

NEL Fund Management Group Limited

**Directors' report and consolidated
financial statements**

Registered number 2238143

31 March 2009

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Contents

Directors and advisors	1
Directors' report	2
Statement of directors' responsibilities in respect of the Directors' Report and the financial statements	5
Independent auditors' report to the members of NEL Fund Management Group Limited	6
Consolidated Profit and Loss account	8
Consolidated Balance Sheet	9
Company Balance Sheet	10
Consolidated Cash Flow Statement	11
Reconciliation of Movements in Shareholders' Funds	12
Notes	13

Directors and advisors

Company registration number: 2238143

Registered office: Ground Floor
Victoria House
Hampshire Court
Newcastle Business Park
Newcastle upon Tyne
NE4 7YJ

Directors: SM I'Anson
KS Charlton
PJ Haigh
BS Hensby
AD Ross
DC Stonehouse
DA Whitmell

Secretary: KS Charlton

Bankers: Barclays Bank plc
Regional Large Corporate Banking Centre
PO Box 378
71 Grey Street
Newcastle upon Tyne
NE99 1JP

Solicitors: Eversheds Solicitors
Central Square South
Orchard Street
Newcastle upon Tyne
NE1 3XX

Auditors: KPMG Audit Plc
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

Directors' report

The directors present their directors' report and financial statements for the year ended 31 March 2009.

Principal Activities and Business Review

The principal activity of the company is that of acting as a holding company to a group company which is engaged in acting as an investment manager to eleven funds that provide risk capital to small and medium sized businesses in the North East of England, in order to promote and assist in the development of those businesses. When these investments are realised, the funds then distribute the realisation proceeds, thereby providing a return to their investors.

The group loss before tax was £21,614 (2008: loss of £57,290). The directors do not recommend the payment of a dividend (2008: £nil).

Business Environment

Whilst the group operates within a highly regulated environment, with the Financial Services and Market Act 2000 laying down stringent rules for investment management businesses, the number of investment managers, as measured by British Private Equity and Venture Capital Association full membership figures, continues to grow as does the amount of money invested in these sectors.

This growth is mainly around the management of large funds and targeting large transactions. However, the group primarily manages funds that target niche markets within the UK equity gap; as such, it is a manager of smaller funds targeting smaller transactions than the industry average. Whilst there is competition for the management of these funds, it is less intense than that for the management of larger funds.

Strategy

The group's strategy going forward is to increase the number and value of funds under management through the raising of additional funds primarily targeting the UK equity gap.

Future Outlook

The existing fund management contracts will continue to produce a significant amount of income that will underpin the group going forwards. In addition, the group is progressing well with its aim of securing further additional funds under management, with the apparent widening of the UK equity gap leading to larger funds under management.

Directors' report *(continued)*

Principal Risks and Uncertainties

The management of the business and execution of the group's strategy are subject to a number of risks; the key risks affecting the group are:

- **Public Sector Support** - Many funds that operate within the UK equity gap do so because of an element of public sector support. Should public sector support not continue, then it may prove difficult raising successor funds, not least because institutional investors are increasingly seeking to invest sums that are incompatible with the relatively modest needs of UK equity gap funds. Similarly, a delay in renewal of public sector support would have an adverse impact.
- **Recovery of Fund Raising Costs** – Significant start-up costs are incurred by an investment manager in pursuing an opportunity and raising a new fund. Normally such start-up costs are recovered by the investment manager from the fund. Therefore, until there is certainty that a proposed new fund can be raised investment managers face a risk that these start-up costs may be unrecoverable. The group mitigates this risk by undertaking initial market testing to ensure that significant fund raising costs are only incurred when there is a high probability that a fund can be raised.
- **Employees** – Investment managers are very much "people businesses" and their performance depends largely on their employees. The resignation of key individuals and the inability to recruit people with the right experience and skills could adversely impact on results. The group mitigates this risk by paying competitive salaries and providing the opportunity for employees to progress within the organisation, aided by the funding of relevant training.

Key Performance Indicator ("KPI")

The main KPI that relates to the group is the number and value of funds under management and their longevity.

The group now has eleven funds under management, totalling £72 million.

Two of these funds are actively investing and the other nine are actively realising their investments. It is anticipated that three funds will be closed and investors paid their final distributions during the course of the coming year.

Directors

The directors who held office during the year were as follows:

SM I'Anson	
KS Charlton	
PJ Haigh	
BS Hensby	
AD Ross	(appointed 12 May 2008)
DC Stonehouse	
CS Thompson	(appointed 16 May 2008, resigned 22 October 2008)
DA Whitmell	
DK Wilson	(resigned 2 May 2008)

Directors' report *(continued)*

Political and charitable contributions

The group made no political or charitable contributions during the year.

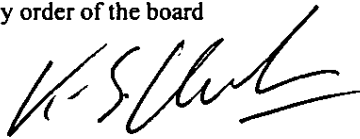
Disclosure of information to auditors

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

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office.

By order of the board



KS Charlton
Secretary

Ground Floor
Victoria House
Hampshire Court
Newcastle Business Park
Newcastle upon Tyne
NE4 7YJ

29 July 2009

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' 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).

The financial statements are required by law to give a true and fair view of the state of affairs of the company and group and of the profit or loss for that period.

In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.



KPMG Audit Plc

Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX
United Kingdom

Independent auditors' report to the members of NEL Fund Management Group Limited

We have audited the group and parent company financial statements (the "financial statements") of NEL Fund Management Group Limited for the year ended 31 March 2009 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Reconciliation of Movement in Shareholders' Funds and the related notes. 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 5.

Our responsibility is to audit the financial statements in accordance with relevant 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 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 become 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group'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.

Independent auditors' report to the members of NEL Fund Management Group Limited *(continued)*

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and parent company's affairs as at 31 March 2009 and of the group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

29 July 2009

Consolidated Profit and Loss account
for the year ended 31 March 2009

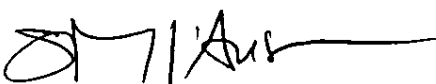
	<i>Note</i>	2009 £	2008 £
Turnover	<i>1,2</i>	1,328,454	1,413,341
Administrative expenses		(1,347,755)	(1,488,524)
Operating loss		(19,301)	(75,183)
Other interest receivable and similar income	<i>6</i>	4,825	24,866
Interest payable and similar charges	<i>7</i>	(7,138)	(6,973)
Loss on ordinary activities before taxation	<i>3-5</i>	(21,614)	(57,290)
Tax on loss on ordinary activities	<i>8</i>	3,256	12,742
Loss for the financial year	<i>17</i>	(18,358)	(44,548)

The group has no recognised gains or losses (*2008: nil*) other than those included in the profit and loss account.

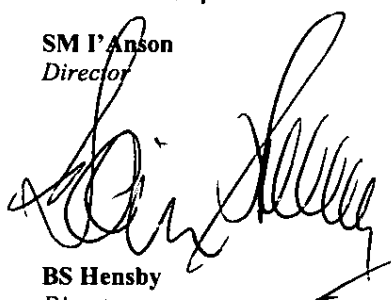
Consolidated Balance Sheet
at 31 March 2009

	<i>Note</i>	2009		2008	
		£	£	£	£
Fixed assets					
Intangible assets	9		-		-
Tangible assets	10		97,061		171,174
Investments	11		6,019		2,549
			<u>103,080</u>		<u>173,723</u>
Current assets					
Debtors	12	268,878		205,191	
Cash at bank and in hand		219,566		335,830	
		<u>488,444</u>		<u>541,021</u>	
Creditors: amounts falling due within one year	13	<u>(263,560)</u>		<u>(338,544)</u>	
Net current assets			<u>224,884</u>		<u>202,477</u>
Total assets less current liabilities			<u>327,964</u>		<u>376,200</u>
Creditors: amounts falling due after more than one year	14		<u>(15,723)</u>		<u>(45,601)</u>
Net assets			<u>312,241</u>		<u>330,599</u>
Capital and reserves					
Called up share capital	16		600		600
Own share reserve	17		(48,000)		(48,000)
Profit and loss account	17		359,641		377,999
Shareholders' funds			<u>312,241</u>		<u>330,599</u>

These financial statements were approved by the board of directors on 29 July 2009 and were signed on its behalf by:



SM I'Anson
Director

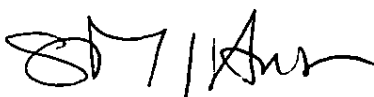


BS Hensby
Director

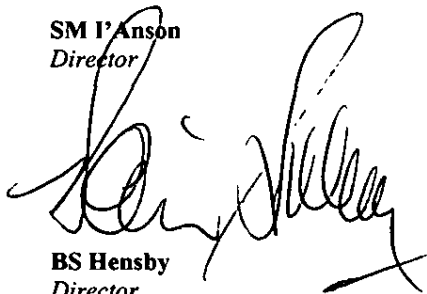
Company Balance Sheet
at 31 March 2009

	<i>Note</i>	2009	2008
		£	£
Fixed assets			
Investments	11	7,867	7,867
Current assets			
Debtors	12	12,012	24,912
Cash at bank and in hand		7,362	29,997
		<u>19,374</u>	<u>54,909</u>
Creditors: amounts falling due within one year	13	<u>(25,641)</u>	<u>(10,562)</u>
Net current (liabilities)/assets		<u>(6,267)</u>	<u>44,347</u>
Total assets less current liabilities		<u>1,600</u>	<u>52,214</u>
Net assets		<u>1,600</u>	<u>52,214</u>
Capital and reserves			
Called up share capital	16	600	600
Profit and loss account	17	1,000	51,614
		<u>1,600</u>	<u>52,214</u>
Shareholders' funds		<u>1,600</u>	<u>52,214</u>

These financial statements were approved by the board of directors on 29 July 2009 and were signed on its behalf by:



SM I'Anson
Director



BS Hensby
Director

Consolidated Cash Flow Statement
for the year ended 31 March 2009

	<i>Note</i>	2009 £	2008 £
Cash flow statement			
Cash flow from operating activities	21	(96,777)	(83,835)
Returns on investments and servicing of finance	22	(2,312)	17,893
Taxation		10,612	(111,367)
Capital expenditure and financial investment	22	35,954	(30,776)
		<hr/>	<hr/>
Cash outflow before financing		(52,523)	(208,085)
Financing	22	(63,741)	(78,983)
		<hr/>	<hr/>
Decrease in cash in the period		(116,264)	(287,068)
		<hr/>	<hr/>
Reconciliation of net cash flow to movement in net funds	22		
Decrease in cash in the period		(116,264)	(287,068)
Cash flow from increase in debt and leases		63,740	78,983
		<hr/>	<hr/>
Change in net debt resulting from cash flows		(52,524)	(208,085)
New finance leases		(25,288)	(100,687)
		<hr/>	<hr/>
Movement in net funds		(74,812)	(308,772)
Net funds at the start of the period	23	248,195	556,967
		<hr/>	<hr/>
Net funds at the end of the period	23	170,383	248,195
		<hr/>	<hr/>

Reconciliation of Movements in Shareholders' Funds
for the year ended 31 March 2009

	Group		Company	
	2009	2008	2009	2008
	£	£	£	£
Loss for the financial year	(18,358)	(44,548)	(50,614)	31,617
Opening shareholders' funds	330,599	375,147	52,214	20,597
Closing shareholders' funds	312,241	330,599	1,600	52,214

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 March 2009. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Under Section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

Tangible fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Office equipment	-	25% reducing balance
Motor vehicles	-	25% reducing balance

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Post-retirement benefits

The group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Grants

Capital based grants are included within accruals and deferred income in the balance sheet and credited to the profit and loss account over the estimated useful economic lives of the assets to which they relate.

Revenue grants are recognised in the profit and loss account when the conditions for their receipt have been fulfilled.

Grants, contributions and accumulated surplus

The company has raised investment funds for small and medium sized enterprises in the Objective 2 area of the North East. A separate company has been contracted to invest and manage those funds.

The company has received a £2 million European Regional Development Fund grant to enable it to provide unsecured loans to small and medium sized businesses based in the North East of England in circumstances where normal commercial finance is unavailable.

The European Regional Development Fund grant has been provided to underwrite the high risk nature of the lending and is released to the income and expenditure account in line with the level of funds invested in small and medium sized enterprises. Any surplus arising over the life of the fund can only ultimately be used for further investment in the North East by North East Regional Investment Fund successor funds.

Notes (continued)

1 Accounting policies (continued)

Investment income

Investment income is recognised as received.

Fixed Asset Investment

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

Provisions against investments are charged to the profit and loss 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.

Investments are stated at cost less provision for impairment.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

Classification of financial instruments issued by the Group

Financial instruments issued by the Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- a) they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and
- b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

Turnover

Turnover comprises management fees, monitoring fees, arrangement fees and grants receivable during the year.

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year (other than cash), government securities and investments in money market managed funds.

Notes (continued)

1 Accounting policies (continued)

Own shares held by ESOP trust

Transactions of the Company-sponsored ESOP trust are treated as being those of the Company and are therefore reflected in the parent company and group financial statements. In particular, the trust's purchases of shares in the Company are debited directly to equity.

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

2 Analysis of turnover

All turnover is attributable to the group's main activity and arises solely in the United Kingdom.

3 Notes to the profit and loss account

	2009 £	2008 £
<i>Loss on ordinary activities before taxation is stated after charging/(crediting)</i>		
Depreciation and other amounts written off tangible fixed assets:		
Owned	21,963	20,334
Leased	27,100	27,357
Hire of land and buildings – rentals payable under operating leases	35,000	26,000
Hire of other assets - rentals payable under operating leases	14,707	31,055
Revenue grants	-	(50,000)
	<hr/>	<hr/>
	2009 £	2008 £
<i>Auditors' remuneration:</i>		
Group		
- audit	12,980	9,650
- other services relating to taxation	4,612	3,902
- other services	2,173	2,100
Company		
- audit	1,597	1,550
- other services relating to taxation	1,035	1,000
	<hr/>	<hr/>

4 Remuneration of directors

	2009 £	2008 £
Directors' emoluments	268,864	323,075
Company contributions to money purchase pension schemes	40,810	60,023
Compensation for loss of office	-	34,858
Amounts paid to third parties in respect of directors' services	20,000	20,000
	<hr/>	<hr/>
	329,680	437,956
	<hr/>	<hr/>

Retirement benefits are accruing to two (2008: four) directors under money purchase schemes.

Directors' fees are paid by the subsidiary NEL Fund Managers Limited.

Notes (continued)

5 Staff numbers and costs

The average number of persons employed by the group (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2009	2008
Fund and portfolio management	12	15
Administration	6	7
	<u>18</u>	<u>22</u>

The aggregate payroll costs of these persons were as follows:

	2009	2008
	£	£
Wages and salaries	776,906	881,628
Subsidiary's directors' fees	20,000	20,000
Social security costs	89,560	101,825
Other pension costs (note 20)	73,094	111,681
	<u>959,560</u>	<u>1,115,134</u>

6 Other interest receivable and similar income

	2009	2008
	£	£
Bank interest	<u>4,825</u>	<u>24,866</u>

7 Interest payable and similar charges

	2009	2008
	£	£
Finance charges payable in respect of finance leases and hire purchase contracts	<u>7,138</u>	<u>6,973</u>

Notes (continued)

8 Taxation

Analysis of charge in period

	2009	2008
	£	£
<i>UK corporation tax</i>		
Current tax on income for the period	999	8,442
Adjustments in respect of prior periods	-	(19,201)
Total current tax	999	(10,759)
<i>Deferred tax</i>		
Origination of timing differences	(4,255)	(1,983)
	(4,255)	(1,983)
Tax on loss on ordinary activities	(3,256)	(12,742)

Factors affecting the tax charge for the current period

The current tax charge for the year is higher (2008: lower) than the standard rate of corporation tax in the UK 21% (2008: 20%). The differences are explained below.

	2009	2008
	£	£
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	(21,614)	(57,290)
Current tax at 21% (2008: 20%)	(4,539)	(11,458)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	5,599	16,677
Capital allowances for period in excess/(less than) of depreciation	2,665	2,837
Other short term timing differences	(2,726)	386
Adjustments to tax charge in respect of previous periods	-	(19,201)
Utilisation of tax losses	-	-
Total current tax charge (see above)	999	(10,759)

Notes (continued)

9 Intangible fixed assets

Group	Goodwill £	Negative Goodwill £	Total £
Cost			
At beginning of year	-	-	-
Additions	2,801	(4,956)	(2,155)
	<hr/>	<hr/>	<hr/>
At end of year	2,801	(4,956)	(2,155)
	<hr/>	<hr/>	<hr/>
Amortisation			
At beginning of year	-	-	-
Charged in year	(2,801)	-	(2,801)
Credited in year	-	4,956	4,956
	<hr/>	<hr/>	<hr/>
At end of year	(2,801)	4,956	2,155
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 March 2009	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 March 2008	-	-	-
	<hr/>	<hr/>	<hr/>

On 27 January 2009 NEL Fund Managers Limited acquired North East Regional Investment Fund Limited ('NERIF') and North East Regional Investment Fund Two Limited ('NERIF2'), both limited by guarantee. The carrying value of the identifiable assets and liabilities of the entities at the date of acquisition was also the fair value to the group.

The fair value of the identifiable assets and liabilities of the entities at the date of acquisition were:

Group	Carrying value and fair value to group		
	NERIF £	NERIF2 £	Total £
Net assets/(liabilities) acquired	4,957	(2,800)	2,157
Goodwill arising on acquisition	(4,956)	2,801	(2,155)
	<hr/>	<hr/>	<hr/>
Consideration	1	1	2
	<hr/>	<hr/>	<hr/>

The consideration was satisfied solely by cash.

The acquisition has been accounted for by the acquisition method of accounting.

Positive goodwill has been amortised in the period of acquisition being the directors' assessment of its useful economic life. Similarly, negative goodwill has been released to the profit and loss representing the period over which the non monetary assets have been recovered.

Notes (continued)

10 Tangible fixed assets

Group	Leasehold improvements £	Office equipment £	Motor vehicles £	Total £
<i>Cost</i>				
At 31 March 2008	56,106	116,935	159,818	332,859
Additions	-	1,805	25,288	27,093
Disposals	(43,568)	-	(73,646)	(117,214)
Transfers	(12,538)	12,538	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2009	-	131,278	111,460	242,738
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>				
At 1 April 2008	45,468	85,188	31,029	161,685
Charge for year	10,638	8,210	30,215	49,063
Disposals	(43,568)	-	(21,503)	(65,071)
Transfers	(12,538)	12,538	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2009	-	105,936	39,741	145,677
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
At 31 March 2009	-	25,342	71,719	97,061
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2008	10,638	31,747	128,789	171,174
	<hr/>	<hr/>	<hr/>	<hr/>

Included in the total net book value of motor vehicles is £71,719 (2008: £103,867) in respect of assets held under finance leases. Depreciation for the year on these assets was £27,100 (2008: £26,142).

Included in the total net book value of office equipment is £nil (2008: £3,646) in respect of assets held under finance leases. Depreciation for the year on these assets was £nil (2008: £1,215).

Notes (continued)

11 Fixed asset investments

Group	Redeemable preference shares £	Loans £	Other participating interests £	Total £
<i>Cost</i>				
At 31 March 2008	-	-	2,549	2,549
Additions	73,449	151,559	-	225,008
Repayments	(4,138)	-	-	(4,138)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2009	69,311	151,559	2,549	223,419
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Provisions</i>				
At 31 March 2008	-	-	-	-
Additions	64,698	151,559	-	216,257
Charge	1,143	-	-	1,143
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2009	65,841	151,559	-	217,400
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
At 31 March 2008	-	-	2,549	2,549
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2009	3,470	-	2,549	6,019
	<hr/>	<hr/>	<hr/>	<hr/>

None of the above investments are listed.

Notes (continued)

11 Fixed asset investments (continued)

Company	Shares in group undertakings	Participating interests £	Total £
<i>Cost</i>			
At 31 March 2008 and 31 March 2009	7,501	366	7,867
<i>Net book value</i>			
At 31 March 2008 and 31 March 2009	7,501	366	7,867

The undertakings in which the Group's interest at the year end is more than 20% are as follows:

<i>Subsidiary undertakings</i>	Country of incorporation	Principal activity	Percentage of ordinary shares held	
			Group	Company
NEL Fund Managers Limited	England and Wales	Fund Manager	100%	100%
* Northern Enterprise (LP) Limited	England and Wales	Limited partner to The First and Second HSBC Enterprise Funds for the North East, The North East Seed Capital Fund and Capital North East	100%	-
* Team General Partner Limited	England and Wales	General partner to The First HSBC Enterprise Fund for the North East	Limited by guarantee	
* Northern Enterprise (General Partner) Limited	England and Wales	General partner to The Second HSBC Enterprise Fund for the North East	100%	-
* NES General Partner Limited	England and Wales	General partner to The North East Seed Capital Fund	100%	-
* CNE General Partner Limited	England and Wales	General partner to Capital North East	100%	-
* Seed Capital General Partner Limited	England and Wales	General partner to The NEL Growth Fund	100%	-
* Northern Enterprise Employee Benefit Trust Limited	England and Wales	Trustee of the Northern Enterprise Employee Benefit Trust	100%	-
* Northern Enterprise Limited	England and Wales	Dormant	100%	-
* North East Regional Investment Fund Limited	England and Wales	Investment fund	Limited by guarantee	
* North East Regional Investment Fund Two Limited	England and Wales	Investment fund	Limited by guarantee	

* Identifies an indirect shareholding

Notes (continued)

11 Fixed asset investments (continued)

	Country of incorporation	Principal activity	Percentage of ordinary shares held Group	Company
<i>Participating interests</i>				
The First HSBC Enterprise Fund for the North East	England and Wales	Provider of risk capital	15%	-
The Second HSBC Enterprise Fund for the North East	England and Wales	Provider of risk capital	15%	-
The North East Seed Capital Fund	England and Wales	Provider of risk capital	26.42%	11.42%
Capital North East	England and Wales	Provider of risk capital	20%	-
The NEL Growth Fund	England and Wales	Provider of risk capital	20.9%	-

12 Debtors

	Group		Company	
	2009 £	2008 £	2009 £	2008 £
Loan debtors	12,012	24,912	12,012	24,912
Fees receivable	92,571	12,148	-	-
Other debtors	56,248	35,268	-	-
Prepayments and accrued income	103,792	122,251	-	-
Taxation	-	10,612	-	-
Deferred tax asset (see note 15)	4,255	-	-	-
	<u>268,878</u>	<u>205,191</u>	<u>12,012</u>	<u>24,912</u>

13 Creditors: amounts falling due within one year

	Group		Company	
	2009 £	2008 £	2009 £	2008 £
Trade creditors	34,265	35,355	-	-
Obligations under finance leases	33,460	42,034	-	-
Taxation and social security	53,583	58,339	-	8,012
Other creditors	10	10	-	-
Accruals and deferred income	142,242	202,806	2,632	2,550
Amounts due to group undertaking	-	-	23,009	-
	<u>263,560</u>	<u>338,544</u>	<u>25,641</u>	<u>10,562</u>

Notes (continued)

14 Creditors: amounts falling due after more than one year

	2009 £	2008 £
Group		
Obligations under finance leases and hire purchase contracts	15,723	45,601

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	2009 £	2008 £
Within one year	36,441	47,854
In the second to fifth years	16,549	47,909
	52,990	95,763
Less: future finance charges	(3,807)	(8,128)
	49,183	87,635

15 Provision for liabilities

Group

	Deferred taxation £
At beginning of year	-
Credit to the profit and loss account for the year	(4,255)
At end of year	(4,255)

The elements of deferred taxation are as follows:

	2009 £	2008 £
Difference between accumulated depreciation and capital allowances	(3,035)	-
Other timing differences	(1,220)	-
	(4,255)	-

16 Called up share capital

	2009 £	2008 £
Authorised		
1,000 Ordinary shares of £1 each	1,000	1,000
Allotted, called up and fully paid		
600 Ordinary shares of £1 each	600	600

Notes (continued)

17 Reserves

	Own shares held by employee benefit trust £	Group profit and loss account £	Company profit and loss account £
At 31 March 2008	(48,000)	377,999	51,614
Retained loss for the year	-	(18,358)	(50,614)
At 31 March 2009	<u>(48,000)</u>	<u>359,641</u>	<u>1,000</u>

At the balance sheet date 180 ordinary shares of £1 each were held by Northern Enterprise Employee Benefit Trust. The arrangements for distributing shares to employees by the trust are at the discretion of the trustees. It is not practicable to quantify the market value of the shares held. None of the shares are either under option to employees or have been unconditionally gifted to them.

The Company's loss for the financial year was £50,614 (2008: profit £39,629).

18 Commitments

Annual commitments under non-cancellable operating leases are as follows:

	2009		2008	
	Land and buildings £	Other £	Land and buildings £	Other £
Group				
Operating leases which expire:				
Within one year	30,000	8,070	-	738
In the second the fifth years inclusive	-	-	26,000	9,825
Post five years	-	3,933	-	-
	<u>30,000</u>	<u>12,003</u>	<u>26,000</u>	<u>10,563</u>

19 Contingent liabilities

During the year ended 31 March 2009, the NEL Growth Fund ("NELGF"), a fund managed by NEL Fund Managers Limited, was subject to a thematic audit by the Directorate General for Regional Policy ("DG Regio") for the purposes of assessing the management and control systems for NELGF at the level of the final beneficiaries and the delegated Managing Authority, Government Office for the North East. The DG Regio's draft findings indicate that NELGF may not be State Aid compliant and that the procurement process may not have been fully complied with. These draft findings are being challenged and the Directors are in the process of taking formal advice from appropriate advisers, and at this stage do not believe there is a significant risk of financial loss as a result of this matter.

Notes (continued)

20 Pension scheme

The group operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by group companies to the scheme and amounted to £73,094 (2008: £111,681).

Contributions amounting to £5,811 (2008: £27,663) were payable to the scheme and are included in creditors.

21 Reconciliation of operating (loss)/profit to operating cash flows

	2009 £	2008 £
Operating loss	(19,301)	(75,183)
Depreciation and amortisation	51,218	47,691
Increase in debtors	(70,044)	(72,084)
(Decrease)/increase in creditors and deferred income	(73,032)	15,741
Loss on sale of fixed assets	14,382	-
Net cash outflow from operating activities	(96,777)	(83,835)

22 Analysis of cash flows

	2009 £	2008 £
Returns on investment and servicing of finance		
Interest received	4,825	24,866
Interest element of finance lease repayments	(7,137)	(6,973)
	(2,312)	17,893
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(1,805)	(30,772)
Sale of tangible fixed assets	37,761	-
Investment acquisition	(2)	(4)
	35,954	(30,776)
Financing		
Capital element of finance lease repayments	(63,741)	(78,983)

23 Analysis of net funds

	At beginning of year £	Cash flow £	Non cash flow £	At end of year £
Cash at bank and in hand	335,830	(116,264)	-	219,566
Finance Leases	(87,635)	63,740	(25,288)	(49,183)
Total	248,195	(52,524)	(25,288)	170,383

Notes (continued)

24 Related party disclosures

Related party	Relationship	Income 2009 £	Expenditure 2009 £	Income 2008 £	Expenditure 2008 £
Biofresh Limited	A director of NEL Fund Managers Limited is also a director of this investee company	6,875	-	-	-
Connor Group Limited	A former director of NEL Fund Managers Limited was also a director of this investee company	-	-	2,750	-
Durham University	The University has an investment in NEL Growth Fund	-	-	-	755
Electrokinetic Limited	A director of NEL Fund Managers Limited is also a director of this investee company	7,000	-	7,000	-
ESB New Technology Limited	A director of NEL Fund Management Group Limited is also a director of this investee company	700	-	700	-
Foster Findlay Associates Limited	A director of NEL Fund Managers Limited is also a director of this investee company	5,246	-	6,390	-
I'Anson Management Services Limited	Consulting firm owned by a director of NEL Fund Management Group Limited	-	15,000	-	20,000
Innocoe Gaming Limited	A director of NEL Fund Managers Limited is also a director of this investee company	12,000	-	-	-
Inotek Antennas Limited	A director of NEL Fund Managers Limited is also a director of this investee company	20,887	-	-	-
Kitchenware Records Limited	A director of NEL Fund Managers Limited is also a director of this investee company	5,000	-	5,000	-
Newcastle University	The University has an investment in NEL Growth Fund	-	11	-	750
Non Linear Dynamics Limited	A director of NEL Fund Managers Limited is also a director of this investee company	5,000	-	4,167	-
North East Regional Investment Fund Three Limited	Subsidiary of One NorthEast Limited, a shareholder in NEL Fund Management Group Limited	511,296	-	603,860	-
Northumbria University	The University has an investment in NEL Growth Fund	-	-	-	2,050
One North East	Shareholder in NEL Fund Management Group Limited	15,000	-	-	-

Notes (continued)

24 Related party disclosures (continued)

Related party	Relationship	Income 2009 £	Expenditure 2009 £	Income 2008 £	Expenditure 2008 £
Onyx Internet Limited	Company have been invested in by the North East Regional Investment Fund 3 Limited	-	-	-	5,535
Orla Protein Technology Limited	A director of NEL Fund Managers Limited is also a director of this investee company	-	-	4,000	-
Peratech Limited	A director of NEL Fund Managers Limited is also a director of this investee company	-	-	12,000	-
Sivex Engineering Limited	A director of NEL Fund Managers Limited is also a director of this investee company	-	-	17,333	-

Balances at 31 March

	2009 £	2008 £
Due to		
Onyx Internet Limited	-	400

25 Ultimate parent company and parent undertaking of larger group

The ownerships of NEL Fund Management Group Limited at 31 March 2009 were:

	%	£
One NorthEast	40	240
Northern Enterprise Employee Benefit Trust	30	180
Northern Enterprise Trust Company Limited	25	150
Project North East Limited	5	30
	<u>100</u>	<u>600</u>

Detailed consolidated profit and loss account
for the year ended 31 March 2009

The following analysis does not form part of the audited financial statements and is provided for management purposes only.

	2009	2008
	£	£
Operating income		
Management fees	473,549	1,016,672
Arrangement fees	202,300	127,648
Directors' fees	68,875	56,521
Monitoring fees	28,669	17,509
Carried interest	-	32,372
Other income	6,655	162,619
Accountancy fees	48,699	-
Redemption premiums	1,862	-
	1,328,454	1,413,341
Direct deal costs		
Legal and professional	1,600	-
Variable deal costs	-	(1,125)
Company searches	1,507	2,045
Consultant fees	3,500	-
Total direct deal costs	6,607	920
Direct portfolio costs		
Legal and professional	-	20
Company searches	100	53
Total portfolio costs	100	73
Staff costs		
NEDs remuneration	40,000	40,833
Staff salaries	703,813	860,795
Employer's NIC and Class 1A	89,560	101,825
Employer's pension contributions	73,094	111,681
Death in service	2,220	3,959
Healthcare	6,283	6,062
Temporary staff	796	2,375
Recruitment costs	1,320	13,840
Staff development	12,959	7,415
Redundancy costs	53,093	-
Total staff costs	983,138	1,148,785
Marketing costs		
Functions/conferences	10,658	7,236
Marketing	5,266	10,153
Public relations	18,967	25,020
Advertising	678	1,095
Entertaining	2,910	5,344
Total marketing costs	38,479	48,848

Detailed profit and loss account (continued)
for the year ended 31 March 2009

	2009	2008
	£	£
Travel costs		
Motor expenses	58,486	62,746
Travel, hotels and subsistence	9,478	6,702
Depreciation	30,215	26,142
Total travel costs	98,179	95,590
Premises costs		
Rent	35,070	26,000
Service charge	4,842	7,495
Depreciation	10,638	11,134
Rates	9,345	10,212
Heat and light	7,626	5,401
Premises repairs and renewals	298	477
Cleaning	4,486	4,277
Relocation costs	34,353	-
Total premises costs	106,658	64,996
Equipment costs		
Routine maintenance	1,904	1,747
Equipment repairs and renewals	-	-
Rental and leasing	787	2,084
Depreciation and amortisation	6,055	10,414
Total equipment costs	8,746	14,245
Supplies and service costs		
Printing	-	58
Stationery	3,746	4,121
Postage	1,701	1,987
Telephone and fax	16,285	13,720
Insurance	13,300	15,794
IT supplies	3,152	5,289
Database usage	2,567	2,900
Consultancy	4,463	2,867
Legal and professional	16,201	23,414
Audit and accountancy	5,431	16,035
Bank charges	(20)	473
Total supplies and services costs	66,826	86,658

Detailed profit and loss account (continued)
for the year ended 31 March 2009

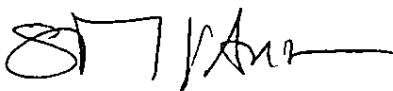
	2009	2008
	£	£
Sundry costs		
Subscriptions	10,468	10,153
Sundries	8,535	13,587
Bad debts	4,494	4,669
Investment provisions	1,143	-
Profit/loss on disposal	14,382	-
	<hr/>	<hr/>
Total sundry costs	39,022	28,409
	<hr/>	<hr/>
Total expenditure	1,347,755	1,488,524
	<hr/>	<hr/>
	(1,347, 755)	(1,488,524)
	<hr/>	<hr/>
Operating (loss)/profit	(19,301)	(75,183)
Interest receivable	4,825	24,866
Interest payable	(7,138)	(6,973)
	<hr/>	<hr/>
(Loss)/profit before taxation	(21,614)	(57,290)
	<hr/>	<hr/>

Company profit and loss account
for the year ended 31 March 2009

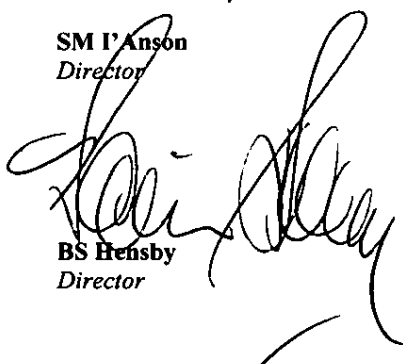
	2009 £	2008 £
Release of grant income	-	39,629
Management fee income	-	3,104
Administrative expenses	(50,708)	(2,690)
Operating (loss)/profit	(50,708)	40,043
Interest receivable	94	16
(Loss)/profit on ordinary activities before taxation	(50,614)	40,059
Tax on (loss)/profit on ordinary activities	-	(8,442)
(Loss)/profit for the financial year transferred to reserves	(50,614)	31,617

All activity in the current and preceding year related to continuing activities.

These financial statements were approved by the board of directors on 29 July 2009 and signed on its behalf by:



SM I'Anson
 Director



BS Hensby
 Director