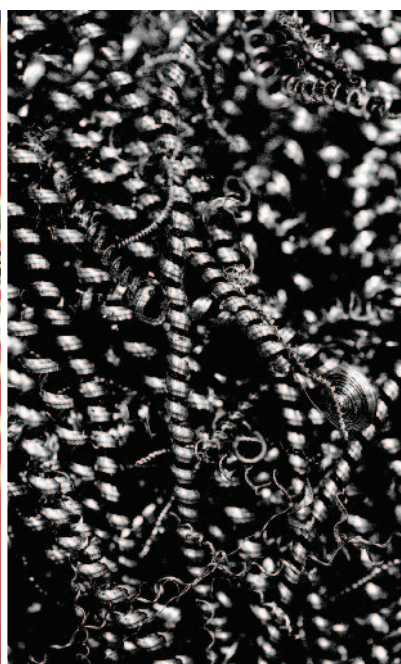
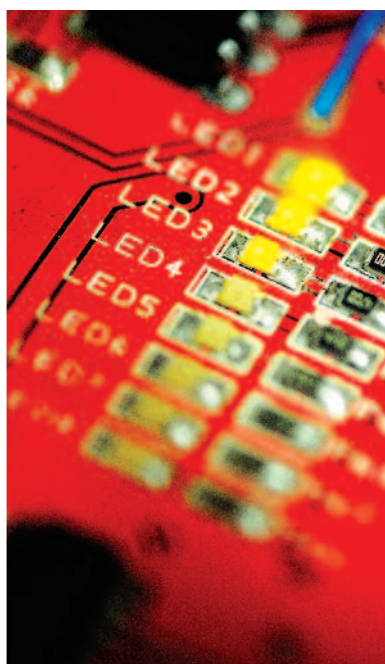


Northern 3 VCT PLC

Annual report and financial statements

31 March 2014



2014

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The Association of
Investment Companies

nvm
private equity

Northern 3 VCT PLC is a Venture Capital Trust (VCT) managed by NVM Private Equity Limited.

It invests mainly in unquoted venture capital holdings and aims to provide high long-term tax-free returns to shareholders through a combination of dividend yield and capital growth.

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Financial summary

Year ended 31 March:	2014	2013
Net assets	£71.3m	£50.6m
Net asset value per share	108.9p	104.6p
Return per share		
Revenue	2.1p	1.8p
Capital	8.4p	10.7p
Total	10.5p	12.5p
Dividend per share declared in respect of the year	5.5p	5.5p
Cumulative return to shareholders since launch		
Net asset value per share	108.9p	104.6p
Dividends paid per share*	43.9p	38.4p
Net asset value plus dividends paid per share	152.8p	143.0p
Mid-market share price at end of year	97.0p	89.3p
Share price discount to net asset value	10.9%	14.7%
Tax-free dividend yield (based on mid-market share price at the end of the year)	5.7%	6.2%

*Excluding proposed final dividend

Key dates

Results announced

30 May 2014

Shares quoted ex dividend

2 July 2014

Annual general meeting

16 July 2014 (2.30pm, The Balmoral,
1 Princes Street, Edinburgh EH2 2EQ)

Final dividend paid (to shareholders on register on 4 July 2014)

25 July 2014

Chairman's statement

Our company now has net assets of over £70 million and is well placed for the future.

There have been some changes to the format and content of the annual report, reflecting the current requirements of the Companies Act, the AIC Code of Corporate Governance and the remuneration regulations. We are required to ensure that the annual report and financial statements are fair, balanced and understandable; you will see from the statement on page 25 that we believe that this is the case.

I am glad to report that Northern 3 VCT has continued to make good progress. Net asset value (NAV) per share has increased for the fifth successive year and £20 million was raised through a public offer of new ordinary shares. Our company now has net assets of over £70 million and is well placed for the future.

Results and dividend

The NAV per share at 31 March 2014 was 108.9p, an increase of 4.1% over the corresponding figure of 104.6p as at 31 March 2013. The return per share for the year as shown in the income statement, before taking account of dividends payable, was 10.5p (last year 12.5p), equivalent to 10.0% of the opening NAV. As in the preceding year, investment performance was strong in both the quoted and the unquoted portfolios. Income from investments increased from £1.5 million to £2.0 million, enabling the company to report an improvement in revenue return per share from 1.8p to 2.1p.

The company's encouraging performance in recent years has enabled your board to increase its rate of annual dividend progressively, from 4.0p in 2010 to 5.5p last year. Our objective is to pay a dividend that is sustainable, using our reserves, should it be necessary, to iron out fluctuations in annual results. Implicit in this is a balance between maximising cash distributions to shareholders, which of course are tax-free, and preserving the company's capital base, which supports the acquisition of the new investments that will generate returns in the future. We believe that the current level of dividend achieves this balance and should be maintained.

An interim dividend of 2.0p per share was paid in January 2014 and in accordance with our objective we propose an unchanged final dividend of 3.5p per share, making a total of 5.5p for the year. Subject to approval by shareholders at the annual general meeting, the final dividend will be paid on 25 July 2014 to shareholders on the register on 4 July 2014. The dividend investment scheme which was re-introduced in 2013 continues to operate, giving shareholders the opportunity to re-invest their dividends in new ordinary shares with the benefit of the tax reliefs available on new subscriptions to VCTs.

Investment portfolio

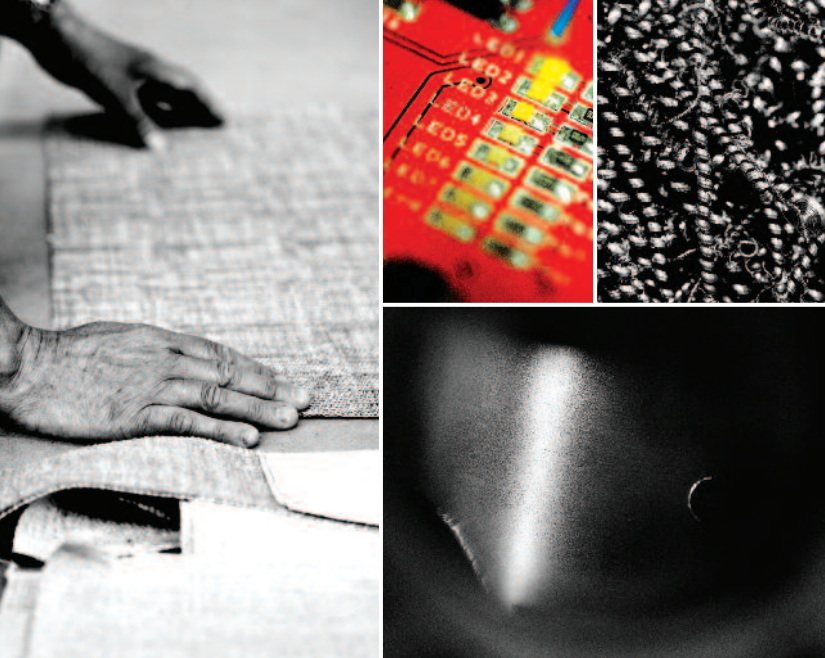
Five new unquoted holdings were added to the portfolio during the year at a cost of £5.6 million, with a further £0.9 million invested in existing portfolio companies. Successful sales were achieved by IG Doors and e-know.net.

Four new holdings were acquired for the AIM-quoted portfolio and we sold the holdings in Andor Technology and Vianet. After a long period of moderate performance the AIM market has made better progress over the past year; we have maintained a significant exposure to this market since the merger with Northern AIM VCT in 2011 and our NAV has benefitted accordingly.

With interest rates remaining at a low level an additional £3 million of our surplus liquidity was allocated to the portfolio of listed blue-chip equities, which has continued to produce a growing income yield as well as maintaining its capital value.

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. Our managers monitor the position closely and the board receives regular reports from the managers as well as from PricewaterhouseCoopers LLP, whom we retain as independent advisers on VCT taxation matters.



James Ferguson *Chairman*

Share offer and buy-back policy

The £20 million top-up offer of new ordinary shares launched in July 2013, in conjunction with smaller offers by Northern Venture Trust and Northern 2 VCT, was fully subscribed by the end of November and the final allotment of shares has recently been completed. On behalf of the board I would like to thank all of our investors for their continuing support. As a result of the offer we have substantial funds available for future investment and it is encouraging to note that our managers are currently seeing a strong flow of new opportunities.

The company's share buy-back policy is kept under regular review by the board and we have continued to buy back shares in the market, when necessary in order to maintain liquidity, at a 10% discount to NAV. During the year 783,000 shares were repurchased at an average price of 93.6p, representing less than 2% of the number of shares in issue at the start of the year.

VCT legislation and regulation

The 2014 Finance Bill, published following the Chancellor's Budget announcement in March, includes measures to prevent "enhanced" share buy-backs, where a VCT offers to buy back shares from investors at a narrow discount on condition that the proceeds are applied in subscribing for a fresh issue of shares. This was widely expected. The Government is also proposing that where new VCT shares are allotted on or after 6 April 2014, VCTs will be prevented for a specified period from paying dividends to shareholders out of distributable reserves created by cancelling the share premium account arising on the allotment of the shares. Our balance sheet already has ample distributable reserves and we do not expect the new rules to have any impact on future dividend distributions.

The European Commission is in the process of reviewing the rules relating to state aid for businesses in member countries, which in the UK includes VCTs, and it is to be hoped that there will be no change in the positioning of VCTs as an important part of the UK government's strategy for supporting small and medium-sized enterprises.

The Commission's Alternative Investment Fund Managers Directive (AIFMD) became part of UK law in July 2013, with a 12 month transitional period to July 2014. The Directive regulates the management of alternative investment funds, including venture capital funds such as VCTs. As previously indicated, your directors have decided to appoint our existing managers, NVM Private Equity, as Northern 3 VCT's AIFM for the purposes of the Directive.

Outlook

After a year which has seen considerable activity on a number of fronts, we expect that the main focus over the next 12 months will be on nurturing our existing portfolio and deploying the proceeds of the recent share offer into new investments. Our managers have been strengthening their resources in anticipation of an increased level of activity, and the new financial year has started with an encouraging number of opportunities in the course of development. We look forward to maintaining good progress in the future.

James Ferguson
Chairman

30 May 2014

Directors and advisers

James Ferguson BA (Chairman)

aged 66, 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 62, 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 Whesoe plc. He was appointed to the board in 2001.

Tim Levett MBA

aged 65, 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 58, 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
St Ann's Wharf
112 Quayside
Newcastle upon Tyne NE1 3DX
Telephone: 0191 244 6000
Fax: 0191 244 6001
Email: n3vct@nvm.co.uk

Registered number

4280530

Investment manager

NVM Private Equity Limited
Rotterdam House
116 Quayside
Newcastle upon Tyne NE1 3DY

Investment advisers

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

Speirs & Jeffrey Limited
50 George Street
Glasgow G2 1EH

Independent auditor

KPMG LLP
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EG

Taxation advisers

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Solicitors

King & Wood Mallesons LLP
10 Queen Street Place
London EC4R 1BE

Stockbrokers

Panmure Gordon (UK) Limited
One New Change
London EC4M 9AF

Bankers

Barclays Bank PLC
Barclays House
5 St Ann's Street
Newcastle upon Tyne NE1 3DX

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 interest-bearing 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, Reading and Manchester. 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 two limited partnerships, NV1 LP and NV2 LP. NVM has a total of £300 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 2015 is as follows:

November 2014

Half-yearly financial report for six months ending 30 September 2014 published

January 2015

Interim dividend paid

May 2015

Final dividend and results for year to 31 March 2015 announced

June 2015

Annual report and accounts published

July 2015

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. Information about the dividend reinvestment scheme can also be obtained from the Company Secretary (see page 4 for contact details).

Strategic report

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 report has been prepared by the directors in accordance with the requirements of Section 414 of the Companies Act 2006. The company's independent auditor is required by law to report on whether the information given in the strategic report is consistent with the financial statements. The auditor's report is set out on pages 26 and 27.

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. The company invests primarily in unquoted UK manufacturing and service businesses which meet the managers' key criteria of good value, growth potential, strong management and ability to generate cash.

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

The directors expect that no single investment would normally represent in excess of 3% 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, enabling the funds together to undertake investment commitments in any one investee company, including non-state aided funds, of up to approximately £8 million. Under a co-investment scheme introduced in 2006, NVM executives are required to invest personally alongside the funds in each new investee company on a predetermined basis.

Investment management

NVM has acted as the company's investment manager since inception. NVM has an experienced team of venture capital executives based in its offices in Newcastle upon Tyne, Reading and Manchester and currently has £300 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.

Overview of the year

During the year under review Northern 3 VCT achieved a total return to ordinary shareholders, before dividends, of 10.5p per share, equivalent to 10.0% of the opening net asset value per share of 104.6p.

The net cash outflow relating to the venture capital portfolio during the year was £4.8 million, comprising new investments of £9.3 million less sales proceeds and repayments of £4.5 million. Portfolio cash flow over the past five years is summarised in Table 1.

The movement in total net assets and net asset value per share is summarised in Table 2.

Table 1: Venture capital portfolio cash flow

Year ended 31 March	New investment £000	Disposal proceeds £000	Net cash inflow/ (outflow) £000
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
2014	9,289	4,458	(4,831)
Total	29,645	22,705	(6,940)



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

	£000	Pence per ordinary share
Net asset value at 31 March 2013	50,556	104.6
Net revenue (investment income less revenue expenses and tax)	1,164	2.1
Capital surplus arising on investments:		
Realised net gains on disposals	1,254	2.3
Movements in fair value of investments	4,382	7.9
Management expenses allocated to capital account (net of tax relief)	(994)	(1.8)
Total return for the year as shown in income statement	5,806	10.5
Proceeds of issue of new shares (net of expenses)	18,671	(0.8)
Shares re-purchased for cancellation	(737)	0.1
Net movement for the year before dividends	23,740	9.8
Net asset value at 31 March 2014 before dividends recognised	74,296	114.4
Dividends recognised in the financial statements for the year	(2,999)	(5.5)
Net asset value at 31 March 2014	71,297	108.9

After taking account of other cash flows, including share subscription receipts of £18.7 million and dividend payments of £3.0 million, the company's total cash balances increased in the year by £7.1 million to £13.6 million. In addition the company holds listed interest-bearing and equity investments valued at £11.8 million, increased from £8.4 million at 31 March 2013.

Dividends

The directors have declared or proposed dividends totalling 5.5p per share in respect of the year, comprising a 1.8p revenue dividend and a 3.7p capital distribution.

Investment portfolio

During the year ended 31 March 2014, nine new holdings were added to the venture capital portfolio at a cost of £7.4 million, and additional investments totalling £1.9 million were made in existing portfolio companies. The portfolio at 31 March 2014 comprised 47 holdings with an aggregate value of £46.6 million.

A summary of the venture capital holdings at 31 March 2014 is given on page 11, with information on the fifteen largest investments on pages 12 to 15.

New investments

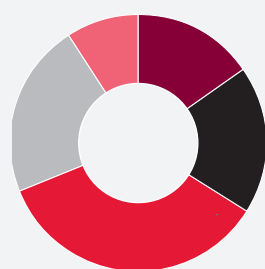
The new investments completed during the year were:

- **Cleveland Biotech (Holdings) (£862,000)** – manufacturer of environmentally friendly bacterial solutions for waste management, Stockton-on-Tees
- **Kirton Group (£892,000)** – manufacturer of specialist seating and shower, toilet and commode chairs, Haverhill
- **Buoyant Upholstery (£1,294,000)** – manufacturer of upholstered sofas and chairs, Nelson
- **Eco Animal Health Group (£497,000)** – AIM-quoted developer of medicines for the control of disease in livestock and companion animals, London

- **Netcall (£546,000)** – AIM-quoted developer of customer engagement software, Hemel Hempstead
- **Eckoh (£528,000)** – AIM-quoted developer of multi-channel customer service and secure payment solutions, Hemel Hempstead
- **Nasstar (£202,000)** – AIM-quoted provider of hosted desktop solutions, London
- **It's All Good (£1,131,000)** – manufacturer of premium savoury snack products, Gateshead
- **No 1 Traveller (£1,441,000)** – operator of airport lounges and related services, London

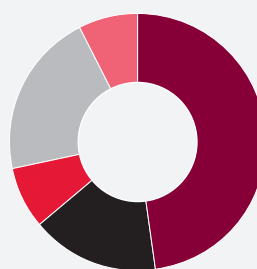
Additional investments were made during the year in **Brady** (£557,000) and **Mantis Deposition Holdings** (£517,000).

Strategic report continued



Age of investment

Up to 1 year	15.5%
1-3 years	18.6%
3-5 years	34.9%
5-7 years	22.1%
Over 7 years	8.9%



Industry sector

IT services	48.0%
Consumer	16.0%
Industrial/manufacturing	7.9%
Business services	20.7%
Healthcare/biotechnology	7.4%

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.

IG Doors was sold to Hörmann Group for £1,316,000 in June 2013. **Astbury Marsden Holdings**, which had previously been written down to zero, was sold for a nominal sum following a prolonged period of underperformance. **e-know.net** was acquired by AIM-quoted **Nasstar** for a mixture of cash and shares in January 2014. **Andor Technology** was the subject of a recommended bid by Oxford Instruments. The investment in **Vianet** was sold in the market due to concerns about the potential impact of the Government's proposed Statutory Code for pub companies.

Portfolio review

The pie charts above show the composition of the venture capital portfolio at 31 March 2014 by value according to maturity, industry sector, financing stage and whether quoted or unquoted.

Most of the unquoted companies in the portfolio have continued to make good progress. **Kerridge Commercial Systems** reported increased sales and profits and remains the largest single holding in the portfolio. **Volumatic Holdings** continues to enhance its position in the cash handling systems market and **Silverwing** has benefitted from strong demand for its non-destructive testing systems for the oil and gas industry. **Cawood Scientific** and **Kitwave One** completed important strategic acquisitions. In those cases where performance is behind expectations we have as usual taken a cautious view in determining valuations.

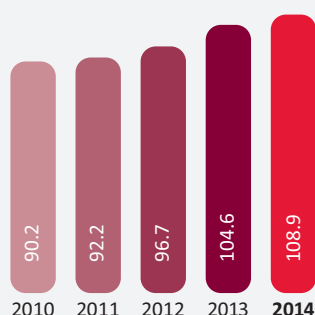
The AIM portfolio produced excellent returns, with a number of holdings enjoying a belated re-rating. **Pilat Media Global** was the subject of a successful bid by SyntecMedia at 95p, completed shortly after our financial year end, at a good premium to the March 2013 valuation of 32.5p. Share price gains of 40% or more were also recorded by **Advanced Computer Software Group**, **Vectura Group** and **Cello Group**. **IDOX** had a disappointing year, with the share price falling by 23%, but remains the second largest AIM holding and we believe the medium-term prospects are encouraging. The flow of VCT-qualifying new issues on AIM continued to be very thin, but three new non-qualifying holdings which our managers perceive as having good capital growth potential were purchased in the market.

The amount held in listed interest-bearing investments continued to reduce as individual bonds matured, but an additional £3 million was committed to holdings in listed blue-chip equities, selected with a view to income yield, as an alternative to holding cash deposits at very low interest rates.

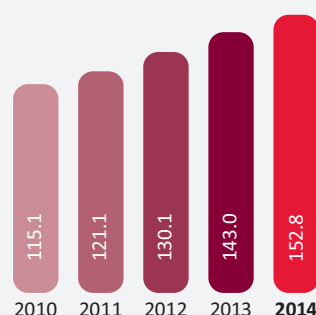
Valuation policy

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.

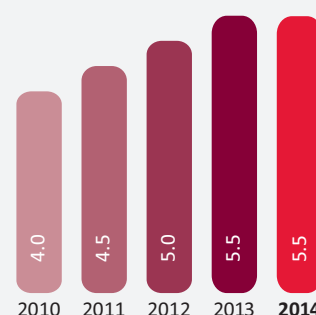
As at 31 March 2014 the number of investments falling into each valuation category was as shown in Table 4.



Net asset value (p)



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



Dividend per share (p)

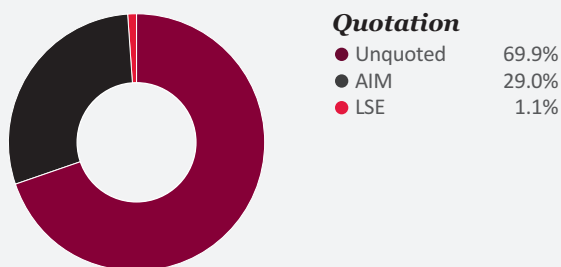
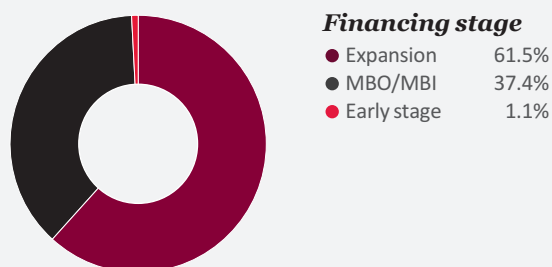


Table 3: Significant investment realisations

Company	Date of original investment	Original cost £000	Sales proceeds £000	Realised surplus/ (deficit) £000
IG Doors – trade sale	2003	355	1,316	961
Astbury Marsden Holdings – trade sale	2008	1,178	–	(1,178)
e-know.net – trade sale	2005	225	800	575
Andor Technology – recommended bid	2010	598	893	295
Vianet – market sale	2009	368	238	(130)

Table 4: Investment valuation by category

Category	Number of investments	Valuation £000	% of portfolio by value
Unquoted investments at directors' valuation			
Earnings multiple	18	25,419	54.5
Original cost	6	6,594	14.1
Original cost less provision	6	439	1.0
Net assets	1	126	0.3
Quoted investments at bid price			
Listed on London Stock Exchange	1	535	1.1
Quoted on AIM	15	13,512	29.0
Total	47	46,625	100.0

Key performance indicators

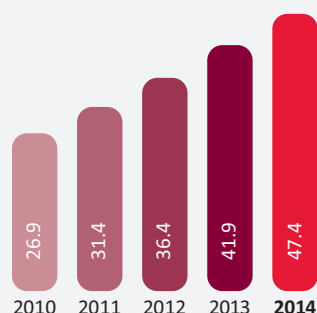
The directors regard the following as the key indicators pertaining to the company's performance:

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

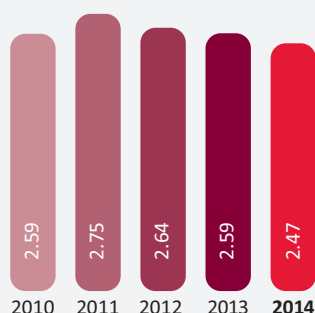
Dividend distributions: the charts at the bottom of this page and the page opposite show the dividends (including proposed final dividends) declared in respect of each of the past five financial years and on a cumulative basis since inception.

Ongoing charges: the charts at the bottom of this page show total annual running expenses as a percentage of the average net assets attributable to shareholders for each of the past five financial years.

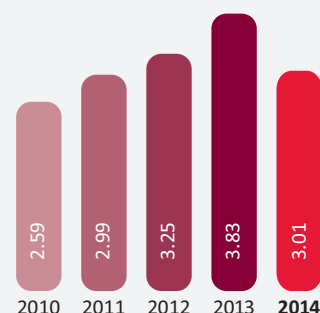
Maintenance of VCT qualifying status: the directors believe that the company has at all times since inception complied with the VCT qualifying conditions laid down by HM Revenue & Customs.



Cumulative dividends per share (p)



Ongoing charges excluding performance fees (%)



Ongoing charges including performance fees (%)

Strategic report *continued*

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

Financial risk: as most of the company's investments involve a medium- to long-term commitment and many 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. In times of adverse sentiment there can be very little, if any, market demand for shares in smaller companies quoted on AIM.

Credit risk: the company holds a number of financial instruments and cash deposits and is dependent on the counterparties discharging their commitment. The directors review the creditworthiness of the counterparties to these instruments and cash deposits and seek to ensure there is no undue concentration of credit risk with any one party.

Liquidity risk: the company's investments may be difficult to realise. The fact that a stock is quoted on a recognised market 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 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.

Additional disclosures required by the Companies Act

The company had no employees during the year and all the directors are male.

As an externally managed investment company, the company is not directly responsible for any greenhouse gas emissions.

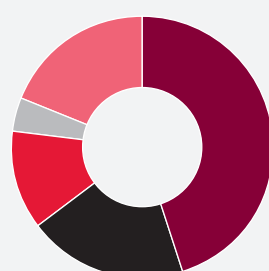
Future prospects

As a result of the successful 2013/14 public share offer and the consistent performance of the investment portfolio, the company's balance sheet is in excellent shape. The flow of potential new investments is currently strong and underlying conditions in the UK economy appear to be improving. Against this background the directors believe that the future outlook for the company is good.

By order of the Board

C D Mellor
Secretary

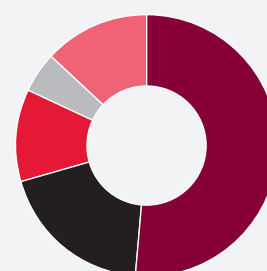
30 May 2014



31 March 2014

Asset allocation

45.3%	● Venture capital – unquoted
19.5%	● Venture capital – quoted
12.2%	● Listed equity
4.2%	● Listed interest-bearing
18.8%	● Cash and short term deposits



31 March 2013

Investment portfolio

as at 31 March 2014

	Cost £000	Valuation £000	% of net assets by value
Fifteen largest private equity investments (see pages 12 to 15)			
Kerridge Commercial Systems	1,537	6,512	9.1
Advanced Computer Software Group*	1,035	4,536	6.4
Volumatic Holdings	2,096	3,188	4.5
Tinglobal Holdings	1,812	1,941	2.7
IDOX*	600	1,882	2.6
Silverwing	1,272	1,858	2.6
Wear Inns	1,406	1,795	2.5
Pilat Media Global*	641	1,528	2.2
No 1 Traveller	1,441	1,441	2.0
Control Risks Group Holdings	746	1,363	1.9
Intuitive Holding	1,293	1,315	1.8
Buoyant Upholstery	1,294	1,294	1.8
Sinclair IS Pharma*	957	1,182	1.7
It's All Good	1,131	1,131	1.6
Cawood Scientific	825	1,077	1.5
	18,086	32,043	44.9
Other private equity investments			
Kitwave One	1,000	1,035	1.4
Axial Systems Holdings	1,293	988	1.4
Lineup Systems	974	974	1.4
Haystack Dryers	1,284	946	1.3
Kirton Group	892	892	1.2
Cleveland Biotech (Holdings)	862	862	1.2
Brady*	732	825	1.2
Arleigh Group	297	758	1.1
Promatic Group	701	739	1.0
Optilan Group	1,125	659	0.9
Eckoh*	528	655	0.9
Netcall*	546	560	0.8
CloserStill Group	549	549	0.8
Vectura Group**	248	535	0.8
Cello Group*	349	502	0.7
Lanner Group	475	435	0.6
Eco Animal Health Group*	497	380	0.5
Synectics*	171	333	0.5
Jelf Group*	177	328	0.5
Nasstar*	202	312	0.4
Mantis Deposition Holdings	1,033	258	0.4
Nationwide Accident Repair Services*	290	253	0.3
Adept Telecom*	236	226	0.3
Direct Valeting	43	224	0.3
Gentronix	361	181	0.3
Envirotec	177	126	0.2
S&P Coil Products	24	37	0.1
Summit Corporation*	122	10	–
Altacor	405	–	–
North East Property & Investments	180	–	–
Crantock Bakery	845	–	–
Warmseal Windows (Newcastle)	339	–	–
Total private equity investments	35,043	46,625	65.4
Listed equity investments	8,338	8,796	12.3
Listed interest-bearing investments	3,013	3,022	4.3
Total fixed asset investments	46,394	58,443	82.0
Net current assets		12,854	18.0
Net assets		71,297	100.0

* Quoted on AIM

** Listed on London Stock Exchange

Fifteen largest private equity investments

Kerridge Commercial Systems

Cost	£1,537,000
Valuation	£6,512,000
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 £104,000

Audited financial information:

Year ended 30 September	2013 £m	2012 £m
Sales	28.5	25.5
Profit before tax	2.6	1.9
Profit after tax	1.7	1.5
Net assets	5.3	3.8

Advanced Computer Software Group

Cost	£1,035,000
Valuation	£4,536,000
Basis of valuation	Bid price (AIM)
Equity held	0.8% (NVM funds total 1.7%)
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	Dividends £15,000

Audited financial information:

Year ended 28 February	2013 £m	2012 £m
Sales	120.9	101.8
Profit before tax	9.2	6.9
Profit after tax	9.1	6.3
Net assets	139.1	98.2

Volumatic Holdings

Cost	£2,096,000
Valuation	£3,188,000
Basis of valuation	Earnings multiple
Equity held	16.9% (NVM funds total 50.7%)
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 £150,000

Audited financial information:

Year ended 31 March	2013 £m
Sales	10.2
Profit before tax	1.9
Profit after tax	1.4
Net assets	2.2

Tinglobal Holdings

Cost	£1,812,000
Valuation	£1,941,000
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 £267,000

Audited financial information:

Year ended 31 May	2013 £m	2012* £m
Sales	19.0	18.4
(Loss) before tax	(0.2)	(0.4)
(Loss)/profit after tax	(0.3)	2.4
Net assets	1.2	1.6

*11 months ended 31 May

IDOX

Cost	£600,000
Valuation	£1,882,000
Basis of valuation	Bid price (AIM)
Equity held	1.4% (NVM funds 2.4%)
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 £37,000

Audited financial information:

Year ended 31 October	2013 £m	2012 £m
Sales	57.3	55.4
Profit before tax	6.7	6.9
Profit after tax	7.5	6.7
Net assets	44.7	38.9

Silverwing

Cost	£1,272,000
Valuation	£1,858,000
Basis of valuation	Earnings multiple
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 £89,000

Audited financial information:

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

Wear Inns

Cost	£1,406,000
Valuation	£1,795,000
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 £120,000

Audited financial information:

Year ended 31 March	2013 £m	2012 £m
Sales	11.8	7.4
(Loss)/profit before tax	(0.3)	0.1
(Loss)/profit after tax	(0.3)	0.1
Net assets	1.4	0.2

Pilat Media Global

Cost	£641,000
Valuation	£1,528,000
Basis of valuation	Bid price (AIM)
Equity held	2.6% (NVM funds total 2.6%)
Business/location	Software developer for the broadcasting industry, Wembley
History	Holding acquired through a share placing on AIM in 2002
Other NVM funds investing	None
Income in year	Nil

Audited financial information:

Year ended 31 December	2013 £m	2012 £m
Sales	27.7	23.5
Profit before tax	2.5	2.0
Profit after tax	2.0	1.5
Net assets	23.2	21.0

Fifteen largest private equity investments

continued

No 1 Traveller

Cost	£1,441,000
Valuation	£1,441,000
Basis of valuation	Cost
Equity held	9.1% (NVM funds total 44.9%)
Business/location	Operator of airport lounges and related services, London
History	Growth capital investment in March 2014, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT, NV1 LP
Income in year	Nil

Audited financial information:

First audited accounts will be for the period ending 31 December 2014

Control Risks Group Holdings

Cost	£746,000
Valuation	£1,363,000
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 £65,000

Audited financial information:

Year ended 31 March	2013 £m	2012 £m
Sales	211.7	204.2
Profit before tax	18.3	13.6
Profit after tax	13.5	9.0
Net assets	29.6	21.1

Intuitive Holding

Cost	£1,293,000
Valuation	£1,315,000
Basis of valuation	Earnings multiple
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 £93,000

Audited financial information:

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

Buoyant Upholstery

Cost	£1,294,000
Valuation	£1,294,000
Basis of valuation	Cost
Equity held	9.9% (NVM funds total 54.0%)
Business/location	Manufacturer of upholstered sofas and chairs, Nelson
History	Management buy-out financing in July 2013, 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 £67,000

Audited financial information:

First audited accounts will be for the period ending 30 September 2014

Sinclair IS Pharma

Cost	£957,000
Valuation	£1,182,000
Basis of valuation	Bid price (AIM)
Equity held	0.8% (NVM funds total 1.5%)
Business/location	Developer of dermatology products, London
History	Holding acquired through a share placing on AIM in 2007
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT
Income in year	Nil

Audited financial information:

Year ended 30 June	2013 £m	2012 £m
Sales	55.4	51.4
(Loss) before tax	(16.2)	(9.7)
(Loss) after tax	(17.4)	(8.6)
Net assets	110.5	114.3

It's All Good

Cost	£1,131,000
Valuation	£1,131,000
Basis of valuation	Cost
Equity held	9.8% (NVM funds total 30.2%)
Business/location	Manufacturer of premium savoury snack products, Gateshead
History	Growth capital investment in February 2014, led by NVM Private Equity
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT
Income in year	Nil

Audited financial information:

Period ended 31 December	2012* £m
Sales	0.1
(Loss) before tax	(0.6)
(Loss) after tax	(0.6)
Net (liabilities)	(0.1)

*16 months

Cawood Scientific

Cost	£825,000
Valuation	£1,077,000
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	2013 £m	2012 £m
Sales	7.9	7.5
Profit before tax	0.2	0.9
Profit after tax	0.1	0.6
Net assets	1.4	1.2



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 2014.

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 company's registered number is 4280530.

The directors are required by the articles of association to propose an ordinary resolution at the company's annual general meeting in 2019 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.

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 £5,806,000 has been transferred to reserves.

The final dividend of 3.5p per share in respect of the year ended 31 March 2013 and an interim dividend of 2.0p per share in respect of the year ended 31 March 2014 were paid during the year at a cost of £2,999,000 and have been charged to reserves.

The proposed final dividend of 3.5p per share for the year ended 31 March 2014 will, if approved by shareholders at the annual general meeting, be paid on 25 July 2014 to shareholders on the register on 4 July 2014.

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

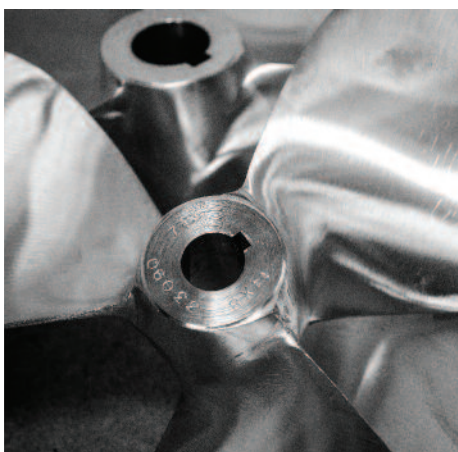
None of the directors has a contract of service with the company and, except as mentioned below under the heading "Management", no contract or arrangement subsisted during or at the end of the year in which any director was materially interested and which was significant in relation to the company's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

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 co-investment 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 783,000 of its own shares, representing 1.6% of the called-up share capital of the company at the beginning of the year, for a consideration of £737,000. Purchases were made in line with the company's policy of purchasing available shares at a discount to net asset value. At the 2013 annual general meeting shareholders authorised the company to purchase in the market up to 4,831,826 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 2014 this authority remained effective in respect of 4,048,826 shares; the authority will lapse at the conclusion of the 2014 annual general meeting of the company on 16 July 2014.

Share capital – issue of shares

During the year the company issued 17,741,242 new ordinary shares for a cash consideration of £18,894,000 pursuant to a public offer for subscription and 223,374 new ordinary shares for a cash consideration of £228,000 through the company's dividend investment scheme.

On 13 May 2014 the company issued 1,003,316 new ordinary shares for a cash consideration of £1,097,000 as part of a public offer for subscription. £513,000 of the funds subscribed were received prior to 31 March 2014 and are included in total cash and deposits of £13,568,000 as shown in the balance sheet as at 31 March 2014, with a corresponding amount being included in creditors (amounts falling due within one year).

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 2014 annual general meeting to be held on 16 July 2014 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

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

By order of the Board

C D Mellor
Secretary

30 May 2014

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 Section 410 of the Companies Act 2006. Resolutions to approve the directors' remuneration report and the statement of the directors' remuneration policy will be proposed at the annual general meeting on 16 July 2014.

The company's independent auditor, KPMG LLP, is required to give its opinion on certain information included in this report, as indicated below. The auditor's report on these and other matters is set out on pages 26 and 27.

Directors' remuneration policy

This statement of the directors' remuneration policy is intended to take effect following approval by shareholders at the annual general meeting on 16 July 2014.

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 meets annually (or more frequently if required) to consider the selection and appointment of directors and to make 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. No views which are relevant to the formulation of the directors' remuneration policy have been expressed to the company by shareholders, whether at a general meeting or otherwise.

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, who is an executive director of NVM Private Equity, has an interest in the co-investment scheme referred to in the directors' report on page 17.)

The articles of association place an overall limit (currently £100,000 per annum) on directors' remuneration. 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 that any director who was not appointed or reappointed 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. A director who ceases to hold office is not entitled to receive any payment other than accrued fees (if any) for past services.

Directors' remuneration for the year ended 31 March 2014 (audited information)

The fees paid to individual directors in respect of the years ended 31 March 2014 and 31 March 2013, which represent the entire remuneration payable to directors, are shown in Table 1.

Directors' share interests (audited information)

The interests of the directors of the company (including the interests of their connected persons) in the issued ordinary shares of the company, at the beginning and end of the year and at the date of this report, are shown in Table 2.

All of the directors' share interests were held beneficially.

The company has not set out any formal requirements or guidelines to directors concerning their ownership of shares in the company.

Relative importance of spend on pay

As the company has no employees, the directors do not consider it appropriate to present a table comparing remuneration paid to employees with distributions to shareholders.

Company performance

The graph opposite compares the total return (assuming re-investment of all dividends) to shareholders in the company over the five years ended 31 March 2014 with the total return from a notional investment in a broad UK equity market index.

Statement of voting at annual general meeting

At the annual general meeting on 17 July 2013 the resolution to approve the directors' remuneration report for the year ended 31 March 2013 was approved unanimously.

Statement by the chairman of the nomination committee

The directors' fees payable by the company were set at £21,000 per annum for the chairman and £16,000 per annum for other directors with effect from 1 April 2013. In accordance with the directors' remuneration policy, directors' fees were reviewed by the nomination committee during its meeting on 17 February 2014, when it was recommended that fees should be increased to £22,000 per annum for the chairman and £17,000 per annum for other directors with effect from 1 April 2014, to reflect inflation and the requirements of the respective roles.

By order of the Board

J G D Ferguson
Chairman of the

Nomination Committee 30 May 2014

Table 1: Directors' fees

	Year ended 31 March 2014 £	Year ended 31 March 2013 £
J G D Ferguson (Chairman)	21,000	20,000
C J Fleetwood	16,000	15,000
T R Levett	–	–
J M O Waddell	16,000	15,000
Total	53,000	50,000

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

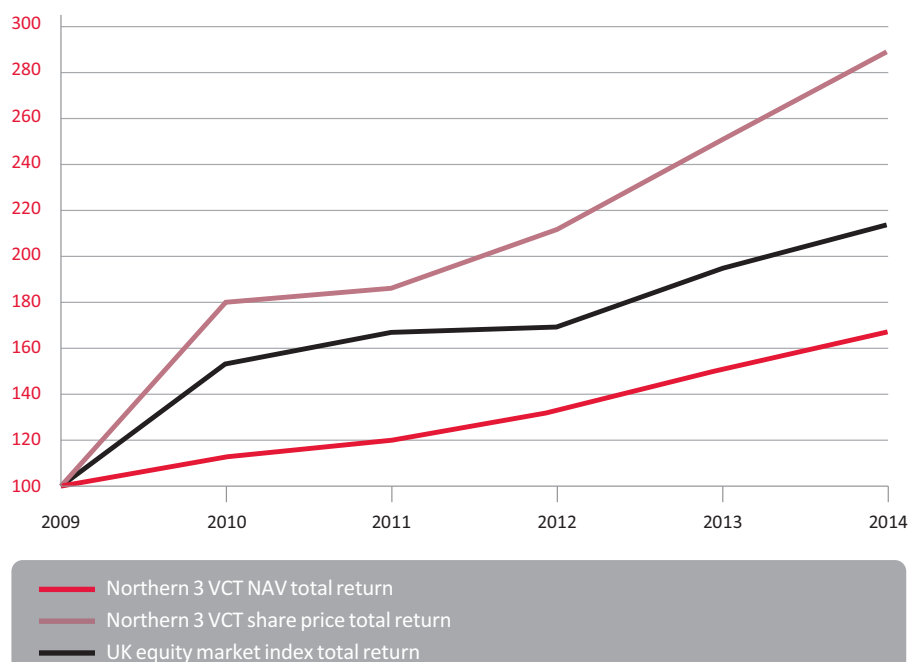


Table 2: Directors' interests in ordinary shares

	30 May 2014	31 March 2014	1 April 2013
J G D Ferguson (Chairman)	369,329	369,329	203,857
C J Fleetwood	44,834	44,834	25,577
T R Levett	238,148	238,148	200,922
J M O Waddell	7,283	7,283	7,283

Return to shareholders in Northern 3 VCT PLC

Five years to 31 March 2014 (March 2009 = 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/aic-code-of-corporate-governance-o.

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 2014 complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except as set out below.

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

Board of directors

The company has a board of four non-executive directors, the majority of whom are considered to be independent of the company's investment manager, NVM Private Equity 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 valuation of the company's unquoted investments;
- 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 LLP, 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 2014 the audit committee discharged its responsibilities by:

- reviewing and approving the external auditor's terms of engagement, remuneration and independence;
- reviewing the external auditor's plan for the audit of the company's financial statements, including identification of key risks;
- 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 and half-yearly results statement 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 reappointment of KPMG LLP 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; and
- compliance with HM Revenue & Customs conditions for maintenance of approved venture capital trust status.

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. The audit committee reviewed the estimates and judgements made in the investment valuations and was satisfied that they are appropriate.

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.

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 LLP has carried out its duties as auditor in a diligent and professional manner.

As part of the review of auditor effectiveness and independence, KPMG LLP has confirmed that it is independent of the company and has complied with applicable auditing standards. KPMG LLP together with its predecessor KPMG Audit Plc has held office as auditor for twelve years; in accordance with professional guidelines the engagement partner is rotated after at most five years, and the current partner has served for three years. Having completed its review the audit committee is satisfied that KPMG LLP remained effective and independent in carrying out its responsibilities up to the date of signing this report. 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 managers and the venture capital industry as well as to their own legal responsibilities as directors. The committee has written terms of reference which are reviewed annually and are available on request from the company secretary and on the NVM 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 2014 and the number attended by each director compared with the maximum possible attendance.

Corporate responsibility

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

Investor relations

In fulfilment of the chairman's obligations under the UK Corporate Governance Code, the chairman gives feedback to the board on issues raised with him by shareholders with a view to ensuring that members of the board develop an understanding of the views of shareholders about their company. The board recognises the value of maintaining regular communications with shareholders. Formal reports are sent to shareholders at the half-year and year-end stages, and an opportunity is given to shareholders at the annual general meeting to question the board and the investment manager on matters relating to the company's operation and performance. The manager holds an annual VCT investor seminar to which shareholders are invited. 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.

Table 1: Directors' attendance at meetings

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

Internal control

The directors have overall responsibility for ensuring that there are in place systems of internal control, both financial and non-financial, and for reviewing their effectiveness. The purpose of the internal financial controls is to ensure that proper accounting records are maintained, the company's assets are safeguarded and the financial information used within the business and for publication is accurate and reliable; such a system can provide only reasonable and not absolute assurance against material misstatement or loss. The board regularly reviews financial performance and results with the investment manager. Responsibility for accounting, secretarial services and physical custody of documents of title relating to venture capital investments has been contractually delegated to NVM 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 strategic report on page 10.

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

As at 31 March 2014 65,499,878 ordinary shares were in issue (as at that date none of the issued shares were held by the company as treasury shares). Subject to any suspension or abrogation of rights pursuant to relevant law or the company's articles of association, the shares confer on their holders (other than the company in respect of any treasury shares) the following principal rights:

- (a) the right to receive out of profits available for distribution such dividends as may be agreed to be paid (in the case of a final dividend in an amount not exceeding the amount recommended by the board as approved by shareholders in general meeting or in the case of an interim dividend in an amount determined by the board). All dividends unclaimed for a period of 12 years after having become due for payment are forfeited automatically and cease to remain owing by the company;
- (b) the right, on a return of assets on a liquidation, reduction of capital or otherwise, to share in the surplus assets of the company remaining after payment of its liabilities *pari passu* with the other holders of ordinary shares; and

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

These rights can be suspended. If a member, or any other person appearing to be interested in shares held by that member, has failed to comply within the time limits specified in the company's articles of association with a notice pursuant to Section 793 of the Companies Act 2006 (notice by company requiring information about interests in its shares), the company can until the default ceases suspend the right to attend and speak and vote at a general meeting and if the shares represent at least 0.25% of their class the company can also withhold any dividend or other money payable in respect of the shares (without any obligation to pay interest) and refuse to accept certain transfers of the relevant shares.

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



Corporate governance continued

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

Amendment of articles of association

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

Appointment and replacement of directors

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

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

The Companies Act 2006 allows shareholders in general meeting by ordinary resolution (requiring a simple majority of the persons voting on the relevant resolution) to remove any director before the expiration of his or her period of office, but without prejudice to any claim for damages which the director may have for breach of any contract of service between him or her and the company.

A person also ceases to be a director if he or she resigns in writing, ceases to be a director by virtue of any provision of the Companies Act, becomes prohibited by law from being a director, becomes bankrupt or is the subject of a relevant insolvency procedure, or becomes of unsound mind, or if the board so decides following at least six months' absence without leave or if he or she becomes subject to relevant procedures under the mental health laws, as set out in the company's articles of association.

Powers of the directors

The company's articles of association specify that, subject to the provisions of the Companies Act 2006 and articles of association of the company and any directions given by shareholders by special resolution, the business of the company is to be managed by the directors, who may exercise all the powers of the company, whether relating to the management of the business or not, except where the Companies Act 2006 or the articles of association of the company otherwise require. In particular the directors may exercise on behalf of the company its powers to purchase its own shares to the extent permitted by shareholders. Authority was given at the company's 2013 annual general meeting to make market purchases of up to 4,831,262 ordinary shares at any time up to the 2014 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 16 July 2014 as set out in a separate circular.

By order of the Board

C D Mellor
Secretary

30 May 2014

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, strategic report, directors' remuneration report and corporate governance statement that comply with that law and those regulations.

The company's financial statements are published on the NVM 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. The work carried out by KPMG LLP as independent auditor of the company does not involve consideration of the maintenance and integrity of the website and accordingly they accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website.

Visitors to the website should be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdiction.

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 of the company;
- the annual report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy; and
- the directors' report and strategic report include 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

30 May 2014



Independent auditor's report

To the members of
Northern 3 VCT PLC

Opinions and conclusions
arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Northern 3 VCT PLC for the year ended 31 March 2014 set out on pages 28 to 40. In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Accounting Standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, the risk of material misstatement that had the greatest effect on our audit was as follows:

Valuation of unquoted investments: (£32.6 million). Refer to pages 21 and 22 (audit committee report), page 31 (accounting policy) and pages 28 to 40 (financial statements).

The risk: 45.7% of the company's total assets (by value) is held in investments where no quoted market price is available. Unquoted investments are measured at fair value, which is established in accordance with the International Private Equity and Venture Capital Valuation Guidelines by using measurements of value such as price of recent orderly transactions, earnings multiples and net assets. There is a significant risk over the valuation of these investments and this is one of the key judgemental areas that our audit focused on.

Our response: Our procedures included, among others:

- enquiry of the investment manager to document and assess the design and implementation of the investment valuation processes and controls in place;
- assessment of the investment realisations in the period, comparing actual sales proceeds to prior year end valuations to understand the reasons for significant variances and consideration of whether they are indicative of bias or error in the company's approach to valuations.
- challenging the investment manager on key judgements affecting investee company valuations in the context of observed industry best practice and the provisions of the International Private Equity and Venture Capital Valuation Guidelines. In particular, we focused on the appropriateness of the valuation basis selected as well as underlying assumptions, such as discount factors and the choice of benchmark for earnings multiples. We compared key underlying financial data inputs to external sources and investee company audited accounts and management information as applicable. We challenged the assumptions around the sustainability of earnings based on the plans of the investee companies and whether these are achievable, and we obtained an understanding of existing and prospective investee company cash flows to understand whether borrowings can be serviced or refinancing may be required. Where a recent transaction is used to value any holding, we obtained an understanding of the circumstances surrounding those transactions and whether they were considered to be on an arms-length basis and suitable as an input into a valuation. Our work included consideration of events which occurred subsequent to the year end up until the date of this audit report;
- attending the year end audit committee meeting where we assessed the effectiveness of the audit committee's challenge and approval of unquoted investment valuations; and
- consideration of the appropriateness, in accordance with relevant accounting standards, of the disclosures in respect of unquoted investments and the effect of changing one or more inputs to reasonably possible alternative valuation assumptions.

3. Our application of materiality and an overview of the scope of our audit

The materiality for the financial statements as a whole was set at £1,440,000. This was determined using a benchmark of total assets (of which it represents 2%). Total assets, which is primarily composed of the company's investment portfolio, is considered the key driver of the company's capital and revenue performance and, as such, we believe that it is one of the principal considerations for members of the company in assessing its financial performance.

We agreed with the audit committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £72,000, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Our audit of the company was undertaken to the materiality level specified above and was all performed at the investment manager, NVM Private Equity Limited, in Newcastle.

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

5. We have nothing to report in respect of the matters on which we are required to report by exception

Under International Standards on Auditing (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy; or
- the section of the statement of corporate governance describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee.

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

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

Under the Listing Rules we are required to review:

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

We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 25, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Catherine Burnet
(Senior Statutory Auditor)
for and on behalf of KPMG LLP,
Statutory Auditor
Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EG
30 May 2014

Income statement

for the year ended 31 March 2014

	Notes	Year ended 31 March 2014			Year ended 31 March 2013		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Gain on disposal of investments	8	–	1,254	1,254	–	1,375	1,375
Movements in fair value of investments	8	–	4,382	4,382	–	5,096	5,096
		–	5,636	5,636	–	6,471	6,471
Income	2	2,006	–	2,006	1,523	–	1,523
Investment management fee	3	(283)	(1,181)	(1,464)	(245)	(1,341)	(1,586)
Other expenses	4	(357)	(15)	(372)	(297)	–	(297)
Return on ordinary activities before tax		1,366	4,440	5,806	981	5,130	6,111
Tax on return on ordinary activities	5	(202)	202	–	(113)	113	–
Return on ordinary activities after tax		1,164	4,642	5,806	868	5,243	6,111
Return per share	7	2.1p	8.4p	10.5p	1.8p	10.7p	12.5p
Dividends paid/proposed in respect of the year	6	1.8p	3.7p	5.5p	2.0p	3.5p	5.5p

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

Reconciliation of movements in shareholders' funds

for the year ended 31 March 2014

	Notes	Year ended 31 March 2014 £000	Year ended 31 March 2013 £000
Equity shareholders' funds at 1 April 2013		50,556	47,798
Return on ordinary activities after tax		5,806	6,111
Dividends recognised in the year	6	(2,999)	(2,446)
Net proceeds of share issues	14	18,671	–
Shares purchased for cancellation	14	(737)	(907)
Equity shareholders' funds at 31 March 2014		71,297	50,556

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

Balance sheet

as at 31 March 2014

	Notes	31 March 2014 £000	31 March 2013 £000
Fixed assets			
Investments	8	58,443	44,532
Current assets			
Debtors	12	288	241
Cash and deposits		13,568	6,517
		13,856	6,758
Creditors (amounts falling due within one year)	13	(1,002)	(734)
Net current assets		12,854	6,024
Net assets		71,297	50,556
Capital and reserves			
Called-up equity share capital	14	3,275	2,416
Share premium	15	–	3,219
Capital redemption reserve	15	10	484
Capital reserve	15	55,264	36,083
Revaluation reserve	15	12,049	7,681
Revenue reserve	15	699	673
Total equity shareholders' funds		71,297	50,556
Net asset value per share	16	108.9p	104.6p

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

The financial statements on pages 28 to 40 were approved by the directors on 30 May 2014 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 2014

	Year ended 31 March 2014 £000	Year ended 31 March 2013 £000
Net cash inflow/(outflow) from operating activities	391	(122)
Taxation		
Corporation tax paid	—	—
Financial investment		
Purchase of investments	(15,437)	(5,794)
Sale/repayment of investments	7,162	7,275
Net cash (outflow)/inflow from financial investment	(8,275)	1,481
Equity dividends paid	(2,999)	(2,446)
Net cash (outflow) before financing	(10,883)	(1,087)
Financing		
Issue of ordinary shares	19,122	—
Share issue expenses	(451)	—
Purchase of ordinary shares for cancellation	(737)	(907)
Net cash inflow/(outflow) from financing	17,934	(907)
Increase/(decrease) in cash and deposits	7,051	(1,994)
Reconciliation of return before tax to net cash flow from operating activities		
Return on ordinary activities before tax	5,806	6,111
Gain on disposal of investments	(1,254)	(1,375)
Movements in fair value of investments	(4,382)	(5,096)
(Increase) in debtors	(47)	(49)
Increase/(decrease) in creditors	268	(287)
Net cash inflow/(outflow) from operating activities	391	(122)

Analysis of movement in net funds	1 April 2013 £000	Cash flows £000	31 March 2014 £000
Cash and deposits	6,517	7,051	13,568

Notes to the financial statements

for the year ended 31 March 2014

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.

Notes to the financial statements continued

for the year ended 31 March 2014

2. Income

	Year ended 31 March 2014 £000	Year ended 31 March 2013 £000
Franked investment income:		
Unquoted companies	111	95
Quoted companies	372	403
Interest receivable:		
Bank deposits*	37	22
Loans to unquoted companies	1,409	907
Listed interest-bearing investments	77	96
	2,006	1,523

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

3. Investment management fee

	Revenue £000	Year ended 31 March 2014 Capital £000	Total £000	Revenue £000	Year ended 31 March 2013 Capital £000	Total £000
Investment management fee:						
Basic	283	848	1,131	245	734	979
Performance-related	—	333	333	—	607	607
	283	1,181	1,464	245	1,341	1,586

During the year NVM Private Equity Limited (NVM) provided investment management and secretarial services to the company under an agreement dated 24 September 2001. On 21 May 2014 the company entered into a new agreement appointing NVM as its Alternative Investment Fund Manager for the purposes of the Alternative Investment Fund Managers Directive, on the same financial terms as previously. The agreement 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 £49,000 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 2.9% 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 2014 £000	Year ended 31 March 2013 £000
Administrative and secretarial services	49	48
Directors' remuneration	53	54
Auditor's remuneration – audit services	20	18
Legal and professional expenses	52	19
Share issue promoter's commission	42	39
Irrecoverable VAT	29	22
Other expenses	112	97
	357	297

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

5. Tax on return on ordinary activities

	Revenue £000	Year ended 31 March 2014 Capital £000	Total £000	Revenue £000	Year ended 31 March 2013 Capital £000	Total £000
(a) Analysis of charge/(credit) for the year						
UK corporation tax payable/(recoverable) on the return for the year	202	(202)	–	113	(113)	–
(b) Tax reconciliation						
Return on ordinary activities before tax	1,366	4,440	5,806	981	5,130	6,111
Return on ordinary activities multiplied by the standard rate of UK corporation tax of 23% (2013 24%)	314	1,021	1,335	235	1,231	1,466
Effect of:						
UK dividends not subject to tax	(111)	–	(111)	(120)	–	(120)
Capital returns not subject to tax	–	(288)	(288)	–	(330)	(330)
Unrealised adjustments to fair value	–	(1,008)	(1,008)	–	(1,223)	(1,223)
Disallowable expenses	–	3	3	–	–	–
Marginal relief	(1)	1	–	(2)	2	–
Increase in surplus management expenses	–	69	69	–	207	207
Current tax charge/(credit) for the year	202	(202)	–	113	(113)	–

(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 £1,267,000 (31 March 2013 £968,000), 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 enacted legislation to reduce the UK corporation tax rate to 20% from 1 April 2015.

Notes to the financial statements continued

for the year ended 31 March 2014

6. Dividends

	Revenue £000	Year ended 31 March 2014 Capital £000		Total £000	Revenue £000	Year ended 31 March 2013 Capital £000		Total £000
(a) Recognised as distributions in the financial statements for the year								
Previous year's final dividend	482	1,204		1,686	590	884		1,474
Current year's interim dividend	656	657		1,313	486	486		972
	1,138	1,861		2,999	1,076	1,370		2,446
(b) Paid and proposed in respect of the year								
Interim paid – 2.0p (2013 2.0p) per share	656	657		1,313	486	486		972
Final proposed – 3.5p (2013 3.5p) per share	524	1,768		2,292	483	1,209		1,692
	1,180	2,425		3,605	969	1,695		2,664

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

7. Return per share

The calculation of the return per share is based on the return on ordinary activities after tax for the year of £5,806,000 (2013 £6,111,000) and on 55,104,185 (2013 48,852,114) 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 2014 £000	31 March 2013 £000
Level 1		
Quoted venture capital investments	14,047	9,781
Listed equity investments	8,796	5,812
Listed interest-bearing investments	3,022	2,614
Level 2		
None	–	–
Level 3		
Unquoted venture capital investments	32,578	26,325
	58,443	44,532

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 interest- bearing Level 1 £000	Total £000
Book cost at 1 April 2013	23,712	5,570	5,000	2,569	36,851
Fair value adjustment at 1 April 2013	2,613	4,211	812	45	7,681
Fair value at 1 April 2013	26,325	9,781	5,812	2,614	44,532
Movements in the year:					
Purchases at cost	6,503	2,786	4,289	1,859	15,437
Disposals – proceeds	(3,079)	(1,379)	(1,289)	(1,415)	(7,162)
– net realised gains/(losses)	965	199	115	(25)	1,254
Movements in fair value	1,864	2,660	(131)	(11)	4,382
Fair value at 31 March 2014	32,578	14,047	8,796	3,022	58,443
Comprising:					
Book cost at 31 March 2014	27,713	7,330	8,338	3,013	46,394
Fair value adjustment at 31 March 2014	4,865	6,717	458	9	12,049
	32,578	14,047	8,796	3,022	58,443
Equity shares	12,293	14,047	8,796	–	35,136
Interest-bearing securities	20,285	–	–	3,022	23,307
	32,578	14,047	8,796	3,022	58,443

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 be unlikely to increase or decrease the fair value of Level 3 investments by more than 5% (see note 17 for details of the impact this would have on the financial statements).

At 31 March 2014 there were commitments totalling £490,000 (31 March 2013 £892,000) in respect of investments approved by the manager but not yet completed.

9. Investment disposals

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

	Original cost £000	Carrying value prior to disposal £000	Disposal proceeds £000	Realised gain/(loss) against carrying value £000
Andor Technology – recommended bid	598	633	893	260
Astbury Marsden Holdings – trade sale	1,178	–	–	–
Direct Valeting – preference share redemption	105	116	116	–
e-know.net – trade sale	225	485	800	315
IG Doors – trade sale	355	910	1,316	406
Tinglobal Holdings – loan stock repayment	176	175	176	1
Kerridge Commercial Systems – loan stock repayment	127	127	127	–
IDOX – market sale	61	250	248	(2)
North East Property & Investments – loan stock repayment	100	100	117	17
Vianet – market sale	368	297	238	(59)
Others	237	201	427	226
	3,530	3,294	4,458	1,164

Notes to the financial statements continued

for the year ended 31 March 2014

10. Unquoted investments

The cost and carrying value of material investments in unquoted companies held at 31 March 2014 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 2014		31 March 2013	
	Total cost £000	Carrying value £000	Total cost £000	Carrying value £000
Kerridge Commercial Systems				
Ordinary shares	320	5,295	320	3,446
Loan stock	1,217	1,217	1,343	1,343
	1,537	6,512	1,663	4,789
Volumatic Holdings				
Ordinary shares	216	1,308	216	1,738
Loan stock	1,880	1,880	1,880	1,880
	2,096	3,188	2,096	3,618
Tinglobal Holdings				
Ordinary shares	228	357	228	–
Loan stock	1,584	1,584	1,760	1,750
	1,812	1,941	1,988	1,750
Silverwing				
Ordinary shares	162	748	162	162
Loan stock	1,110	1,110	1,110	1,110
	1,272	1,858	1,272	1,272
Wear Inns				
Ordinary shares	293	641	293	666
Loan stock	1,113	1,154	1,113	1,113
	1,406	1,795	1,406	1,779
No 1 Traveller				
Ordinary shares	158	158	–	–
Loan stock	1,283	1,283	–	–
	1,441	1,441	–	–
Control Risks Group Holdings				
Ordinary shares	746	1,363	746	1,315
Intuitive Holding				
Ordinary shares	134	156	134	134
Loan stock	1,159	1,159	1,159	1,159
	1,293	1,315	1,293	1,293
Buoyant Upholstery				
Ordinary shares	132	132	–	–
Loan stock	1,162	1,162	–	–
	1,294	1,294	–	–
It's All Good				
Ordinary shares	115	115	–	–
Loan stock	1,016	1,016	–	–
	1,131	1,131	–	–
Cawood Scientific				
Ordinary shares	95	347	95	260
Loan stock	730	730	730	730
	825	1,077	825	990
Lineup Systems				
Ordinary shares	174	174	174	174
Loan stock	800	800	800	800
	974	974	974	974

10. Unquoted investments *continued*

	31 March 2014		31 March 2013	
	Total cost £000	Carrying value £000	Total cost £000	Carrying value £000
IG Doors				
Ordinary shares	–	–	355	910
Optilan Group				
Ordinary shares	179	–	179	–
Loan stock	946	659	946	792
	1,125	659	1,125	792
Kitwave One				
Ordinary shares	102	137	102	109
Loan stock	898	898	898	898
	1,000	1,035	1,000	1,007
Haystack Dryers				
Ordinary shares	131	–	99	99
Loan stock	1,153	946	893	893
	1,284	946	992	992

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 2014 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 2014 £000	31 March 2013 £000
Prepayments and accrued income	288	241

13. Creditors (amounts falling due within one year)

	31 March 2014 £000	31 March 2013 £000
Accruals and deferred income	489	734
Share subscriptions held pending allotment	513	–
	1,002	734

Notes to the financial statements continued

for the year ended 31 March 2014

14. Called-up equity share capital

	31 March 2014 £000	31 March 2013 £000
Allotted and fully paid: 65,499,878 (2013 48,318,262) ordinary shares of 5p	3,275	2,416

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

During the year the company issued 17,741,242 ordinary shares of 5p for cash at an average premium of 101.5p per share pursuant to a public offer for subscription and 223,374 ordinary shares of 5p for cash at an average premium of 97.1p per share pursuant to the company's dividend investment scheme.

During the year the company repurchased 783,000 shares for cancellation at a cost of £737,000.

On 13 May 2014 the company issued 1,003,316 new ordinary shares for cash consideration of £1,097,000 as part of a public offer for subscription.

15. Reserves

	Share premium £000	Capital redemption reserve £000	Capital reserve £000	Revaluation reserve £000	Revenue reserve £000
At 1 April 2013	3,219	484	36,083	7,681	673
Premium on issue of ordinary shares	18,224	—	—	—	—
Share issue expenses	(451)	—	—	—	—
Shares purchased for cancellation	—	39	(737)	—	—
Cancellation of the share premium and capital redemption reserve	(20,992)	(513)	21,505	—	—
Share premium and capital redemption reserve cancellation expenses	—	—	(15)	—	—
Realised on disposal of investments	—	—	1,254	—	—
Transfer on disposal of investments	—	—	14	(14)	—
Movements in fair value of investments	—	—	—	4,382	—
Management fee capitalised net of associated tax	—	—	(979)	—	—
Revenue return on ordinary activities after tax	—	—	—	—	1,164
Dividends recognised in the year	—	—	(1,861)	—	(1,138)
At 31 March 2014	—	10	55,264	12,049	699

At 31 March 2014 distributable reserves amounted to £56,430,000 (31 March 2013 £37,613,000), comprising the capital reserve, the revenue reserve and that part of the revaluation reserve relating to holding gains/losses on readily realisable listed interest-bearing and equity investments.

On 17 February 2014 shareholders approved a special resolution to cancel the share premium account and capital redemption reserve of the company. Court consent to the cancellation was granted on 12 March 2014, and accordingly on that date the share premium account and capital redemption reserve were cancelled and an equivalent sum was credited to the capital reserve (which is a distributable reserve).

16. Net asset value per share

The calculation of net asset value per share as at 31 March 2014 is based on net assets of £71,297,000 (2013 £50,556,000) divided by the 65,499,878 (2013 48,318,262) ordinary shares in issue at that date.

17. Financial instruments

The company's financial instruments comprise equity and interest-bearing 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 strategic report 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.

32.0% (31 March 2013 30.8%) 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 2014 would have changed net assets and the total return for the year by £1,142,000 (31 March 2013 £780,000).

45.7% (31 March 2013 52.1%) 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 2014 would have changed net assets and the total return for the year by £1,629,000 (31 March 2013 £1,316,000).

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 2014			31 March 2013		
	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	1,163	5.5%	0.3	2,614	1.8%	0.8
Short term cash deposits	3,000	1.0%	0.4	1,000	1.1%	0.2
Fixed-rate investments in unquoted companies	2,351	9.0%	2.5	1,306	10.0%	1.6
	6,514			4,920		

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

(b) Floating rate investments

The company's floating rate investments comprise floating-rate loans to unquoted companies, listed floating rate notes 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 2014 (31 March 2013 0.5%). The amounts held in floating rate investments at the balance sheet date were as follows:

	31 March 2014 £000	31 March 2013 £000
Floating rate loans to unquoted companies	17,934	13,946
Listed floating rate notes	1,859	—
Interest-bearing deposit accounts	10,568	5,517
	30,361	19,463

Notes to the financial statements *continued*

for the year ended 31 March 2014

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 2014 the company's financial assets exposed to credit risk comprised the following:

	31 March 2014 £000	31 March 2013 £000
Listed fixed-interest investments	1,163	2,614
Listed floating rate notes	1,859	–
Short term cash deposits	3,000	1,000
Fixed-rate investments in unquoted companies	2,351	1,306
Floating rate loans to unquoted companies	17,934	13,946
Interest-bearing deposit accounts	10,568	5,517
Accrued dividends and interest receivable	272	228
	37,147	24,611

Credit risk relating to listed interest-bearing 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 2014 or 31 March 2013. No individual investment exceeded 8.7% of the company's net assets at 31 March 2014 (31 March 2013 4.4%).

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 interest-bearing 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 2014 these investments were valued at £16,590,000 (31 March 2013 £9,131,000).

18. Contingencies

The company had no contingent liabilities at 31 March 2014 or 31 March 2013.

At 31 March 2014 contingent assets not recognised in the financial statements in respect of potential deferred proceeds from the sale of investee companies amounted to approximately £65,000 (31 March 2013 £262,000). The extent to which these amounts will become receivable in due course is dependent on future events.

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