investments only to the extent that they employ funds raised prior to 6 April 2012. We are learning to work within these restrictions.

I referred in my half-yearly report to the consultation paper published by the FSA (now the FCA) on the retail distribution of unregulated collective investment schemes, which suggested that restrictions might be placed on the categories of retail investors to whom VCT share offers can be promoted. Happily, following strong representations from individual VCT houses and the Association of Investment Companies, it now appears that this threat has receded.

Outlook

The encouraging results of the past two years have been achieved in the face of the continuing travails of the UK economy. There is no reason to believe that the background will become significantly brighter in the short term, and hence a degree of caution about the future is appropriate, but the venture capital portfolio is making steady progress. Our managers have several potential investments at an advanced stage of negotiation and there are also interesting opportunities in the AIM market. We therefore take a reasonably optimistic view of the prospects for the next 12 months.

James Ferguson
Chairman
13 May 2013

Directors and advisers

James Ferguson BA (Chairman)

aged 65, 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, North American Income 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 61, is managing partner of io solutions (e-business strategy advisers), chairman of Digital City Business Trading Limited, a non-executive director of NCFE Limited and a governor of Teesside University. He was formerly chairman of Darlington Building Society and group chief executive of Whessoe plc. He was appointed to the board in 2001.

Tim Levett MBA

aged 64, is executive chairman of NVM Private Equity Limited, which he co-founded in 1988. He is a non-executive director of Northern Venture Trust PLC and several unquoted companies. He was appointed to the board in 2001.

John Waddell LLB

aged 56, 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
Northumberland House
Princess Square
Newcastle upon Tyne NE1 8ER
Telephone: 0191 244 6000
Fax: 0191 244 6001
Email: n3vct@nvm.co.uk

Registered number

4280530

Investment manager

NVM Private Equity Limited
Northumberland House
Princess Square
Newcastle upon Tyne NE1 8ER

Investment advisers

Sarasin & Partners LLP
Juxon House
100 St Paul's Churchyard
London EC4M 8BU

Speirs & Jeffrey Limited
36 Renfield Street
Glasgow G2 1NA

Independent auditor

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

Taxation advisers

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Solicitors

SJ Berwin LLP
10 Queen Street Place
London EC4R 1BE

Stockbrokers

Nplus1 Singer Advisory LLP
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 a limited partnership, NV1 LP. NVM has a total of over £220 million under management.

Venture Capital Trusts

Venture Capital Trusts 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 2014 is as follows:

November 2013
Half-yearly financial report for six months ending 30 September 2013 published

January 2014
Interim dividend paid

May 2014
Final dividend and results for year to 31 March 2014 announced; annual report and accounts published

July 2014
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 scheme

The company operates a dividend reinvestment scheme, giving shareholders the option of reinvesting their dividends in new shares in the company with the benefit of the tax reliefs currently available to VCT subscribers. This scheme has replaced the dividend reinvestment plan previously in operation; details of the change are set out in a separate circular to shareholders. Information about the dividend reinvestment scheme can also 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 auditor is 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 auditor's opinion is included in the auditor's 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 (VCT) approved by HM Revenue & Customs. In order to maintain approved status, a VCT 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% (70% for funds raised after 5 April 2011) must comprise eligible ordinary shares. For this purpose a "VCT-qualifying holding" is an investment 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. With effect from 6 April 2012 the legislation has been amended so as to prevent any company receiving more than £5 million in aggregate from all state-aided providers of risk capital, including VCTs, in the 12 month period up to and including the most recent such investment.

The company's investment policy has been designed to enable the company to comply with the VCT qualifying conditions set out above. The directors intend that the long-term disposition of the company's assets will be approximately 80% in a portfolio of VCT-qualifying unquoted and AIM investments and 20% in other investments selected with a view to producing an enhanced return while avoiding undue capital volatility, 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. This portfolio will be diversified by investing in a broad range of 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.

Based on the company's present gross assets of approximately £51 million, no single investment would normally represent in excess of 4% 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.

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 £220 million under management.

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.

Table 1: Venture capital portfolio cash flow

Year ended 31 March	New investment £000	Disposal proceeds £000	Net cash inflow/ (outflow) £000
2009	2,237	3,404	1,167
2010	5,948	5,637	(311)
2011	4,956	1,951	(3,005)
2012	3,658	3,888	230
2013	5,794	6,771	977
Total	**22,593**	**21,651**	**(942)**

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

	£000	Pence per ordinary share
Net asset value at 31 March 2012	47,798	96.7
Net revenue (investment income less revenue expenses and tax)	868	1.8
Capital surplus arising on investments:		
Realised net gains on disposals	1,375	2.8
Movements in fair value of investments	5,096	10.4
Management expenses allocated to capital account (net of tax relief)	(1,228)	(2.5)
Total return for the year as shown in income statement	6,111	12.5
Shares re-purchased for cancellation	(907)	0.4
Net movement for the year before dividends	5,204	12.9
Net asset value at 31 March 2013 before dividends recognised	53,002	109.6
Dividends recognised in the financial statements for the year	(2,446)	(5.0)
Net asset value at 31 March 2013	**50,556**	**104.6**

Overview of the year

During the year under review Northern 3 VCT achieved a total return to ordinary shareholders, before dividends, of 12.9p per share, equivalent to 13.3% of the opening net asset value per share of 96.7p. The movement in total net assets and net asset value per share is summarised in Table 2.

The net cash flow from the venture capital portfolio during the year was £1.0 million, comprising sales proceeds and repayments of £6.8 million, less new investments of £5.8 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 decreased in the year by £2.0 million to £6.5 million. In addition the company holds listed fixed-interest and equity investments valued at £8.4 million.

Dividends

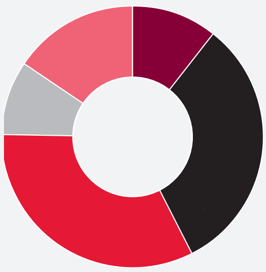
The directors have proposed dividends totalling 5.5p per share in respect of the year, comprising 2.0p revenue dividend and a 3.5p capital distribution.

Investment portfolio

During the year ended 31 March 2013, four new holdings were added to the venture capital portfolio at a cost of £3.8 million, and additional investments totalling £2.0 million were made in existing portfolio companies. The portfolio at 31 March 2013 comprised 44 holdings with an aggregate value of £36.1 million.

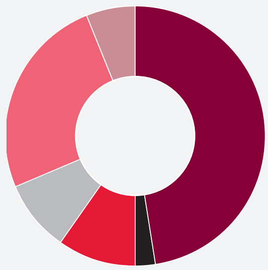
A summary of the venture capital holdings at 31 March 2013 is given on page 11, with information on the fifteen largest investments on pages 12 to 15.

Business review continued



Age of investment

- Up to 1 year 10.7%
- 1–3 years 31.9%
- 3–5 years 32.9%
- 5–7 years 9.2%
- Over 7 years 15.3%



Industry sector

- IT services 47.5%
- Construction 2.5%
- Consumer 9.8%
- Industrial 8.9%
- Business services 25.3%
- Healthcare/biotechnology 6.0%

New investments

The new investments completed during the year were:

- **Silverwing (£1,272,000)** – developer of non-destructive testing solutions for the oil and gas industry, Swansea
- **Haystack Dryers (£992,000)** – manufacturer of body dryers, Wimborne
- **Intuitive (£1,293,000)** – software developer for the travel industry, Croydon
- **Vectura Group (£248,000)** – LSE-listed developer of pharmaceutical therapies for respiratory diseases, Bath

Additional investments were made during the year in **Tinglobal Holdings** (£1,000,000) and **Wear Inns** (£567,000).

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.

Closerstill Holdings, the business-to-business exhibition organiser, was sold to Phoenix Private Equity in May 2012 for £2,215,000 in cash. The related investment in **Closer2 Investments** was simultaneously exchanged for a holding of equivalent value in **Closerstill Group**, a new exhibitions group funded mainly by Phoenix. **Paladin Group** was acquired by Places for People Group during November 2012 for £2,082,000.

Venture capital portfolio composition

The pie charts above show the composition of the venture capital portfolio at 31 March 2013 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.

The portfolio has continued to perform well despite the UK's current economic difficulties. Amongst the unquoted investments, **Kerridge Commercial Systems** again achieved excellent results and remains our most valuable holding, whilst **Volumatic** has made particularly encouraging progress since our investment just over a year ago. Inevitably a small number of companies have found the going difficult in challenging conditions and where appropriate valuations have been reduced to reflect this.

The AIM market has been strong over the past 12 months and our two largest AIM holdings, **Advanced Computer Software Group** and **IDOX**, both delivered good returns.

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.

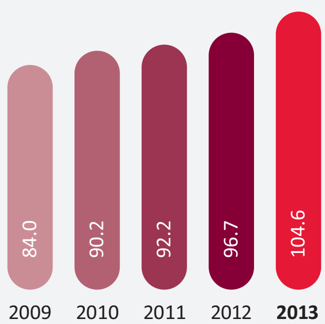
As at 31 March 2013 the number of investments falling into each valuation category was as shown in Table 4.

Key performance indicators

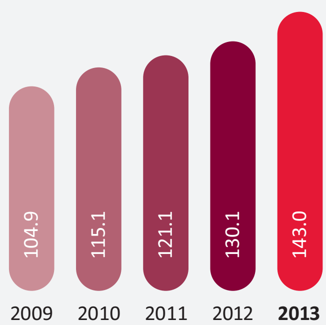
The directors regard the following as the key indicators pertaining to the company's performance:

Net asset value and total return to shareholders: the charts at the bottom of this page show the movement in net asset value and total return (net asset value plus cumulative dividends) per share over the past five financial years.

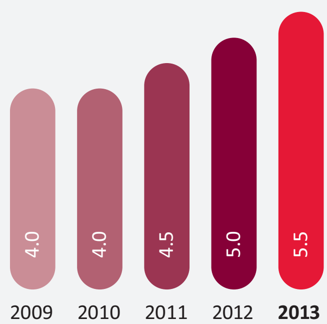
Dividend distributions: the charts at the bottom of this page and the page opposite show the dividends (including proposed final dividends) declared in respect of each of the past five financial years and on a cumulative basis since inception.



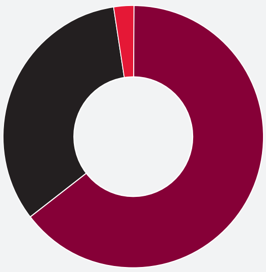
Net asset value (p)



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

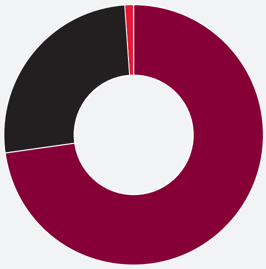


Dividend per share (p)



Financing stage

- Expansion 64.3%
- MBO/MBI 33.0%
- Early stage 2.7%



Quotation

- Unquoted 72.9%
- AIM 26.2%
- LSE 0.9%

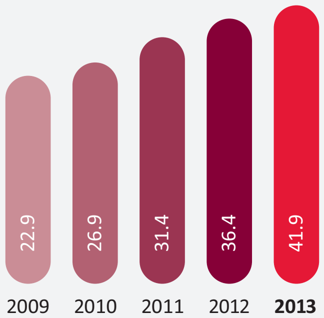
Table 3: Significant investment realisations

Company	Date of original investment	Original cost £000	Sales proceeds £000	Realised surplus/ (deficit) £000
Closerstill Holdings – institutional buy-out	2008	742	2,215	1,473
Paladin Group – trade sale	2006	1,013	2,082	1,069
IG Doors* – loan stock repayment	2003	333	362	29
RCC Lifesciences* – loan stock repayment	2010	895	895	–
KPJ Software Services – company wound up	2009	362	326	(36)
Spectrum Interactive – trade sale	2005	226	348	122

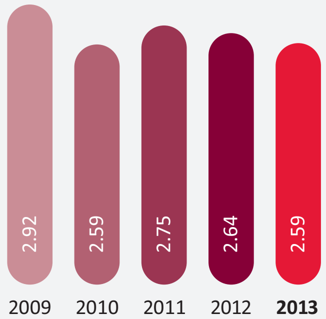
*Partial realisation

Table 4: Investment valuation by category

Category	Number of investments	Valuation £000	% of portfolio by value
Unquoted investments at directors' valuation			
Earnings multiple	19	20,900	57.9
Original cost	5	5,081	14.1
Original cost less provision	4	168	0.5
Net assets	2	176	0.5
Quoted investments at bid price			
Listed on London Stock Exchange	1	318	0.9
Quoted on AIM	13	9,463	26.1
Total	**44**	**36,106**	**100.0**



Cumulative dividends per share (p)



Ongoing charges (%)

Ongoing charges: the chart at the bottom of this page 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 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, close monitoring and timely realisation of investments, by carrying out rigorous due diligence procedures and by maintaining a wide spread of holdings in terms of financing stage and industry sector. The board reviews the investment portfolio with the manager on a regular basis.

Business review continued

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 venture capital investments are quoted on the London Stock Exchange or AIM and will be subject to market fluctuations upwards and downwards. External factors such as terrorist activity can negatively impact stock markets worldwide and AIM 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. The company is dependent on the counterparty discharging their commitment. The directors review the 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.

Legislative and regulatory 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. 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.

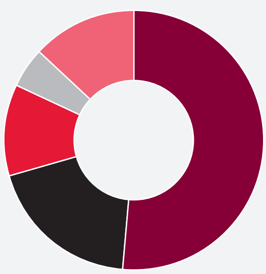
Future prospects

The strong results for the period under review have been achieved despite an unhelpful trading environment for most UK businesses. The economy is likely to recover only slowly, if at all; this is bound to have some impact on the prospects for our companies, but we will maintain our careful approach to selecting and monitoring investments with a view to building on the encouraging performance of the past 12 months.

By order of the Board

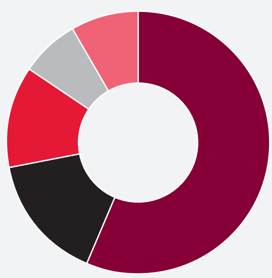
C D Mellor
Secretary 13 May 2013

Asset allocation



31 March 2013

31 March 2013		31 March 2012
51.6%	Venture capital – unquoted	56.6%
19.1%	Venture capital – AIM quoted	15.6%
11.4%	Listed equity	12.5%
5.1%	Listed fixed interest	7.2%
12.8%	Cash and short term deposits	8.1%



31 March 2012

Investment portfolio

as at 31 March 2013

	Cost £000	Valuation £000	% of net assets by value
Fifteen largest venture capital investments (see pages 12 to 15)			
Kerridge Commercial Systems	1,663	4,789	9.5
Volumatic	2,096	3,618	7.1
Advanced Computer Software Group*	1,035	3,272	6.5
IDOX*	660	2,726	5.4
Wear Inns	1,406	1,779	3.5
Tinglobal Holdings	1,988	1,750	3.5
Control Risks Group Holdings	746	1,315	2.6
Intuitive	1,293	1,293	2.6
Silverwing	1,272	1,272	2.5
Kitwave One	1,000	1,007	2.0
Haystack Dryers	992	992	2.0
Cawood Scientific	825	990	1.9
Lineup Systems	974	974	1.9
IG Doors	355	910	1.8
Optilan Group	1,125	792	1.6
	17,430	**27,479**	**54.4**
Other venture capital investments			
Sinclair IS Pharma*	753	771	1.5
Arleigh Group	355	739	1.5
Promatic Group	701	699	1.4
Andor Technology*	598	633	1.3
Mantis Deposition Holdings	556	572	1.1
CloserStill Group	549	549	1.1
e-know.net	225	485	1.0
Lanner Group	475	462	0.9
Pilat Media Global*	390	388	0.8
Synectics*	170	344	0.7
Vectura Group**	248	318	0.6
Vianet Group*	368	297	0.6
Cello Group*	349	276	0.5
Axial Systems Holdings	1,293	268	0.5
Gentronix	361	264	0.5
Jelf Group*	177	232	0.5
Nationwide Accident Repair Services*	290	215	0.4
Direct Valeting	148	205	0.4
Envirotec	176	196	0.4
Brady*	175	191	0.4
Altacor	336	168	0.3
Longhirst Venues	280	116	0.2
Adept Telecom*	236	114	0.2
S&P Coil Products	60	61	0.1
RCC Lifesciences	100	60	0.1
Summit Corporation*	122	4	–
Crantock Bakery	845	–	–
Warmseal Windows (Newcastle)	339	–	–
Astbury Marsden Holdings	1,177	–	–
Total venture capital investments	**29,282**	**36,106**	**71.4**
Listed equity investments	5,000	5,812	11.5
Listed fixed-interest investments	2,569	2,614	5.2
Total fixed asset investments	**36,851**	**44,532**	**88.1**
Net current assets		6,024	11.9
Net assets		**50,556**	**100.0**

* Quoted on AIM ** Listed on London Stock Exchange

Fifteen largest private equity investments

Kerridge Commercial Systems

Cost	£1,663,000
Valuation	£4,789,000
Basis of valuation	Earnings multiple
Equity held	7.1% (NVM funds total 42.8%)
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 stock interest £108,000

Audited financial information:

Year ended 30 September	2012 £m	2011 £m
Sales	25.5	18.9
Profit before tax	1.9	1.2
Profit after tax	1.5	0.9
Net assets	3.8	2.4

Volumatic

Cost	£2,096,000
Valuation	£3,618,000
Basis of valuation	Earnings multiple
Equity held	16.9% (NVM funds total 50.6%)
Business/location	Manufacturer of intelligent cash handling equipment, Birmingham
History	Management buy-out, March 2012, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT
Income in year	Dividends nil, loan stock interest £151,000

Audited financial information:

First audited accounts will be for the period ended 31 March 2013

Advanced Computer Software Group

Cost	£1,035,000
Valuation	£3,272,000
Basis of valuation	Bid price (AIM)
Equity held	0.9% (NVM funds total 1.9%)
Business/location	Provider of software to the healthcare sector, London
History	Reverse take-over of an AIM quoted 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	2012 £m	2011 £m
Sales	101.8	95.4
Profit before tax	6.9	3.1
Profit after tax	6.3	4.2
Net assets	98.2	84.6

IDOX

Cost	£660,000
Valuation	£2,726,000
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	Dividends £35,000

Audited financial information:

Year ended 31 October	2012 £m	2011 £m
Sales	57.9	38.6
Profit before tax	6.9	5.6
Profit after tax	6.7	4.5
Net assets	38.9	34.4

Wear Inns

Cost	£1,406,000
Valuation	£1,779,000
Basis of valuation	Earnings multiple
Equity held	6.4% (NVM funds total 28.4%)
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 £65,000

Audited financial information:

Year ended 31 March	2012 £m	2011 £m
Sales	7.4	6.3
Profit before tax	0.1	0.1
Profit after tax	0.1	0.1
Net assets	0.2	0.2

Tinglobal Holdings

Cost	£1,988,000
Valuation	£1,750,000
Basis of valuation	Earnings multiple
Equity held	15.8% (NVM funds total 47.3%)
Business/location	Supplier of refurbished mid-range computer equipment, Cirencester
History	Management buy-out from venture capital ownership, June 2011, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT
Income in year	Dividends nil, loan stock interest £113,000

Audited financial information:

Year ended 31 May	2012* £m
Sales	18.4
(Loss) before tax	(0.4)
Profit after tax	0.2
Net assets	1.6

* 11 months ended 31 May

Control Risks Group Holdings

Cost	£746,000
Valuation	£1,315,000
Basis of valuation	Earnings multiple
Equity held	1.2% (NVM funds total 9.7%)
Business/location	Specialist risk consultancy, London
History	Replacement 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 £50,000

Audited financial information:

Year ended 31 March	2012 £m	2011 £m
Sales	204.2	172.8
Profit before tax	13.6	8.9
Profit after tax	9.0	4.9
Net assets	21.1	15.4

Intuitive

Cost	£1,293,000
Valuation	£1,293,000
Basis of valuation	Cost
Equity held	11.6% (NVM funds total 62.9%)
Business/location	Software developer for the travel industry, Croydon
History	Management buy-out financing in December 2012, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT, NV1 LP
Income in year	Dividends nil, loan stock interest £26,000

Audited financial information:

First audited accounts will be for the period to 31 December 2013

Fifteen largest private equity investments

continued

Silverwing

Cost	£1,272,000
Valuation	£1,272,000
Basis of valuation	Cost
Equity held	10.2% (NVM funds total 47.4%)
Business/location	Developer of non-destructive testing solutions for the oil and gas industry, Swansea
History	Management buy-out financing in August 2012, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT, NV1 LP
Income in year	Dividends nil, loan stock interest £44,000

Audited financial information:

First audited accounts will be for the period to 31 December 2013

Kitwave One

Cost	£1,000,000
Valuation	£1,007,000
Basis of valuation	Earnings multiple
Equity held	5.1% (NVM funds total 38.0%)
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 £63,000

Audited financial information:

Year ended 30 April	2012 £m	2011 £m
Sales	154.6	100.2
Profit before tax	0.8	1.2
Profit after tax	0.5	0.7
Net assets	4.8	4.3

Haystack Dryers

Cost	£992,000
Valuation	£992,000
Basis of valuation	Cost
Equity held	12.6% (NVM funds total 43.6%)
Business/location	Manufacturer of body dryers, Wimborne
History	Growth capital investment in November 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 to 31 December 2013

Cawood Scientific

Cost	£825,000
Valuation	£990,000
Basis of valuation	Earnings multiple
Equity held	9.1% (NVM funds total 45.6%)
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 £58,000

Audited financial information:

Year ended 31 March	2012 £m	2011* £m
Sales	7.5	2.2
Profit before tax	0.9	–
Profit after tax	0.6	–
Net assets	1.2	0.6

* 4 months ended 31 March

Lineup Systems

Cost	£974,000
Valuation	£974,000
Basis of valuation	Cost
Equity held	17.4% (NVM funds total 52.3%)
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:

Year ended 30 June	2012 £m	2011 £m
Sales	1.4	1.0
Profit before tax	–	0.3
Profit after tax	–	0.3
Net assets	0.7	0.2

IG Doors

Cost	£355,000
Valuation	£910,000
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	Nil

Audited financial information:

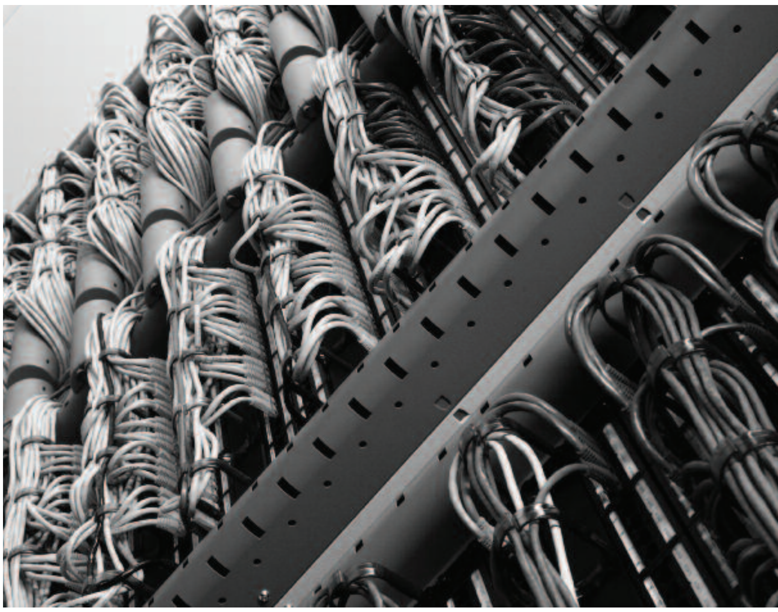
Year ended 31 December	2012 £m	2011 £m
Sales	25.0	22.6
Profit before tax	2.1	0.8
Profit after tax	1.6	0.2
Net assets	5.0	3.4

Optilan Group

Cost	£1,125,000
Valuation	£792,000
Basis of valuation	Earnings multiple
Equity held	9.1% (NVM funds total 37.3%)
Business/location	Telecommunications systems integrator, Coventry
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	Nil

Audited financial information:

Year ended 31 December	2011 £m	2010 £m
Sales	28.9	28.7
Loss before tax	–	(1.1)
Loss after tax	(0.4)	(1.1)
Net liabilities	(0.7)	(0.3)



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 2013.

Activities and status

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

The directors have managed the affairs of the company with the intention of maintaining its status as an approved venture capital trust for the purposes of Section 274 of the Income Tax Act 2007. The directors consider that the company was not at any time up to the date of this report a close company within the meaning of Chapter 2 of Part 10 of the Corporation Tax Act 2010.

The directors are required by the present 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.

A resolution will be proposed at the annual general meeting on 17 July 2013 to amend the articles of association such that the next continuation resolution will be proposed at the annual general meeting in 2019.

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 £6,111,000 has been transferred to reserves.

The final dividend of 3.0p per share in respect of the year ended 31 March 2012 and an interim dividend of 2.0p per share in respect of the year ended 31 March 2013 were paid during the year at a cost of £2,446,000 and have been charged to reserves.

The proposed final dividend of 3.5p per share for the year ended 31 March 2013 will, if approved by shareholders at the annual general meeting, be paid on 26 July 2013 to shareholders on the register on 5 July 2013.

Provision of information to the auditor

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 auditor is 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 auditor is 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 2013 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 2013 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

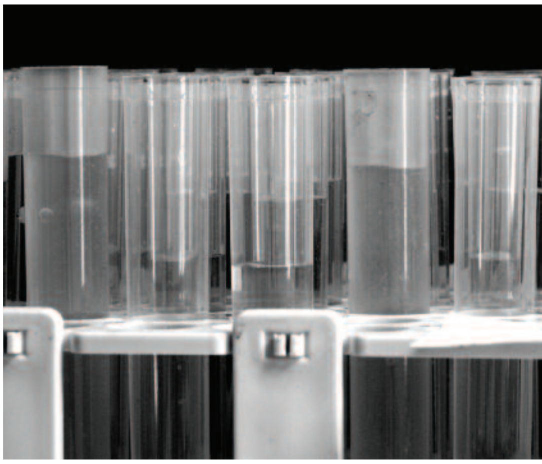
The company has, as permitted by the Companies Act 2006, maintained insurance cover on behalf of the directors and secretary indemnifying them against certain liabilities which may be incurred by any of them in relation to the company.

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 2013.

Table 1: Directors' interests in ordinary shares

	31 March 2013	1 April 2012
J G D Ferguson (Chairman)	203,857	203,857
C J Fleetwood	25,577	25,577
T R Levett	200,922	200,922
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 1,085,990 of its own shares, representing 2.2% of the called-up share capital of the company at the beginning of the year, for a consideration of £907,000. Purchases were made in line with the company's policy of purchasing available shares at a discount to net asset value.

At the 2012 annual general meeting shareholders authorised the company to purchase in the market up to 4,940,425 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 2013 1,085,990 shares had been purchased under this authority, which at that date remained effective in respect of 3,854,435 shares; the authority will lapse at the conclusion of the 2013 annual general meeting of the company on 17 July 2013.

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 2013 annual general meeting to be held on 17 July 2013 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 auditor

The company's independent auditor, KPMG Audit Plc, has instigated an orderly wind down of business. The directors have decided to propose the appointment of KPMG LLP as auditor in succession to KPMG Audit Plc and a resolution concerning this will be proposed at the annual general meeting.

By order of the Board

C D Mellor
Secretary

13 May 2013

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 auditor, KPMG Audit Plc, is required to give an opinion on certain information included in this report, as indicated below. The auditor's 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 advisers 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 Private Equity Limited, as described in the directors' report on page 17.

Directors' fees were reviewed by the nomination committee during its meeting in March 2013, when it was recommended that fees should be increased to £21,000 (previously £20,000) per annum for the chairman and £16,000 (previously £15,000) for other directors for the year ending 31 March 2014. The last increase was for the year ended 31 March 2012. 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 2013 and 31 March 2012 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 2013 with the total return from a notional investment in a broad UK equity market index.

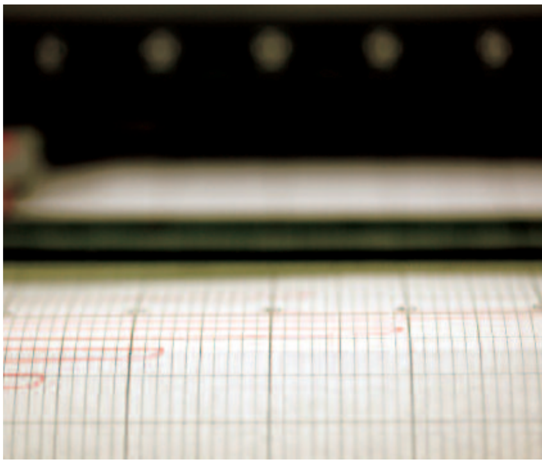
By order of the Board

C D Mellor
Secretary 13 May 2013

Table 1: Directors' fees

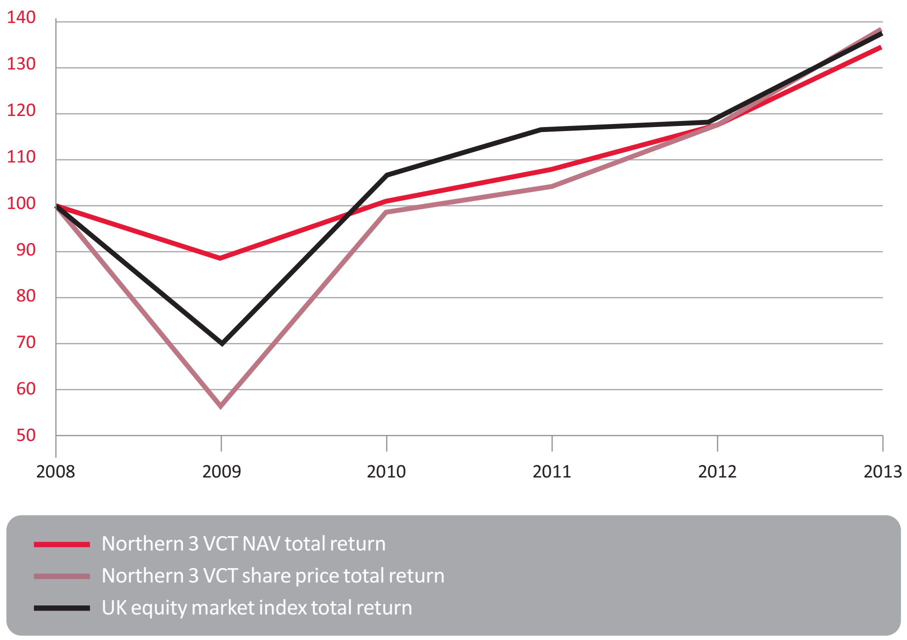
	Year ended 31 March 2013 £	Year ended 31 March 2012 £
J G D Ferguson	20,000	20,000
C J Fleetwood	15,000	15,000
T R Levett	–	–
J M O Waddell	15,000	15,000

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 2013 (March 2008 = 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/sites/default/files/uploads/files/AICCorpGovGuideFeb2013.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 2013 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.

In February 2013 the AIC published a revised version of the AIC Code, reflecting recent changes in the UK Corporate Governance Code. Whilst compliance with the revised AIC Code is not mandatory until the financial year ending 31 March 2014, the board acknowledges that it represents an authoritative statement of best practice.

The board has therefore amended its practices as appropriate so as to comply with the revised Code and this is reflected in additional information included within this report.

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 Limited (NVM). The board meets regularly on a quarterly basis, and on other occasions as required. The board is responsible to shareholders for the effective stewardship of the company's affairs and has a formal schedule of matters specifically reserved for its decision which include:

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

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

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

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

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

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

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

Independence of directors

The board regularly reviews the independence of its members and is satisfied that the company's directors are independent in character and judgement and there are no relationships or circumstances which could affect their objectivity (with the exception of Mr T R Levett who is a director and employee of NVM, the company's investment manager).

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 auditor and approving the remuneration and terms of engagement of the external auditor;
- reviewing and monitoring the external auditor's 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 auditor is 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 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 auditor. 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.

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 2013 the audit committee discharged its responsibilities by:

- reviewing and approving the external auditor's terms of engagement and remuneration;
- reviewing the external auditor's plan for the audit of the company's financial statements, including identification of key risks and confirmation of auditor independence;
- reviewing NVM's statement of internal controls operated in relation to the company's business and assessing the effectiveness of those controls in minimising the impact of key risks;
- reviewing periodic reports on the effectiveness of NVM's compliance procedures;
- reviewing the appropriateness of the company's accounting policies;
- reviewing the company's draft annual financial statements, half-yearly results statement and interim management statements prior to board approval, including the proposed fair value of investments as determined by the directors;
- reviewing the external auditor's detailed reports to the committee on the annual financial statements;
- considering the effectiveness of the external audit process; and
- recommending to the board and shareholders the appointment of KPMG LLP to succeed KPMG Audit Plc as the independent auditor of the company.

Corporate governance continued

The key areas of risk that have been identified and considered by the audit committee in relation to the business activities and financial statements of the company are as follows:

- valuation and existence of unquoted investments;
- compliance with HM Revenue & Customs conditions for maintenance of approved venture capital trust status;
- investment income recognition; and
- calculation of the performance-related management fee.

These issues were discussed with the investment manager and the auditor at the pre-year end audit planning meeting and at the conclusion of the audit of the financial statements.

Valuation of unquoted investments: the investment manager and the auditor confirmed to the audit committee that the investment valuations had been carried out consistently with prior periods and in accordance with published industry guidelines, taking account of the latest available information about investee companies and current market data.

Venture capital trust status: the investment manager confirmed to the audit committee that the conditions for maintaining the company's status as an approved venture capital trust had been complied with throughout the year. The position was also reviewed by PricewaterhouseCoopers LLP in its capacity as adviser to the company on taxation matters.

Investment income recognition: the auditor reported that based on a review of the financial statements and discussions with management, it was satisfied that income recognition during the year complied with the company's stated accounting policy.

Performance-related management fee: the audit committee reviewed the calculation of the performance-related management fee for the year and was satisfied that the conditions for payment had been met. The calculation was reviewed by the auditor.

The investment manager and auditor confirmed to the audit committee that they were not aware of any material misstatements. Having reviewed the reports received from the manager and auditor, the audit committee is satisfied that the key areas of risk and judgement have been appropriately addressed in the financial statements and that the significant assumptions used in determining the value of assets and liabilities have been properly appraised and are sufficiently robust. The committee considers that KPMG Audit Plc has carried out its duties as auditor in a diligent and professional manner.

As part of the review of auditor effectiveness and independence, KPMG Audit Plc has confirmed that it is independent of the company and has complied with applicable auditing standards. KPMG Audit Plc has held office as auditor for eleven years; in accordance with professional guidelines the engagement partner is rotated after at most five years, and the current partner has served for two years. Having completed its review the audit committee is satisfied that KPMG Audit Plc remained effective and independent in carrying out its responsibilities up to the date of signing this report. KPMG Audit Plc has instigated an orderly wind down of business and KPMG LLP, the successor entity to KPMG Audit Plc, will be proposed as auditor at the annual general meeting. The audit committee is satisfied that KPMG LLP is independent and that it would not be appropriate to put the audit appointment out to tender at the present time.

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 manager 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 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, 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 was in the interests of the company and its shareholders as a whole. NVM has demonstrated its commitment to and expertise in venture capital investment over an extended period, as a result of which the company has established a consistent long-term performance record. NVM has also performed its company secretarial and accounting duties efficiently and effectively.

Attendance at board and committee meetings

Table 1 sets out the number of formal board and committee meetings held during the year ended 31 March 2013 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.

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

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 website at **www.nvm.co.uk**.

Internal control

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

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

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

Risk management

Risk management is discussed in the business review on pages 9 and 10.

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

As at 31 March 2013 48,318,262 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.

Corporate governance continued

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.

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 2012 annual general meeting to make market purchases of up to 4,940,425 ordinary shares at any time up to the 2013 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 17 July 2013 as set out in a separate circular.

By order of the Board

C D Mellor
Secretary 13 May 2013

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 they 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 the 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 complies with that law and those regulations.

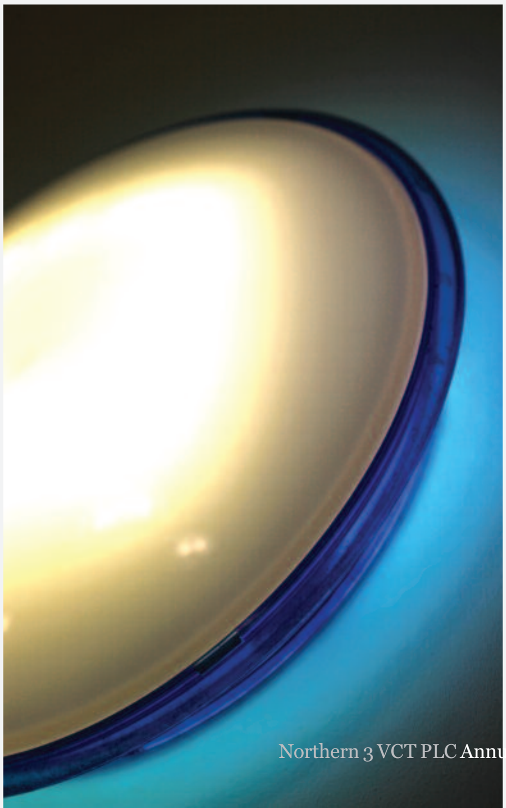
The company's financial statements are published on the NVM Private Equity Limited (NVM) website, **www.nvm.co.uk**. The maintenance and integrity of this website is the responsibility of NVM and not the company. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors confirm that to the best of their 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 13 May 2013



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 2013 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 in respect of the Annual Report and the Financial Statements 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 Financial Reporting Council's website at **www.frc.org.uk/auditscopeukprivate**.

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 2013 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;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 20 to 24 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structure 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 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

13 May 2013

Financial statements

Income statement

for the year ended 31 March 2013

	Notes	Revenue £000	Year ended 31 March 2013 Capital £000	Total £000	Revenue £000	Year ended 31 March 2012 Capital £000	Total £000
Gain on disposal of investments	8	–	1,375	1,375	–	628	628
Movements in fair value of investments	8,15	–	5,096	5,096	–	3,023	3,023
		–	6,471	6,471	–	3,651	3,651
Income	2	1,523	–	1,523	1,746	–	1,746
Investment management fee	3	(245)	(1,341)	(1,586)	(208)	(894)	(1,102)
Other expenses	4	(297)	–	(297)	(283)	(11)	(294)
Return on ordinary activities before tax		981	5,130	6,111	1,255	2,746	4,001
Tax on return on ordinary activities	5	(113)	113	–	(210)	210	–
Return on ordinary activities after tax		868	5,243	6,111	1,045	2,956	4,001
Return per share	7	1.8p	10.7p	12.5p	2.4p	6.8p	9.2p
Dividends paid/proposed in respect of the year	6	2.0p	3.5p	5.5p	2.2p	2.8p	5.0p

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

Reconciliation of movements in shareholders' funds

for the year ended 31 March 2013

	Notes	Year ended 31 March 2013 £000	Year ended 31 March 2012 £000
Equity shareholders' funds at 1 April 2012		47,798	37,428
Return on ordinary activities after tax		6,111	4,001
Dividends recognised in the year	6	(2,446)	(1,931)
Net proceeds of share issues		–	3,418
Shares issued on merger		–	5,482
Shares purchased for cancellation	14	(907)	(600)
Equity shareholders' funds at 31 March 2013		50,556	47,798

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

Balance sheet

as at 31 March 2013

	Notes	31 March 2013 £000	31 March 2012 £000
Fixed assets			
Investments	8	44,532	39,606
Current assets			
Debtors	12	241	192
Cash and deposits		6,517	8,511
		6,758	8,703
Creditors (amounts falling due within one year)	13	(734)	(511)
Net current assets		6,024	8,192
Net assets		50,556	47,798
Capital and reserves			
Called-up equity share capital	14	2,416	2,470
Share premium	15	3,219	3,219
Capital redemption reserve	15	484	430
Capital reserve	15	36,083	36,756
Revaluation reserve	15	7,681	4,042
Revenue reserve	15	673	881
Total equity shareholders' funds		50,556	47,798
Net asset value per share	16	104.6p	96.7p

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

The financial statements on pages 28 to 40 were approved by the directors on 13 May 2013 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 2013

	Year ended 31 March 2013 £000	Year ended 31 March 2012 £000
Net cash (outflow)/inflow from operating activities	(122)	528
Taxation		
Corporation tax paid	–	–
Financial investment		
Purchase of investments	(5,794)	(4,798)
Sale/repayment of investments	7,275	7,429
Net cash inflow from financial investment	1,481	2,631
Acquisitions		
Cash and deposits acquired on merger	–	604
Equity dividends paid	(2,446)	(1,931)
Net cash (outflow)/inflow before financing	(1,087)	1,832
Financing		
Issue of ordinary shares	–	3,598
Share issue expenses	–	(259)
Purchase of ordinary shares for cancellation	(907)	(600)
Net cash (outflow)/inflow from financing	(907)	2,739
(Decrease)/increase in cash and deposits	(1,994)	4,571
Reconciliation of return before tax to net cash flow from operating activities		
Return on ordinary activities before tax	6,111	4,001
Gain on disposal of investments	(1,375)	(628)
Movements in fair value of investments	(5,096)	(3,023)
(Increase)/decrease in debtors	(49)	230
Increase/(decrease) in creditors	287	(52)
Net cash (outflow)/inflow from operating activities	(122)	528

Analysis of movement in net funds	1 April 2012 £000	Cash flows £000	31 March 2013 £000
Cash and deposits	8,511	(1,994)	6,517

Notes to the financial statements

for the year ended 31 March 2013

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 or 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 income 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 the fair value of investments are dealt with in this reserve.

2. Income

	Year ended 31 March 2013 £000	Year ended 31 March 2012 £000
Franked investment income:		
Unquoted companies	95	104
Quoted companies	403	336
Interest receivable:		
Bank deposits*	22	12
Loans to unquoted companies	907	1,153
Listed fixed-interest investments	96	141
	1,523	1,746

* 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 2013 Revenue £000	Capital £000	Total £000	Year ended 31 March 2012 Revenue £000	Capital £000	Total £000
Investment management fee :						
Basic	245	734	979	208	623	831
Performance-related	–	607	607	–	271	271
	245	1,341	1,586	208	894	1,102

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 £48,000 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. Any performance-related element of the investment management fee is charged 100% to capital return.

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 2013 £000	Year ended 31 March 2012 £000
Administrative and secretarial services	48	46
Directors' remuneration	54	54
Auditor's remuneration – audit services	18	20
Legal and professional expenses	19	24
Share issue promoter's commission	39	29
Irrecoverable VAT	22	20
Other expenses	97	90
	297	283

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 2013			Year ended 31 March 2012		
	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	113	(113)	–	210	(210)	–
(b) Tax reconciliation						
Return on ordinary activities before tax	981	5,130	6,111	1,255	2,746	4,001
Return on ordinary activities multiplied by the standard rate of UK corporation tax of 24% (2012 26%)	235	1,231	1,466	326	714	1,040
Effect of:						
UK dividends not subject to tax	(120)	–	(120)	(114)	–	(114)
Capital returns not subject to tax	–	(330)	(330)	–	(163)	(163)
Unrealised adjustments to fair value	–	(1,223)	(1,223)	–	(786)	(786)
Marginal relief	(2)	2	–	(2)	2	–
Increase in surplus management expenses	–	207	207	–	23	23
Current tax charge/(credit) for the year	113	(113)	–	210	(210)	–

(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 £968,000 (31 March 2012 £109,000), 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 intention to further reduce the UK corporation tax rate to 20% by 1 April 2015.

Notes to the financial statements continued

for the year ended 31 March 2013

6. Dividends

	Year ended 31 March 2013			Year ended 31 March 2012		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
(a) Recognised as distributions in the financial statements for the year						
Previous year's second interim dividend	–	–	–	283	728	1,011
Previous year's final dividend	590	884	1,474	–	–	–
Current year's interim dividend	486	486	972	460	460	920
	1,076	1,370	2,446	743	1,188	1,931
(b) Paid and proposed in respect of the year						
Interim paid – 2.0p (2012 2.0p) per share	486	486	972	460	460	920
Final proposed – 3.5p (2012 3.0p) per share	483	1,209	1,692	593	889	1,482
	969	1,695	2,664	1,053	1,349	2,402

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

The proposed final dividend of 3.5p per share in respect of the year ended 31 March 2013 is subject to approval by shareholders at the annual general meeting on 17 July 2013 and has not been recognised as a liability in the financial statements.

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 £6,111,000 (2012 £4,001,000) and on 48,852,114 (2012 43,501,946) 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 2013 £000	31 March 2012 £000
Level 1		
Quoted venture capital investments	9,781	6,869
Listed equity investments	5,812	5,363
Listed fixed-interest investments	2,614	3,097
Level 2		
None	–	–
Level 3		
Unquoted venture capital investments	26,325	24,277
	44,532	39,606

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 2012	22,279	5,146	5,000	3,073	35,498
Fair value adjustment at 1 April 2012	1,998	1,723	363	24	4,108
Fair value at 1 April 2012	24,277	6,869	5,363	3,097	39,606
Movements in the year:					
Purchases at cost	5,273	521	–	–	5,794
Disposals – proceeds	(6,625)	(146)	–	(504)	(7,275)
– net realised gains/(losses)	1,360	18	–	(3)	1,375
Movements in fair value	2,040	2,519	449	24	5,032
Fair value at 31 March 2013	26,325	9,781	5,812	2,614	44,532
Comprising:					
Book cost at 31 March 2013	23,712	5,570	5,000	2,569	36,851
Fair value adjustment at 31 March 2013	2,613	4,211	812	45	7,681
	26,325	9,781	5,812	2,614	44,532
Equity shares	10,957	9,781	5,812	–	26,550
Preference shares	116	–	–	–	116
Interest-bearing securities	15,252	–	–	2,614	17,866
	26,325	9,781	5,812	2,614	44,532

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 2013 there were commitments totalling £892,000 (31 March 2012 £2,233,000) 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
CloserStill Holdings	742	2,038	2,215	177
Paladin Group	1,013	1,261	2,082	821
Spectrum Interactive	226	110	348	238
IG Doors	333	362	362	–
RCC Lifesciences	895	895	895	–
KPJ Software Services	362	327	326	(1)
Prologic	97	128	146	18
Others	270	272	397	125
	3,938	5,393	6,771	1,378

Notes to the financial statements continued

for the year ended 31 March 2013

10. Unquoted investments

The cost and carrying value of material investments in unquoted companies held at 31 March 2013 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 2013		31 March 2012	
	Total cost £000	Carrying value £000	Total cost £000	Carrying value £000
Kerridge Commercial Systems				
Ordinary shares	320	3,446	318	2,460
Loan stock	1,343	1,343	1,343	1,343
	1,663	4,789	1,661	3,803
Volumatic				
Ordinary shares	216	1,738	216	216
Loan stock	1,880	1,880	1,779	1,779
	2,096	3,618	1,995	1,995
Wear Inns				
Ordinary shares	293	666	208	380
Loan stock	1,113	1,113	631	631
	1,406	1,779	839	1,011
Tinglobal Holdings				
Ordinary shares	228	–	228	228
Loan stock	1,760	1,750	760	760
	1,988	1,750	988	988
Control Risks Group Holdings				
Ordinary shares	746	1,315	746	1,037
Intuitive				
Ordinary shares	134	134	–	–
Loan stock	1,159	1,159	–	–
	1,293	1,293	–	–
Silverwing				
Ordinary shares	162	162	–	–
Loan stock	1,110	1,110	–	–
	1,272	1,272	–	–
Kitwave One				
Ordinary shares	102	109	102	117
Loan stock	898	898	898	898
	1,000	1,007	1,000	1,015
Haystack Dryers				
Ordinary shares	99	99	–	–
Loan stock	893	893	–	–
	992	992	–	–
Cawood Scientific				
Ordinary shares	95	260	95	212
Loan stock	730	730	730	730
	825	990	825	942
Lineup Systems				
Ordinary shares	174	174	174	174
Loan stock	800	800	800	800
	974	974	974	974
IG Doors				
Ordinary shares	355	910	355	619
Loan stock	–	–	333	358
	355	910	688	977

10. Unquoted investments *continued*

	31 March 2013		31 March 2012	
	Total cost £000	Carrying value £000	Total cost £000	Carrying value £000
Optilan Group				
Ordinary shares	179	–	179	–
Loan stock	946	792	946	625
	1,125	792	1,125	625
CloserStill Holdings				
Ordinary shares	–	–	142	1,437
Loan stock	–	–	601	601
	–	–	743	2,038
Paladin Group				
Ordinary shares	–	–	256	504
Loan stock	–	–	757	757
	–	–	1,013	1,261
Axial Systems Holdings				
Ordinary shares	219	–	219	181
Loan stock	1,074	268	1,074	1,074
	1,293	268	1,293	1,255
RCC Lifesciences				
Ordinary shares	100	60	100	70
Loan stock	–	–	895	895
	100	60	995	965

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

11. Significant interests

There are no shareholdings in companies where the company's holding at 31 March 2013 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.

12. Debtors

	31 March 2013 £000	31 March 2012 £000
Prepayments and accrued income	241	192

13. Creditors (amounts falling due within one year)

	31 March 2013 £000	31 March 2012 £000
Accruals and deferred income	734	447
Provision for investment liabilities (Note 18)	–	64
	734	511

Notes to the financial statements continued

for the year ended 31 March 2013

14. Called-up equity share capital

	31 March 2013 £000	31 March 2012 £000
Allotted and fully paid: 48,318,262 (2012 49,404,252) ordinary shares of 5p	2,416	2,470

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 repurchased 1,085,990 shares for cancellation at a cost of £907,000.

15. Reserves

	Share premium £000	Capital redemption reserve £000	Capital reserve £000	Revaluation reserve £000	Revenue reserve £000
At 1 April 2012	3,219	430	36,756	4,042	881
Shares purchased for cancellation	–	54	(907)	–	–
Realised on disposal of investments	–	–	1,375	–	–
Transfer on disposal of investments	–	–	1,457	(1,457)	–
Movements in fair value of investments	–	–	–	5,032	–
Movements in provision for investment liabilities (Note 18)	–	–	–	64	–
Management fee capitalised net of associated tax	–	–	(1,228)	–	–
Revenue return on ordinary activities after tax	–	–	–	–	868
Dividends recognised in the year	–	–	(1,370)	–	(1,076)
At 31 March 2013	3,219	484	36,083	7,681	673

At 31 March 2013 distributable reserves amounted to £37,613,000 (31 March 2012 £38,024,000), 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.

16. Net asset value per share

The calculation of net asset value per share as at 31 March 2013 is based on net assets of £50,556,000 (2012 £47,798,000) divided by the 48,318,262 (2012 49,404,252) ordinary shares in issue at that date.

17. Financial instruments

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

Fixed asset investments (see note 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.

17. Financial instruments *continued*

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.

30.8% (31 March 2012 25.6%) by value of the company's net assets comprises equity securities listed on the London Stock Exchange or quoted on AIM. A 5% movement in the bid price of these securities as at 31 March 2013 would have changed net assets and the total return for the year by £780,000 (31 March 2012 £612,000).

52.1% (31 March 2012 50.8%) 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 2013 would have changed net assets and the total return for the year by £1,316,000 (31 March 2012 £1,214,000).

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 2013			31 March 2012		
	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	2,614	1.8%	0.8	3,097	3.0%	1.6
Short term cash deposits	1,000	1.1%	0.2	–	–	–
Fixed-rate investments in unquoted companies	1,306	10.0%	1.6	1,427	9.7%	1.5
	4,920			4,524		

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 2013 (31 March 2012 0.5%). The amounts held in floating rate investments at the balance sheet date were as follows:

	31 March 2013 £000	31 March 2012 £000
Floating rate loans to unquoted companies	13,946	13,020
Interest-bearing deposit accounts	5,517	8,511
	19,463	21,531

17. 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 2013 the company's financial assets exposed to credit risk comprised the following:

	31 March 2013 £000	31 March 2012 £000
Listed fixed-interest investments	2,614	3,097
Short term cash deposits	1,000	–
Fixed-rate investments in unquoted companies	1,306	1,427
Floating rate loans to unquoted companies	13,946	13,020
Interest-bearing deposit accounts	5,517	8,511
Accrued dividends and interest receivable	228	178
	24,611	26,233

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 2013 or 31 March 2012. No individual investment exceeded 4.4% of the company's net assets at 31 March 2013 (31 March 2012 8.7%).

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 2013 these investments were valued at £9,131,000 (31 March 2012 £11,608,000).

18. Contingencies

At 31 March 2012 a provision of £64,000 was retained in respect of liabilities expected to arise under guarantees given to secure certain liabilities and obligations of an investee company. This 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 2013 no payments have been made in relation to the guarantees and the remaining provision has been released. There were no unprovided contingent liabilities at 31 March 2013 or 2012.

At 31 March 2013 contingent assets not recognised in the financial statements in respect of potential deferred proceeds from the sale of investee companies amounted to approximately £262,000 (31 March 2012 £395,000). The extent to which these amounts will become receivable in due course is dependent on future events.

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

T 0191 244 6000
F 0191 244 6001
E n3vct@nvm.co.uk

www.nvm.co.uk

Designed and produced by The Roundhouse Newcastle upon Tyne

nvm private equity