

**NORTH EAST REGIONAL INVESTMENT FUND
THREE LIMITED
(A COMPANY LIMITED BY GUARANTEE)**

Report and Financial Statements

31 March 2007



NORTH EAST REGIONAL INVESTMENT FUND THREE LIMITED
(A COMPANY LIMITED BY GUARANTEE)

REPORT AND FINANCIAL STATEMENTS 2007

| CONTENTS | Page |
|---|-------------|
| Officers and professional advisers | 1 |
| Directors' report | 2 |
| Statement of directors' responsibilities | 4 |
| Independent auditors' report | 5 |
| Profit and loss account | 6 |
| Balance sheet | 7 |
| Notes to the accounts | 8 |

NORTH EAST REGIONAL INVESTMENT FUND THREE LIMITED
(A COMPANY LIMITED BY GUARANTEE)

REPORT AND FINANCIAL STATEMENTS 2007

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Mr H Morgan-Williams
Sir D Chapman, Bt
Mr A J Fielder
Mr J Josephs
Mr M Smith
Mrs L Winskell

SECRETARY

Mr C P Judge

REGISTERED OFFICE

Stella House
Goldcrest Way
Newburn Riverside
Newcastle upon Tyne
NE15 8NY

BANKERS

Barclays Bank plc
71 Grey Street
Newcastle upon Tyne
NE99 1JP

AUDITORS

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne

**NORTH EAST REGIONAL INVESTMENT FUND THREE LIMITED
(A COMPANY LIMITED BY GUARANTEE)**

DIRECTORS' REPORT

The directors present their annual report on the affairs of the company together with the financial statements and auditors' report for the year ended 31 March 2007 which has been prepared in accordance with the special provisions relating to small companies under s246(4) Companies Act 1985.

PRINCIPAL ACTIVITIES

The principal activity of the company is to provide unsecured loans for small and medium sized businesses based in the North East of England.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

Following the launch of the NEIF 3 Fund in January 2004 to the value £18million, the appointed Fund Manager, NEL Fund Managers Limited has continued to build upon the progress made in the earlier years of operations. In addition to the commitments in place as at 31st March 2006, a further £5,820,000 was invested during year under review in Loans (with conversion rights) to 44. SME Companies within the European Regional Development Fund Objective 2 Areas of North East England. Accordingly, the Directors can report that the Fund was fully invested as at 31st March 2007 with those monies invested into 132 SME Companies across the Region.

The NEIF 3 Fund has also made good progress in meeting the various Outputs targets as contained within the terms of the ERDF terms and conditions particularly in relation to the number of Companies supported under this Initiative following an agreed re-profiling of the those targets with the Government Office for the North East in July 2005.

The Fund made a substantial capital gain on the sale of an option during the period under review, providing further evidence of the effectiveness of the mezzanine model which has been adopted.

The Directors, having reviewed the current situation of the NERIF 3 Investment Portfolio, are satisfied that sufficient provisioning has been made against further losses to the Fund but do keep the position under regular review in consultation with the Fund Manager.

As a further enhancement to the Project, innovative Money with Management Scheme was introduced in Autumn 2004 to provide a Mentoring service to all the supported SME Companies. Entrust, a Company limited by Guarantee, was appointed under OJEU procedures to provide a management service on behalf of this Company and under its direction, the Scheme has made progress in the year under review. Certain enhancements were made during the year to give additional focus to this Initiative and as a result of its success the Scheme has been extended into the new Fund as detailed below.

As a result of the progress in evidence since the launch of the NERIF 3 Fund, the NERIF 3 Board with the support of One NorthEast and the Government Office for the North East (GONE) launched a new £12 million Fund in June 2006 under the style 'NERIF 3b Fund'. This Fund was supported by a cocktail of a further tranche of ERDF Objective 2 Grant monies and additional Loan support by Barclays Bank and in accordance with the current ERDF Objective 2 Programme. The new Fund has to be fully committed by the end of December 2008.

With the focus on getting the NERIF 3 Fund fully committed by end December 2006, operations on the new Fund commenced in earnest from the beginning of 2007 and at the end of the first quarter, the Fund Managers had made Loans (with conversion rights) amounting to £320,000 to 2 Regional SME Companies. In addition a further £450,000 was committed as at 31st March 2007 to 3 SME Companies taking the total amount committed to £770,000. On current evidence, the Fund Managers remain confident that the Fund will be fully invested by the end of the ERDF Objective 2 period.

In addition, the Company also spearheaded the establishment of a new equity vehicle to be styled NEL Growth Fund, to provide equity support to a range of SME businesses in North East England. A new Fund of £5 million was launched in September 2006 with funding from GONE under the ERDF Objective 2 Funding Programme plus substantial support from the Private Sector, Barclays Bank and One NorthEast. A new Company styled The North East Regional Investment Partner Limited was formed during 2006 with a similar Board to that of NERIF 3 Limited and to act as one of the Limited Partners of the Fund and as custodian of the ERDF and One NorthEast monies. The Board does not have responsibility for Investment policy in the same way as the NERIF Funds.

**NORTH EAST REGIONAL INVESTMENT FUND THREE LIMITED
(A COMPANY LIMITED BY GUARANTEE)**

DIRECTORS' REPORT (continued)

RESULTS AND DIVIDENDS

The results of the company for the year are set out in detail on page 6.

The profit for the year of £883,449 (2006 – loss of £366,131) has been transferred to /(withdrawn from) reserves.

The directors do not recommend the payment of a dividend for the year ended 31 March 2007 (2006:£Nil).

DIRECTORS

The director's who served throughout the year were as follows:

Mr H Morgan-Williams

Mr T Irvine (Resigned 28 March 2007)

Sir D Chapman, Bt

Mr A J Fielder

Mr J Josephs

Mr M Smith

Mrs L Winskell



AUDITORS

Each of the directors at the date of approval of this report separately confirms that:

- so far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the company's auditors are unaware;
- each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information (as defined) and to establish that the company's auditors are aware of that information.

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

30 May 2007

NORTH EAST REGIONAL INVESTMENT FUND THREE LIMITED
(A COMPANY LIMITED BY GUARANTEE)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements. The directors have chosen to prepare the accounts for the company in accordance with United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare such financial statements for each financial year which give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice of the state of affairs of the company and of the profit or loss of the company for that period and comply with UK GAAP and the Companies Act 1985. In preparing those financial statements, the directors are required to:

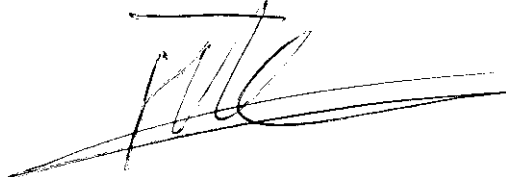
- (a) select suitable accounting policies and then apply them consistently;
- (b) make judgements and estimates that are reasonable and prudent;
- (c) state whether applicable accounting standards have been followed;
- (d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board of Directors
and signed on behalf of the Board



Director



30 May 2007

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NORTH EAST REGIONAL INVESTMENT FUND THREE LIMITED (A COMPANY LIMITED BY GUARANTEE)

We have audited the financial statements of North East Regional Investment Fund Three Limited for the year ended 31 March 2007 which comprise the profit and loss account, the balance sheet and the related notes 1 to 19. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with the relevant financial reporting framework, and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. In addition, we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we became aware of any apparent misstatements within it.

Basis of audit opinion

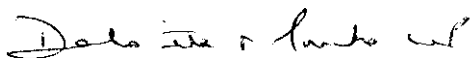
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2007 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the provisions of the Companies Act 1985 applicable to small companies;
- the information given in the directors' report is consistent with the financial statements.



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
Newcastle upon Tyne, United Kingdom

21 May 2007

NORTH EAST REGIONAL INVESTMENT FUND THREE LIMITED
(A COMPANY LIMITED BY GUARANTEE)

PROFIT AND LOSS ACCOUNT
Year ended 31 March 2007

| | Note | £ | 2007 £ | £ | 2006 £ |
|---|------|------------------|--------------------|------------------|--------------------|
| INCOME | | | | | |
| Investment income | 2 | 1,051,610 | | 550,235 | |
| Other income | 3 | <u>2,669,007</u> | | <u>745,100</u> | |
| | | | 3,720,617 | | 1,295,335 |
| Administration expenses: | | | | | |
| Other administrative expenses | | (1,994,863) | | (1,332,106) | |
| Provision against fixed asset investments | | (2,584,256) | | (2,133,305) | |
| Release of provision against fixed asset investments | | <u>-</u> | | <u>983,054</u> | |
| | | | <u>(4,579,119)</u> | | <u>(2,482,357)</u> |
| OPERATING LOSS | 5 | | (858,502) | | (1,187,022) |
| Interest receivable and similar income | 6 | 237,572 | | 302,458 | |
| Interest payable and similar charges | 7 | <u>(365,916)</u> | | <u>(248,910)</u> | |
| | | | (128,344) | | 53,548 |
| Other operating recharges | 8 | | <u>1,870,295</u> | | <u>767,343</u> |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | | | 883,449 | | (366,131) |
| Tax on profit on ordinary activities | 9 | | <u>-</u> | | <u>-</u> |
| PROFIT FOR THE FINANCIAL YEAR TRANSFERRED TO/(WITHDRAWN FROM) RESERVES | 16 | | <u>883,449</u> | | <u>(366,131)</u> |

All activities are derived from continuing operations.

There are no recognised gains and losses for the current and preceding financial years other than as stated in the profit and loss account. Accordingly no statement of total recognised gains and losses has been presented.

NORTH EAST REGIONAL INVESTMENT FUND THREE LIMITED
(A COMPANY LIMITED BY GUARANTEE)

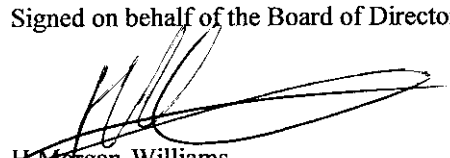
BALANCE SHEET
31 March 2007

| | Note | £ | 2007 £ | £ | 2006 £ |
|--|------|--------------------|---------------------|------------------|---------------------|
| FIXED ASSETS | | | | | |
| Investments | 10 | | 8,561,349 | | 5,738,803 |
| CURRENT ASSETS | | | | | |
| Debtors | 11 | 942,639 | | 1,625,038 | |
| Cash at bank and in hand | | 7,430,087 | | 6,060,025 | |
| | | <u>8,372,726</u> | | <u>7,685,063</u> | |
| CREDITORS: amounts falling due within one year | 12 | <u>(1,241,215)</u> | | <u>(935,076)</u> | |
| NET CURRENT ASSETS | | | <u>7,131,511</u> | | <u>6,749,987</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | 15,692,860 | | 12,488,790 |
| CREDITORS: amounts falling due after more than one year | 13 | | <u>(15,692,860)</u> | | <u>(13,372,239)</u> |
| TOTAL NET LIABILITIES | | | <u>-</u> | | <u>(883,449)</u> |
| CAPITAL AND RESERVES | | | | | |
| Called up share capital | 15 | | - | | - |
| Profit and loss account | 16 | | - | | (883,449) |
| TOTAL DEFICIT | 16 | | <u>-</u> | | <u>(883,449)</u> |

These accounts have been prepared in accordance with the special provisions relating to small companies under Section 246 of the Companies Act 1985.

These financial statements were approved by the Board of Directors on 30 May 2007

Signed on behalf of the Board of Directors


H Morgan-Williams

Director

NORTH EAST REGIONAL INVESTMENT FUND THREE LIMITED
(A COMPANY LIMITED BY GUARANTEE)

NOTES TO THE ACCOUNTS
Year ended 31 March 2007

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently, throughout the year and preceding year.

Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention and in accordance with applicable United Kingdom accounting standards.

Fees and other income

Fees and other income represents amounts receivable for services provided in the UK, excluding Value Added Tax.

Grants

The company receives grants from the European Regional Development Fund (ERDF) and One NorthEast (ONE). Grants of a revenue nature and in respect of the company's core costs are credited directly to the profit and loss account. Where costs are accrued or proposed, applicable grant is accrued or deferred as appropriate.

Investment Funding

The company receives funding from ONE and the ERDF which is for the purpose of investing in SME's. Until the funding is applied to investments the funding is repayable.

Subsequently as investments are realised, the recycled money must be rolled into a legacy fund together with all interest and dividends received plus capital gains less impairment losses. Interest received on invested funds together with specific costs are also rolled into the legacy fund.

The funding from ONE and the ERDF has been treated as funding liabilities. The liabilities are stated at an amount that reflects the ongoing capital adjusted for investment income and gains less investment losses. Such movements flow through the financial statements and are allocated to the resulting legacy funds as other operating charges. The legacy fund is a liability which can only be applied under the direction of the fund providers. The legacy fund does not include the One NorthEast funding.

Fixed Asset Investments

Fixed Asset Investments in the form of unsecured loans and equity investments are made in small and medium sized enterprises which are high risk.

Provisions against investments are charged to the income and expenditure account in line with the expected risk of loss to the fund.

The provisions against investments will be increased if the provision basis shown above does not reflect an adequate provision in the financial statements. The increase in the provision will only be made if specific investments are seen as not being fully recoverable.

Except where stated, investments are stated at cost less provision for impairment.

Investment income is recognised as received.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet to date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and the law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Cash flow statement

The company has taken advantage of the exemptions of FRS 1- Cash flow statements, not to prepare a cash flow statement on the basis that it is a small company as defined by Section 247 of the Companies Act 1985.

NORTH EAST REGIONAL INVESTMENT FUND THREE LIMITED
(A COMPANY LIMITED BY GUARANTEE)

NOTES TO THE ACCOUNTS
Year ended 31 March 2007

2. INVESTMENT INCOME

| | 2007 £ | 2006 £ |
|------------------------------|-----------|-----------|
| Income from loan investments | 1,051,610 | 550,235 |

3. OTHER INCOME

| | 2007 £ | 2006 £ |
|------------------------------------|------------------|----------------|
| Grants and contributions | | |
| Penalties charged | 900 | 900 |
| ONE – Special projects consultancy | - | 217,592 |
| ONE – Overheads | 1,980,851 | - |
| ERDF - Fund manager fees | 290,171 | 301,094 |
| - Money with management fees | 321,262 | 172,238 |
| - Performance rebate | 75,823 | 53,276 |
| | <u>2,669,007</u> | <u>745,100</u> |

4. DIRECTORS AND EMPLOYEES

| | 2007 £ | 2006 £ |
|-----------------|-----------|-----------|
| Directors' fees | 52,229 | 8,917 |

Seven (2006 – eight) directors of the company received directors fees in the year. There were no other employees of the company. The increase in the directors fees is due to the increased activity within the company and the establishment of NERIF 3B.

5. OPERATING LOSS

| | 2007 £ | 2006 £ |
|--|-----------|-----------|
| Operating loss is stated after charging/(crediting): | | |
| Amounts provided against fixed asset investments | 2,584,256 | 2,133,305 |
| Release of provision against fixed asset investments | - | (983,054) |
| Auditors' remuneration: | | |
| - audit fees | 11,500 | 9,500 |
| Set up costs and arrangement fees | 116,934 | - |

The increase in the administration expenses relates to the set up and running costs of NERIF 3B.

6. INTEREST RECEIVABLE AND SIMILAR INCOME

| | 2007 £ | 2006 £ |
|--|-----------|-----------|
| Other interest receivable and similar income | 237,572 | 302,458 |

NORTH EAST REGIONAL INVESTMENT FUND THREE LIMITED
(A COMPANY LIMITED BY GUARANTEE)

NOTES TO THE ACCOUNTS
Year ended 31 March 2007

7. INTEREST PAYABLE AND SIMILAR CHARGES

| | 2007 £ | 2006 £ |
|--|-------------------|-------------------|
| Bank loan interest on loans repayable after more than five years | 365,916 | 248,910 |
| | <u> </u> | <u> </u> |

8. OTHER OPERATING RECHARGES

| | 2007 £ | 2006 £ |
|-------------|-------------------|-------------------|
| Legacy fund | 1,870,295 | 767,343 |
| | <u> </u> | <u> </u> |

9. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

i) Analysis of the tax charge/(credit) on ordinary activities

| | 2007 £ | 2006 £ |
|---|-------------------|-------------------|
| United Kingdom corporation tax at 30% based on the profit/(loss) for the year | - | - |
| | <u> </u> | <u> </u> |

ii) Factors affecting tax credit for the current year

The tax assessed for the year is lower than that resulting from applying the standard rate of corporation tax in the UK: 30%.

The differences are explained below:

| | 2007 £ | 2006 £ |
|---|-------------------|-------------------|
| Profit/(Loss) on ordinary activities before tax | 883,449 | (366,131) |
| Tax at 30% thereon: | (265,035) | 109,839 |
| Utilisation of tax losses | 265,035 | (109,839) |
| Current tax credit for the year | <u> </u> | <u> </u> |

iii) Factors that may affect the future tax charge

A deferred tax asset has not been recognised in respect of timing differences relating to revenue losses as there is insufficient evidence that the asset will be recovered. The amount of the asset not recognised is £128,941 (2006 - £394,759). The asset would be recovered if sufficient profits are generated in the next year to utilise the losses.

NORTH EAST REGIONAL INVESTMENT FUND THREE LIMITED
(A COMPANY LIMITED BY GUARANTEE)

NOTES TO THE ACCOUNTS
Year ended 31 March 2007

10. INVESTMENTS HELD AS FIXED ASSETS

| | Equity £ | Loan £ | Total £ |
|-----------------------------------|----------------|-------------------|-------------------|
| At 1 April 2006 | 200,000 | 7,765,627 | 7,965,627 |
| Additions | - | 8,225,000 | 8,225,000 |
| Repayments | - | (2,818,198) | (2,818,198) |
| Investments written off | - | (1,395,346) | (1,395,346) |
| Conversion | 150,000 | (150,000) | - |
| | <u>350,000</u> | <u>11,627,083</u> | <u>11,977,083</u> |
| At 31 March 2007 | | | |
| Provisions | | | |
| At 1 April 2006 | 52,855 | 2,173,969 | 2,226,824 |
| Charge in year | 185,094 | 2,399,162 | 2,584,256 |
| Investments written off | - | (1,395,346) | (1,395,346) |
| | <u>237,949</u> | <u>3,177,785</u> | <u>3,415,734</u> |
| At 31 March 2007 | | | |
| Net book value | | | |
| At 31 March 2007 | <u>112,051</u> | <u>8,449,298</u> | <u>8,561,349</u> |
| At 31 March 2006 | <u>147,145</u> | <u>5,591,658</u> | <u>5,738,803</u> |
| | £ | £ | £ |
| Listed investments included above | <u>200,000</u> | <u>-</u> | <u>200,000</u> |
| Aggregate market value | <u>37,051</u> | <u>-</u> | <u>37,051</u> |

11. DEBTORS

| | 2007 £ | 2006 £ |
|----------------|----------------|------------------|
| Other debtors | - | 790,000 |
| Prepayments | 148,029 | 17,700 |
| Accrued income | 794,610 | 817,338 |
| | <u>942,639</u> | <u>1,625,038</u> |

NORTH EAST REGIONAL INVESTMENT FUND THREE LIMITED
(A COMPANY LIMITED BY GUARANTEE)

NOTES TO THE ACCOUNTS
Year ended 31 March 2007

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2007 £ | 2006 £ |
|---------------------------------|------------------|----------------|
| Bank loans (note 14) | 884,755 | 664,257 |
| Trade creditors | 3,294 | - |
| Other creditors | 21,780 | 22,530 |
| Other taxes and social security | 3,654 | 1,728 |
| Accruals and deferred income | 327,732 | 246,561 |
| | <u>1,241,215</u> | <u>935,076</u> |

13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | 2007 £ | 2006 £ |
|----------------------|-------------------|-------------------|
| Bank loans (note 14) | 4,308,837 | 3,819,478 |
| Other creditors | 11,384,023 | 9,552,761 |
| | <u>15,692,860</u> | <u>13,372,239</u> |

| Other creditors | 2007 £ | 2007 £ | 2006 £ | 2006 £ |
|---|-------------|-------------------|------------------|------------------|
| ONE – NERIF 3 | 3,600,000 | | 3,600,000 | |
| Less release to Profit and Loss Account | (1,892,775) | | - | |
| | | 1,707,225 | - | 3,600,000 |
| ONE – NERIF 3B | 500,000 | | - | |
| Less release to Profit and Loss Account | (305,668) | | - | |
| | | 194,332 | - | - |
| ERDF – NERIF 3 | 8,100,000 | | 8,100,000 | |
| Less transfer to Legacy Fund | (8,100,000) | | (4,628,250) | |
| | | - | - | 3,471,750 |
| ERDF – NERIF 3B | 5,400,000 | | - | |
| Less transfer to Legacy Fund | (144,000) | | - | |
| | | 5,256,000 | - | - |
| Legacy Fund – ERDF – NERIF 3 | 8,100,000 | | 4,628,250 | |
| Legacy fund – ERDF – NERIF 3B | 144,000 | | - | |
| Legacy fund – charges net of income | (4,017,534) | | (2,147,239) | |
| | | <u>4,226,466</u> | <u>-</u> | <u>2,481,011</u> |
| | | <u>11,384,023</u> | <u>9,552,761</u> | |

The company has received funding during the year which is ringfenced. Prior to investments being made, the funding is a liability to the fund provider. After investments have been made, the ERDF liability transfers to a legacy fund. In addition to the transfer of the liability, investment income less investment losses together with other specific items of expenditure have been transferred to the legacy fund from the profit and loss account. The legacy fund remains under the direction of the fund provider (also see note 18).

At 31 March 2006, the company had a loan of £3,600,000 due to One NorthEast. During the 2007 financial year the terms were changed and the loan was converted to a revenue grant.

NORTH EAST REGIONAL INVESTMENT FUND THREE LIMITED
(A COMPANY LIMITED BY GUARANTEE)

NOTES TO THE ACCOUNTS
Year ended 31 March 2007

14. BORROWINGS

| | 2007 £ | 2006 £ |
|--|------------------|------------------|
| Bank loan 2013 (Interest payable at 2.35% above LIBOR rates) | 4,943,592 | 4,483,735 |
| Bank loan 2017 (Interest payable at 3.45% above LIBOR rates) | 250,000 | - |
| | <u>(884,755)</u> | <u>(664,257)</u> |
| Less amounts falling due within one year (note 12) | | |
| Amounts falling due after more than one year (note 13) | <u>4,308,837</u> | <u>3,819,478</u> |
| Analysis of loan repayments: | | |
| In one year or less or on demand | 884,755 | 664,257 |
| In more than one year but not more than two years | 884,755 | 664,257 |
| In more than two years but not more than five years | 2,654,265 | 1,992,771 |
| In more than five years | 769,817 | 1,162,450 |
| | <u>5,193,592</u> | <u>4,483,735</u> |

The bank loans of the company are secured by a debenture and a fixed charge over the credit balances on the bank accounts of the company.

15. CALLED UP SHARE CAPITAL

The company does not have a share capital and is limited by guarantee. The liability of the members is limited to £1 each. At 31 March 2007, the company had one member which is One NorthEast.

16. RECONCILIATION OF MOVEMENT IN RESERVES

| | Profit and loss account 2007 £ |
|-------------------------------|--|
| Profit for the financial year | 883,449 |
| Opening shareholder's deficit | (883,449) |
| | <u>-</u> |
| Closing shareholders' deficit | <u>-</u> |

17. ULTIMATE CONTROLLING PARTY AND RELATED PARTY TRANSACTIONS

At 31 March 2007 and in the opinion of the directors, the ultimate controlling party was One NorthEast.

The company has taken advantage of the exemption available in Financial Reporting Standard No. 8 'Related Party Disclosures', not to disclose transactions with entities that are part of the same group.

NORTH EAST REGIONAL INVESTMENT FUND THREE LIMITED
(A COMPANY LIMITED BY GUARANTEE)

NOTES TO THE ACCOUNTS
Year ended 31 March 2007

18. CONTINGENT LIABILITY

Under the terms of the funds received by the company, any funds not invested by 31 December 2008 are repayable to the ERDF. At 31 March 2007, the value of funds received from the ERDF which had not been invested was £5,256,000 (2006 : £ 3,471,750). During the year, the company received a further £5,400,000 in respect of NERIF 3B. Once the funds are invested the company must remain within the fund providers guidelines.

| Analysis of funds not invested | 2007 | 2006 |
|---------------------------------------|------------------|------------------|
| | £ | £ |
| NERIF 3 | - | 3,471,750 |
| NERIF 3B | 5,256,000 | - |
| | <u>5,256,000</u> | <u>3,471,750</u> |

19. INVESTMENT COMMITMENT

At 31 March 2007, the company was committed to make an investment of £nil (2006:£nil).