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Northern Venture Trust PLC

Annual report and financial statements
30 September 2011

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

The trust was one of the first VCTs launched on the London Stock Exchange in 1995. It invests mainly in UK unquoted companies and aims to provide high long-term tax-free returns to shareholders through a combination of dividend yield and capital growth.

Contents

Financial summary

Year ended 30 September.	2011	2010
Net assets	£62 6m	£50 4m
Net asset value per share	87 8p	85 2p
Return per share		
Revenue	1 5p	1 2p
Capital	8 8p	6 8p
Total	10 3p	8 0p
Dividend per share declared in respect of the year	6 0p	7 5p
Cumulative return to shareholders since launch		
Net asset value per share	87 8p	85 2p
Dividends paid per share*	96 5p	89 0p
Net asset value plus dividends paid per share	184 3p	174 2p
Share price at end of year	77 0p	72 5p
Share price discount to net asset value	12 3%	14 9%

*Excluding proposed final dividend

Key dates

Results announced
9 November 2011

Shares quoted ex dividend
23 November 2011

Annual general meeting
14 December 2011 (11 30am, Institute of Directors, 116 Pall Mall, London, SW1Y 5ED)

Final dividend paid (to shareholders on register on 25 November 2011)
16 December 2011

Chairman's statement

Your directors believe that the outcome for the year is satisfactory and maintains your company's position among the leading long-term performers in the VCT market.

The past year has been challenging but successful for our company, once more against a backdrop of turbulent financial markets and a struggling UK economy The investment portfolio has continued to make good progress, and after a well-received tender offer and share issue the company's net assets have exceeded £60 million for the first time

Results and dividend

The NAV per ordinary share at 30 September 2011 was 87 8p, compared with 85 2p a year earlier The return per share before dividends as shown in the income statement was 10 3p, equivalent to 12 1% of the opening net asset value We are pleased that the increase in the size of the company has led to economies of scale as envisaged in our November 2010 share offer prospectus, with the total expense ratio falling to 2 54% of average net assets this year compared with 2 65% in the corresponding period Given the challenging market conditions prevailing over the past year, your directors believe that the outcome for the year is satisfactory and maintains your company's position among the leading long-term performers in the VCT market

The board's stated objective is to pay an annual dividend to shareholders of at least 6 0p per share, although in recent years it has been possible on a number of occasions to exceed this target An interim dividend of 3 0p per share for the year ended 30 September 2011 was paid in June 2011 and after careful consideration we have decided to recommend a final dividend also of 3 0p, making a total of 6 0p for the year, in line with our objective Our aim is to achieve a balance between providing an attractive and consistent dividend yield to shareholders and maintaining the company's capital base as a solid platform for the future In the current economic climate we believe that a 6 0p dividend is the right level and one which we can realistically hope to maintain in the short to medium term on the 71 3 million shares now in issue

Investment portfolio

The business review on pages 6 to 10 gives details of movements in the investment portfolio during the year Seven new venture capital holdings were acquired at a total cost of £6 4 million As expected, adverse market conditions meant that exit opportunities were limited, and the only significant sale was that of Promanex Group Holdings which brought cash proceeds of £2 1 million as well as a £0 5 million inflow of accumulated loan stock interest The sale price was in line with our latest carrying value and represented a gain of 26% over cost, a good result in the current economic climate In addition a further £0 9 million of deferred proceeds from the September 2009 sale of DxS was recognised in the year, bringing the cumulative receipts to £9 6 million from an original investment of £1 1 million

Share issue and tender offer

In November 2010 the company made a tender offer to purchase 10% of the issued share capital at a 3% discount to NAV, along similar lines to a previous tender offer in 2005 The tender offer was fully taken up with approximately 5 9 million shares being re-purchased at a cost of £4 7 million Shareholder feedback has been positive and your board will keep under review the possibility of a further tender offer in the future

In November 2010 a new public offer of ordinary shares was launched with a target of raising
£15 million before expenses The offer proved popular with investors, closing fully subscribed in mid-February, and was we believe the only 2010/11 generalist VCT offer to sell out before the end of the tax year Many of our existing shareholders took the opportunity to make a further investment, and I would like to thank all of our shareholders for their continuing and valued support

Share buy-back policy

It was announced in August 2010 that in order to assist in the provision of liquidity to shareholders, the company would follow a policy of buying back its shares in the market at a 15% discount to the latest published NAV, subject to market conditions and the availability of cash resources and distributable reserves In the event it has not been necessary for the company to use its buyback powers since the completion of the tender offer in December 2010, as secondary market demand for the shares has remained strong This is not surprising given the attractive tax-free yield which our current distribution policy offers

The mid-market share price ranged between a low of 70¼p and a high of 79p during the year, and the discount to NAV at the end of the year was 12 3%

VAT on management fees

During the year a further £132,000 was recovered in relation to VAT previously paid on investment management fees, taking the cumulative total to £634,000 Our managers continue to pursue a claim against HM Revenue & Customs for the payment of compound rather than simple interest on VAT repayments, but we have been advised that this will take a considerable time to resolve and in the meantime no credit has been taken in our accounts for possible future recoveries

VCT qualifying status

The company has maintained its approved venture capital trust status with HM Revenue & Customs The company's compliance with the VCT qualifying conditions is closely monitored by the board, who receive regular reports from our managers and from our VCT taxation advisers, PricewaterhouseCoopers LLP

Corporate governance

The board's detailed statement on corporate governance matters is set out on pages 20 to 24 The company continues to comply with the provisions of the Association of Investment Companies Code of Corporate Governance and the directors review the role and effectiveness of the board, its committees and individual directors annually During the past year we have adopted the Code's recommendation that directors who have served for more than nine years should seek re-election at each annual general meeting The board's remit includes approving all investment and divestment decisions and during the year we met seven times in person and 17 times by conference call

Board of directors

Primrose Scott retired from the board at the close of the annual general meeting in December 2010, at which time I expressed the board's gratitude to Primrose for her contribution over the first 15 years of the company's life

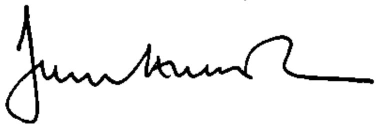
Annual general meeting and shareholder presentation

The 2011 annual general meeting will take place in central London on Wednesday 14 December 2011 Details of the formal business of the meeting are set out in a separate circular which is being sent to shareholders with the annual report We look forward to meeting shareholders on that occasion and also at NVM Private Equity's VCT seminar on Tuesday 24 January 2012

Outlook

Despite the unhelpful business environment it is encouraging to note that many of our portfolio companies have continued to make good progress It is clear that a return to consistent growth in the UK economy is some way off, and this will inevitably constrain the performance
of individual investments to a certain extent By virtue however of our fund-raising and successful realisations we are now holding a significant amount of cash, which we plan to use selectively over the short to medium term to take advantage of reasonably-priced private equity opportunities - some of which we expect to result from the difficulty which many small and medium sized companies are experiencing in obtaining funding from UK clearing banks We will seek to maintain the company's excellent long–term performance record by continuing to apply the principles developed over many years and we believe that this should continue to produce good returns for our shareholders

John Hustler
Chairman 9 November 2011



Directors and advisers

John Hustler FCA MCSI CF (Chairman)
aged 65, was for ten years a corporate finance partner at KPMG, where he was head of venture capital, he formed Hustler Venture Partners Limited, a specialist adviser to small firms, in 1993 He is non-executive chairman of Octopus Titan VCT 2 PLC and a non-executive director of Hygea VCT plc He was appointed to the board in 1995 and became chairman in 2009

Nigel Beer FCA
aged 57, was formerly London Head of Corporate Finance at KPMG He has over 20 years' experience of private equity and corporate transactions and investments He is a non-executive director of Community Health Partnerships Limited which invests in health sector infrastructure, and three commercial property investment companies

Michael Denny
aged 68, was chairman of NVM Private Equity Limited until his retirement in 2008 He is a non-executive director of Northern 2 VCT PLC and is a past chairman of the British Private Equity and Venture Capital Association He was appointed to the board in 1995

Ross Peters MA
aged 68, was a director of Murray Johnstone Limited for fifteen years and chief executive and founder of their venture capital activities He formed Stevenson Stewart, an adviser to technology based companies, in 1992 He is a non-executive director of a number of private companies He was appointed to the board in 2001

Hugh Younger LLB
aged 53, is senior partner at Murray Beith Murray, a leading firm of solicitors based in Edinburgh He has more than 25 years' experience of private client work and brings a perspective on matters relating to wealth management and asset protection He was appointed to the board in 2009

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Edinburgh EH1 1YZ

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 Venture Trust PLC is a Venture Capital Trust (VCT) which has been listed on the London Stock Exchange since 1995 The company invests mainly in unquoted venture capital holdings, with its remaining assets invested in a portfolio of listed fixed-interest and equity investments and bank deposits

The company is a member of the Association of Investment Companies (AIC)

Northern Venture Trust is managed by NVM Private Equity Limited (NVM), an independent specialist firm of venture capital managers based in Newcastle upon Tyne and Reading NVM also acts as manager of three other listed investment companies, Northern Investors Company PLC, Northern 2 VCT PLC and Northern 3 VCT PLC, and has a total of over £200 million under management

Venture Capital Trusts

Venture Capital Trusts (VCTs) were introduced by the Chancellor of the Exchequer in the November 1994 Budget, the relevant legislation being contained in the Finance Act 1995 VCTs are intended to provide a means whereby private individuals can invest in small unquoted trading companies in the UK, with an incentive in the form of a range of tax benefits With effect from 6 April 2006, the benefits to eligible investors include

- income tax relief at up to 30% on new subscriptions of up to £200,000 per tax year, provided the shares are held for at least five years,
- exemption from income tax on dividends paid by VCTs (such dividends may include the VCT's capital gains as well as its income), and
- exemption from capital gains tax on disposals of shares in VCTs

Subscribers for shares in VCTs between 6 April 2004 and 5 April 2006 were entitled to income tax relief at 40% rather than 30% and the shares had to be held for at least three years rather than five years Prior to 6 April 2004, subscribers for shares in VCTs were entitled to income tax relief at 20% and could also obtain capital gains deferral relief Capital gains deferred by pre-6 April 2004 subscriptions are not affected by the subsequent changes in VCT tax reliefs

Financial calendar

The company's financial calendar for the year ending 30 September 2012 is as follows

May 2012
Half-yearly financial report for six months ending 31 March 2012 published

June 2012
Interim dividend paid

November 2012
Final dividend and results for year ending 30 September 2012 announced, annual report and financial statements published

December 2012
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 investment scheme

The company operates a dividend investment scheme, giving shareholders the option of reinvesting their dividends in new ordinary shares in the company with the benefit of the tax reliefs currently available to VCT subscribers Information about the plan can be obtained from the Company Secretary (see page 4 for contact details)

Business review

The company's objective is to provide high long-term tax-free returns to investors through a combination of dividend yield and capital growth, by investing in a portfolio mainly comprising holdings in UK unquoted companies.

This review has been prepared by the directors in accordance with the requirements of Section 417 of the Companies Act 2006, and forms part of the directors' report to shareholders The company's independent auditors are required by law to report on whether the information given in the directors' report (including the business review) is consistent with the financial statements The auditors' opinion is included in their report on page 26

Objectives and investment policy

The company's objective is to provide high long-term tax-free returns to investors through a combination of dividend yield and capital growth, by investing in a portfolio mainly comprising holdings in UK unquoted companies

The company is a Venture Capital Trust approved by HM Revenue & Customs In order to maintain approved status, the company must comply on a continuing basis with the provisions of Section 274 of the Income Tax Act 2007, in particular, the company is required at all times to hold at least 70% of its investments (as defined in the legislation) in VCT-qualifying holdings, of which at least 30% must comprise eligible ordinary shares For this purpose a "VCT-qualifying holding" consists of up to £1 million invested in any one year in new shares or securities of a UK unquoted company (which may be quoted on AIM) which is carrying on a qualifying trade, and whose gross assets at the time of investment do not exceed a prescribed limit The definition of "qualifying trade" excludes certain activities such as property investment and development, financial services and asset leasing

The company's investment policy has been designed to enable the company to comply with the VCT qualifying conditions set out above The directors intend that the long-term disposition of the company's assets will be approximately 80% in a portfolio of VCT-qualifying unquoted and AIM-quoted investments and 20% in other investments (including listed fixed-interest and equity securities and bank deposits), to provide a reserve of liquidity which will maximise the company's flexibility as to the timing of investment acquisitions and disposals, dividend payments and share buy-backs Within the VCT-qualifying portfolio investments will be structured using various listed and unlisted investment instruments, including ordinary and preference shares, loan stocks and convertible securities, to achieve an appropriate balance of income and capital growth, having regard to the VCT legislation The portfolio will be diversified by investing in a broad range of VCT-qualifying industry sectors and by holding investments in companies at different stages of maturity in the corporate development cycle The normal investment holding period will be in the range from three to seven years Up to approximately 10% by cost of the company's investments may be in early stage companies with high growth potential

The target size range for VCT-qualifying investments is from approximately £250,000 to £1 million (the maximum permitted within any tax year), with an average investment of over £750,000 As a result, and based on the company's present gross assets of approximately £63 million, no single investment would normally represent in excess of 2% of the company's total assets at the time of acquisition However shareholders should be aware that the company's VCT-qualifying investments are held with a view to long-term capital growth as well as income and will often have limited marketability, as a result it is possible that individual holdings may grow in value to the point where they represent a significantly higher proportion of total assets prior to a realisation opportunity being available Investments will normally be made using the company's equity shareholders' funds and it is not intended that the company will take on any long-term borrowings

The company is entitled to participate pro rata to net assets in all investment opportunities developed by NVM Private Equity Limited (NVM) and regularly invests alongside the other funds managed by NVM, enabling the funds together to undertake investment commitments in any one investee company of up to approximately £7 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

Table 1 Venture capital portfolio cash flow

Year ended 30 September	New investment £000	Sales proceeds £000	Net inflow/ (outflow) £000
2007	7,691	6,390	(1,301)
2008	9,006	13,386	4,380
2009	2,187	9,978	7,791
2010	7,333	6,023	(1,310)
2011	6,399	4,199	(2,200)
Total	**32,616**	**39,976**	**7,360**

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

	£000	Pence per ordinary share
Net asset value at 30 September 2010	50,414	85 2
Net revenue (investment Income less revenue expenses and tax)	975	1 5
Capital surplus arising on investments		
Realised net gains on disposals	1,277	1 9
Movements in fair value of investments	5,125	7 7
Management expenses allocated to capital account (net of tax relief)	(518)	(0 8)
Total return for the year as shown in income statement	6,859	10 3
Proceeds of issue of new shares (net of expenses)	14,782	–
Shares re-purchased for cancellation	(4,696)	(0 2)
Net movement for the year before dividends	16,945	10 1
Net asset value at 30 September 2011 before dividends recognised	67,359	95 3
Dividends recognised in the financial statements for the year	(4,789)	(7 5)
Net asset value at 30 September 2011	**62,570**	**87 8**

Investment management

NVM has acted as the company's investment manager since inception NVM has an experienced team of venture capital executives based in its offices in Newcastle upon Tyne and Reading and currently has over £200 million under management in three VCTs and one investment trust

The board's management engagement committee reviews the terms of NVM's appointment as investment manager on a regular basis The principal terms of the company's management agreement with NVM are set out in Note 3 to the financial statements

Overview of the year

During the year under review Northern Venture Trust achieved a total return to ordinary shareholders, before dividends, of 10 3p per share, equivalent to 12 1% of the opening net asset value per share of 85 2p The movement in total net assets and net asset value per share is summarised in Table 2

The net investment in the venture capital portfolio during the year was £2 2 million, comprising new investments of £6 4 million less sales proceeds and repayments of £4 2 million Portfolio cash flow over the past five years is summarised in Table 1

During the year the company raised £14 8 million (net of expenses) through a public offer of new shares and returned £4 7 million to shareholders through a tender offer After taking account of other cash flows, the company's total cash and deposits increased over the year by £4 0 million to £18 3 million In addition the company holds listed fixed-interest and equity investments valued at £6 0 million, reduced slightly from £6 2m at 30 September 2010

Business review continued

Age of investment

- Up to 1 year 15 9%
- 1–3 years 29 5%
- 3–5 years 24 1%
- 5–7 years 18 1%
- Over 7 years 12 4%

Industry sector

- Computer 36 8%
- Construction 10 6%
- Consumer 9 9%
- Industrial/manufacturing 11 5%
- Services 20 5%
- Healthcare/biotechnology 8 1%
- Other 2 6%

Dividends

The directors have declared dividends totalling 6 0p per share in respect of the year, comprising 1 2p revenue dividend and a 4 8p dividend from realised capital gains

Investment portfolio

During the year ended 30 September 2011, seven new holdings were added to the venture capital portfolio at a cost of £5 9 million, and additional investments totalling £0 5 million were made in existing portfolio companies The portfolio at 30 September 2011 comprised 43 holdings with an aggregate value of £38 1 million

A summary of the venture capital holdings at 30 September 2011 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

- **Brady (£142,000)** – AIM-quoted developer of software solutions for global commodity trading, Cambridge
- **Cawood Scientific (£1,073,000)** – laboratory services for land based industries, Bracknell/Cawood
- **Altacor (£477,000)** – developer of specialty ophthalmic pharmaceutical products, Cambridge
- **Control Risks Group Holdings (£746,000)** – international specialist risk consultancy, London
- **Closer2 Investments (£888,000)** – business-to-business exhibition management (sister company to Closerstill Holdings), London
- **Kitwave One (£1,582,000)** – wholesaler of confectionery, soft drinks, snacks, beers, wines and tobacco, North Shields
- **Tinglobal Holdings (£988,000)** – supplier of refurbished mid-range computer equipment, Cirencester

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 5m) are summarised in Table 3

Promanex Group Holdings was sold to Costain Group for cash in August 2011 in a deal which not only generated a capital surplus over the original cost, but also facilitated the payment of approximately £0 5 million of accrued investment income not previously recognised in Northern Venture Trust's accounts A further £886k of deferred proceeds from the 2009 sale of **DxS** was recognised during the year **Frontier Foods**, which had been written down to nil value in the 30 September 2010 accounts, went into administration following a period of trading underperformance

Portfolio composition

The pie charts above show the composition of the venture capital investment portfolio at 30 September 2011 by value according to age, industry sector, financing stage and whether quoted or unquoted The portfolio is well diversified and the company has continued to invest primarily in manufacturing and service businesses which meet the managers' key criteria of good value, growth potential, strong management and ability to generate cash

Given the generally difficult market conditions, the portfolio has on the whole made satisfactory progress during the year The directors have continued to take a prudent approach to investment valuation but have been able to recognise encouraging performance by a number of companies, notably **Alaric Systems**, **Closerstill Holdings** and **Kerridge Commercial Systems** In the AIM quoted portfolio there have been significant value gains for **Tikit Group**, **IDOX** and **Advanced Computer Software Group** However the short-term economic outlook remains negative and this will inevitably present challenges to our companies

2007	2008	2009	2010	2011
87 6	80 1	80 3	85 2	87 8

Net asset value (p)

2007	2008	2009	2010	2011
152 6	154 1	166 3	174 2	184 3

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

2007	2008	2009	2010	2011
9 0	7 5	7 5	7 5	6 0

Dividend per share (p)

Financing stage

- Expansion 47 1%
- MBO/MBI 44 4%
- Early stage 8 5%

Quotation

- Unquoted 90 1%
- AIM 8 9%
- LSE 1 0%

Table 3 Significant investment realisations

Company	Date of original investment	Original cost £000	Sales proceeds £000	Realised surplus/ (deficit) £000
Promanex Group Holdings – trade sale	2007	1,695	2,136	441
DxS – deferred consideration	2001	–	886	886
Closerstill Holdings – loan stock repayment	2008	750	750	–
Frontier Foods – in administration	2007	579	–	(579)

Table 4 Investment valuation by category

Category	Number of investments	Valuation £000	% of portfolio by value
Unquoted investments at directors' valuation			
Earnings multiple	14	16,413	43
Original cost	11	12,683	33
Original cost less provision	6	4,357	11
Independent valuation	1	896	3
Quoted investments at bid price			
Listed on London Stock Exchange	1	375	1
Quoted on AIM	10	3,409	9
Total	**43**	**38,133**	**100**

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 30 September 2011 the number of investments falling into each valuation category was as shown in Table 4

Key performance indicators

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

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

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

Total expense ratio the chart below shows the total annual running expenses (including investment management fees charged to capital reserve) as a percentage of the average net assets attributable to shareholders for each of the past five financial years

2007	2008	2009	2010	2011
71 0	78 5	86 0	93 5	99 5

Cumulative dividends per share (p)

2007	2008	2009	2010	2011
2 88	2 92	2 61	2 65	2 54

Total expense ratio (%)

Business review continued

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

Risk management

The board carries out a regular review of the risk environment in which the company operates The principal risks and uncertainties identified by the board are as follows

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

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

Internal control risk the board regularly reviews the system of internal controls, both financial and non-financial, operated by the company and the manager These include controls designed to ensure that the company's assets are safeguarded and that proper accounting records are maintained

VCT qualifying status risk the company is required at all times to observe the conditions laid down in the Income Tax Act 2007 for the maintenance of approved VCT status The loss of such approval could lead to the company losing its exemption from corporation tax on capital gains, to investors being liable to pay income tax on dividends received from the company and, in certain circumstances, to investors being required to repay the initial income tax relief on their investment The manager keeps the company's VCT qualifying status under continual review and reports to the board on a quarterly basis The board has also retained PricewaterhouseCoopers LLP to undertake an independent VCT status monitoring role

Future prospects

The outlook for the UK economy and financial markets is currently uncertain The company has a well-diversified investment portfolio and a strong reserve of liquid assets, and the board and manager will continue to focus on the objective of generating a good flow of dividends to investors whilst maintaining the company's asset base

By order of the Board

C D Mellor
Secretary 9 November 2011

Investment portfolio

as at 30 September 2011

	Cost £000	Valuation £000	% of net assets by value
Fifteen largest venture capital investments (see pages 12 to 15)			
Kerridge Commercial Systems	1,740	3,672	5 9
Weldex (International) Offshore Holdings	3,262	3,262	5 2
Alaric Systems	2,175	2,602	4 2
CGI Group Holdings	3,449	1,965	3 1
CloserStill Holdings	1,000	1,731	2 8
Paladin Group	1,709	1,601	2 6
Kitwave One	1,582	1,582	2 5
Envirotec	813	1,263	2 0
Arleigh International	775	1,210	1 9
Axial Systems Holdings	1,004	1,117	1 8
Cawood Scientific	1,073	1,073	1 7
Evolve Investments	995	995	1 6
RCC Lifesciences	995	995	1 6
Tinglobal Holdings	988	988	1 6
Wear Inns	979	979	1 5
	22,539	25,035	40 0
Other venture capital investments			
Promatic Group	1,229	922	1 5
Tikit Group*	754	916	1 5
Advanced Computer Software Group*	381	906	1 5
Control Risks Group Holdings	746	896	1 4
Closer2 Investments	888	888	1 4
IDOX*	298	873	1 4
KPJ Software Services	995	870	1 4
Lanner Group	832	832	1 3
IG Doors	308	670	1 1
Mantis Deposition Holdings	613	613	1 0
S&P Coil Products	240	581	0 9
Direct Valeting	433	564	0 9
Interlube Systems	88	559	0 9
e-know net	360	529	0 8
Optilan Group	1,000	500	0 8
Altacor	477	477	0 8
Sinclair IS Pharma*	425	375	0 6
Vectura Group**	211	375	0 6
Gentronix	535	242	0 4
Brady*	142	169	0 3
Brulines Group*	184	139	0 2
Warmseal Windows (Newcastle)	400	100	0 2
Spectrum Interactive	277	71	0 1
RTC Group*	436	12	–
Summit Corporation*	195	12	–
Twenty*	198	7	–
Astbury Marsden Holdings	1,177	–	–
Plethora Solutions*	22	–	–
Total venture capital investments	36,383	38,133	61 0
Total listed equity investments	3,993	3,458	5 5
Total listed fixed-interest investments	2,811	2 557	4 1
Total fixed asset investments	43,187	44,148	70 6
Net current assets		18,422	29 4
Net assets		62,570	100 0

* Quoted on AIM

** Listed on London Stock Exchange

Fifteen largest private equity investments

Kerridge Commercial Systems Limited

Cost	£1,740,000
Valuation	£3,672,000
Basis of valuation	Earnings multiple
Equity held	8 8% (NVM funds total 45 0%)
Business/location	Software developer for wholesale and retail distribution sectors, Hungerford
History	Management buy-out from ADP Inc, March 2010, led by NVM Private Equity
Other NVM funds investing	Northern Investors Company, Northern 2 VCT, Northern 3 VCT
Income in year	Dividends nil, loan interest £125,000

Audited financial information

Period ended 30 September	2010* £m
Sales	11 6
Profit before tax	0 7
Profit after tax	0 5
Net assets	1 7

*6 months ended 30 September

Weldex (International) Offshore Holdings Limited

Cost	£3,262,000
Valuation	£3,262,000
Basis of valuation	Cost
Equity held	5 0% (NVM funds total 10 0%)
Business/location	Hire of large crawler cranes to the construction industry, Inverness
History	Institutional buy-out in June 2010, led by Dunedin Capital Partners
Other NVM funds investing	Northern Investors Company
Income in year	Nil

Audited financial information

First audited accounts will be for the period ending 30 November 2011

Alaric Systems Limited

Cost	£2,175,000
Valuation	£2,602,000
Basis of valuation	Earnings multiple
Equity held	15 6% (NVM funds 36 5%)
Business/location	Developer of electronic payment protection software, London
History	Development capital financing in November 2000, led by NVM Private Equity
Other NVM funds investing	Northern Investors Company, Northern 2 VCT
Income in year	Nil

Audited financial information

Year ended 31 March	2011 £m	2010 £m
Sales	5 5	3 9
Profit before tax	0 4	0 1
Profit after tax	0 4	0 1
Net liabilities	(1 1)	(1 5)

CGI Group Holdings Limited

Cost	£3,449,000
Valuation	£1,965,000
Basis of valuation	Cost less provision
Equity held	17 5% (NVM funds total 26 2%)
Business/location	Manufacture of fire resistant and safety glass, Warrington
History	Recapitalisation in April 2008 of CGI Group (originally a management buy-out investment in February 1999), led by Dunedin Capital Partners
Other NVM funds investing	Northern Investors Company
Income in year	Nil

Audited financial information

Year ended 31 December	2009 £m	2008* £m
Sales	11 6	10 7
Loss before tax	(0 5)	(1 1)
Loss after tax	(0 7)	(1 2)
Net liabilities	(0 9)	(0 2)

*10 months ended 31 December

CloserStill Holdings Limited

Cost	£1,000,000
Valuation	£1,731,000
Basis of valuation	Earnings multiple
Equity held	12 0% (NVM funds 47 6%)
Business/location	Business-to-business exhibition management, London
History	Acquisition capital financing in September 2008, led by NVM Private Equity
Other NVM funds investing	Northern Investors Company, Northern 2 VCT, Northern 3 VCT
Income in period	Dividends nil, loan stock interest £59,000

Audited financial information

Year ended 31 December	2010 £m	2009* £m
Sales	–	–
Loss before tax	(0 5)	(0 6)
Loss after tax	(0 5)	(0 6)
Net assets	0 3	0 9

*16 months ended 31 December

Paladin Group Limited

Cost	£1,709,000
Valuation	£1,601,000
Basis of valuation	Earnings multiple
Equity held	14 7% (NVM funds total 50 8%)
Business/location	Provider of property management services, Bath
History	Development capital investment, June 2006, led by NVM Private Equity
Other NVM funds investing	Northern Investors Company, Northern 2 VCT, Northern 3 VCT
Income in year	Dividends nil, loan stock interest £61,000

Audited financial information

Year ended 31 March	2011 £m	2010 £m
Sales	16 6	19 6
Profit/(loss) before tax	0 1	(1 1)
Profit/(loss) after tax	0 1	(0 9)
Net assets	1 2	1 2

Kitwave One Limited

Cost	£1,582,000
Valuation	£1,582,000
Basis of valuation	Cost
Equity held	8 1% (NVM funds total 41 6%)
Business/location snacks,	Wholesaler of confectionery, soft drinks, beers, wines and tobacco, North Shields
History	Growth capital investment in March 2011, led by NVM Private Equity
Other NVM funds investing	Northern Investors Company, Northern 2 VCT, Northern 3 VCT

Audited financial information

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

Envirotec Limited

Cost	£813,000
Valuation	£1,263,000
Basis of valuation	Earnings multiple
Equity held	9 7% (NVM funds total 35 0%)
Business/location	Manufacture of air curtains and air handling equipment, High Wycombe
History investor,	Management buy-out from institutional January 2005, led by NVM Private Equity
Other NVM funds investing	Northern Investors Company, Northern 2 VCT, Northern 3 VCT

Audited financial information

Year ended 28 February	2010 £m	2009 £m
Sales	8 2	18 6
Profit before tax	1 0	2 1
Profit after tax	1 0	1 3
Net assets	4 1	4 2

Fifteen largest private equity investments
continued

Arleigh International Limited

Cost	£775,000
Valuation	£1,210,000
Basis of valuation	Earnings multiple
Equity held	10 4% (NVM funds total 41 6%)
Business/location	Suppliers of accessories and spares to the holiday home and boating markets, Nuneaton
History	Management buy-out from Firstserve, October 2004, led by NVM Private Equity
Other NVM funds investing	Northern Investors Company, Northern 2 VCT, Northern 3 VCT
Income in year	Dividends £26,000, loan stock interest £67,000

Audited financial information

Year ended 31 December	2010 £m	2009 £m
Sales	13 2	12 0
Profit before tax	0 8	0 9
Profit after tax	0 5	0 6
Net assets	0 7	1 7

Axial Systems Holdings Limited

Cost	£1,004,000
Valuation	£1,117,000
Basis of valuation	Earnings multiple
Equity held	8 2% (NVM funds total 45 7%)
Business/location	Supplier of distributed network management solutions, Maidenhead
History	Management buy-out from private ownership, March 2008, led by NVM Private Equity
Other NVM funds investing	Northern Investors Company, Northern 2 VCT, Northern 3 VCT
Income in year	Dividends nil, loan stock interest £41,000

Audited financial information

Year ended 31 May	2011 £m	2010 £m
Sales	17 1	18 3
Profit before tax	0 4	0 2
Profit after tax	0 1	–
Net assets	1 4	1 3

Cawood Scientific Limited

Cost	£1,073,000
Valuation	£1,073,000
Basis of valuation	Cost
Equity held	11 9% (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 2 VCT, Northern 3 VCT
Income in year	Dividends nil, loan stock interest £62,000

Audited financial information

Period ended 31 March	2011* £m
Sales	2 2
Profit before tax	0 1
Loss after tax	(0 3)
Net assets	0 6

*11 months ended 31 March

Evolve Investments Limited

Cost	£995,000
Valuation	£995,000
Basis of valuation	Cost
Equity held	15 5% (NVM funds total 46 5%)
Business/location	Acquisition vehicle for underperforming and undercapitalised businesses, Birmingham
History	Acquisition capital financing in April 2010, led by NVM Private Equity
Other NVM funds investing	Northern 2 VCT, Northern 3 VCT
Income in period	Nil

Audited financial information

First audited accounts will be for the period ended 31 March 2011

RCC Lifesciences Limited

Cost	£995,000
Valuation	£995,000
Basis of valuation	Cost
Equity held	15 8% (NVM funds total 47 4%)
Business/location	Development of lifescience products, London
History	Acquisition capital financing in March 2010, led by NVM Private Equity
Other NVM funds investing	Northern 2 VCT, Northern 3 VCT
Income in year	Nil

Audited financial information

First audited accounts will be for the period ended 31 March 2011

Tinglobal Holdings Limited

Cost	£988,000
Valuation	£988,000
Basis of valuation	Cost
Equity held	12 8% (NVM funds total 38 4%)
Business/location	Supplier of refurbished mid-range computer equipment, Cirencester
History	Management buy-out from venture capital ownership in June 2011, led by NVM Private Equity
Other NVM funds investing	Northern 2 VCT, Northern 3 VCT
Income in year	Nil

Audited financial information

First audited accounts will be for the period ending 31 May 2012

Wear Inns Limited

Cost	£979,000
Valuation	£979,000
Basis of valuation	Cost
Equity held	12 1% (NVM funds total 52 3%)
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 2 VCT, Northern 3 VCT
Income in year	Dividends nil, loan stock interest £77,000

Audited financial information

Year ended 31 March	2011 £m	2010 £m
Sales	6 2	3 8
Profit/(loss) before tax	0 1	(0 1)
Profit/(loss) after tax	0 1	(0 1)
Net assets	0 2	0 1

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 30 September 2011

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 3090163

The directors are required by the articles of association to propose an ordinary resolution at the company's annual general meeting in 2016 that the company should continue as a venture capital trust for a further five year period, and at each fifth subsequent annual general meeting thereafter If any such resolution is not passed, the directors shall within four months convene an extraordinary general meeting to consider proposals for the reorganisation or winding-up of the company

Business review

The directors are required by Section 417 of the Companies Act 2006 to include a business review in their report to shareholders The business review is set out on pages 6 to 10 and is included in the directors' report by reference

Corporate governance

The statement on corporate governance set out on pages 20 to 24 is included in the directors' report by reference

Results and dividend

The return on ordinary activities after tax for the year of £6,859,000 has been transferred to reserves

The final dividend of 4 5p per share in respect of the year ended 30 September 2010 and an interim dividend of 3 0p per share in respect of the year ended 30 September 2011 were paid during the year at a cost of £4,789,000 and have been charged to reserves

The proposed final dividend of 3 0p per share for the year ended 30 September 2011 will, if approved by shareholders at the annual general meeting, be paid on 16 December 2011 to shareholders on the register on 25 November 2011

Provision of information to auditors

Each of the directors who held office at the date of approval of this directors' report confirms that, so far as he is aware, there is no relevant audit information of which the company's auditors are unaware and that he has taken all the steps that he could reasonably be expected to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

Going concern

After making the necessary enquiries, the directors believe that it is appropriate to continue to apply the going concern basis in preparing the financial statements

Directors

The directors of the company during the year and their interests in respect of which transactions are notifiable to the company under Disclosure and Transparency Rule 3 1 2R (and so far as the company is, or ought upon reasonable enquiry to become, aware, the interests of their connected persons) in the issued ordinary shares of 25p of the company as at 30 September 2011 are shown in Table 1

All of the directors' share interests were held beneficially There have been no changes in the directors' share interests between 30 September 2011 and the date of this report

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

Directors' and officers' liability insurance

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

Creditor payment policy

The company's payment policy for the forthcoming financial year is to agree terms of payment before business is transacted and to settle accounts in accordance with those terms There were no amounts owing to trade creditors at 30 September 2011

Table 1 Directors' interests in ordinary shares

	30 September 2011	1 October 2010
J R Hustler (Chairman)	117,182	112,924
N J Beer	77,537	14,722
E M P Denny	125,000	123,983
R S Peters	151,656	130,000
P S Scott (retired 16 December 2010)	–	10,000
H P Younger	24,051	18,000

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 E M P Denny was an executive director of NVM until April 2008 and a shareholder in NVM's ultimate parent company until January 2009

With effect from April 2006 a management performance incentive scheme was introduced under which investment executives employed by NVM are required to invest personally (and on the same terms as the company and other funds managed by NVM) in the ordinary share capital of investee companies in which the company invests The directors review the operation of
the scheme annually

As required by the Listing Rules, the directors confirm that in their opinion the continuing appointment of NVM as investment manager on the terms agreed is in the interests of the company's shareholders as a whole In reaching this conclusion the directors have taken into account the performance of the investment portfolio and the efficient and effective service provided by NVM to the company

Share capital – purchase of shares

During the year the company purchased through a tender offer and cancelled 5,913,941 of its own shares, representing 10 0% of the called-up share capital of the company at the beginning of the year, for a consideration, including expenses, of £4,696,000

At the 2010 annual general meeting held in December 2010 shareholders authorised the company to purchase in the market up to 5,913,941 ordinary shares (equivalent to approximately 10% of the then issued ordinary share capital) at a minimum price of 25p 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 30 September 2011 no shares had been purchased under this authority, which at that date remained effective in respect of 5,913,941 shares, the authority will lapse at the conclusion of the annual general meeting of the company on 14 December 2011

Share capital – issue of shares

During the year the company issued 17,305,824 new ordinary shares of 25p for a cash consideration of £15,000,000 through public offers for subscription and 747,079 shares for a cash consideration of £619,000 pursuant to the company's dividend investment scheme

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 annual general meeting to be held on 14 December 2011 is set out in a separate circular to shareholders along with explanatory comments on the resolutions

Substantial shareholdings

No disclosures of major shareholdings had been made to the company under Disclosure and Transparency Rule 5 (Vote Holder and Issuer Notification Rules) as at the date of this report

Independent auditors

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

By order of the Board

C D Mellor
Secretary 9 November 2011

Directors' remuneration report

The board currently comprises five directors, all of whom are non-executive.

This report has been prepared by the directors in accordance with the requirements of the Companies Act 2006 A resolution to approve the report will be proposed at the annual general meeting

The company's independent auditors, KPMG Audit Plc, are required to give their opinion on certain information included in this report, as indicated below Their report on these and other matters is set out on page 26

Board of directors

The board currently comprises five 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 R Hustler and comprising all the directors, which considers the selection and appointment of directors and makes recommendations to the board as to the level of directors' fees The board has not retained external advisers in relation
to remuneration matters but has access to information about directors' fees paid by other companies of a similar size and type

Remuneration policy

The board considers that directors' fees should reflect the time commitment required and the high level of responsibility borne by directors, and should be broadly comparable to those paid by similar companies It is not considered appropriate that directors' remuneration should be performance-related, and none of the directors is eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits in respect of their services as non-executive directors of the company Mr E M P Denny, who retired as an executive director of NVM in April 2008, has a residual interest in performance incentive arrangements established for the benefit of certain executives of NVM, as described in the directors' report on page 17

Directors' fees were reviewed by the nomination committee during its meeting in September 2011, when it was recommended that fees should remain at £27,000 per annum for the chairman and £20,000 for other directors
for the year ending 30 September 2012 The articles of association place an overall limit (currently £150,000 per annum) on directors' remuneration

Directors' fees (audited information)

The fees paid to individual directors in respect of the years ended 30 September 2011 and 30 September 2010 are shown in Table 1

Terms of appointment

The articles of association provide that directors shall retire and be subject to re-election at the first annual general meeting after their appointment and any director who was not appointed or re-appointed at one of the preceding two annual general meetings shall retire and be subject to re-election at each annual general meeting None of the directors has a service contract with the company On being appointed or re-elected, directors receive a letter from the company setting out the terms of their appointment and their specific duties and responsibilities A director's appointment may be terminated on three months' notice being given by the company and in certain other circumstances

Company performance

The graph opposite compares the total return (assuming all dividends are re-invested) to ordinary shareholders in the company over the five years ended 30 September 2011 with the total return from a notional investment in the FTSE All-Share index over the same period This index is considered to be the most appropriate broad equity market index for comparative purposes

By order of the Board

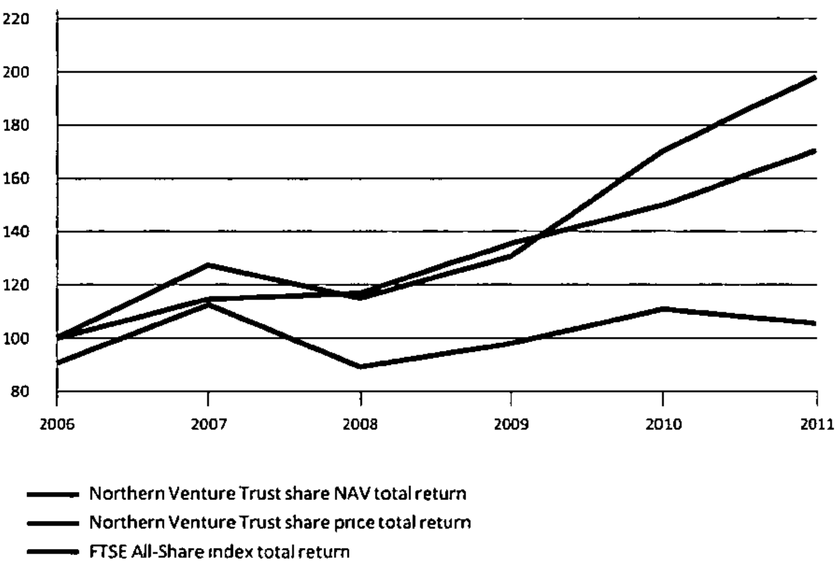
C D Mellor
Secretary 9 November 2011

Table 1 Directors' fees

	Year ended 30 September 2011	Year ended 30 September 2010
J R Hustler (Chairman)	27,000	23,000
N J Beer	20,000	18,000
E M P Denny	20,000	18,000
R S Peters	20,000	18,000
P S Scott (retired 16 December 2010)	4,210	18,000
H P Younger	20,000	18,000

Return to shareholders in Northern Venture Trust PLC

Five years to 30 September 2011 (September 2006 = 100)



Corporate governance

The company is committed to maintaining high standards in corporate governance.

The board of Northern Venture Trust PLC has considered the principles and recommendations of the Association of Investment Companies Code of Corporate Governance (AIC Code) by reference to the related Association of Investment Companies Corporate Governance Guide for Investment Companies (AIC Guide) The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the company The AIC Code can be viewed at **www theaic co uk/Documents/Technical/AIC CodeofCorporateGovernanceMarch2010 pdf**

The board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide better information to shareholders

The company is committed to maintaining high standards in corporate governance and during the year ended 30 September 2011 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 Venture Trust 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 five non-executive directors, the majority of whom are considered to be independent of the company's investment manager, 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 R Hustler, 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 N J Beer

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

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

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

Independence of directors

The board regularly reviews the independence of its members and is satisfied that (with the exception of Mr E M P Denny, who was until April 2008 an executive director of NVM, the company's investment manager, and during the year held directorships of other companies with the same investment manager) the company's directors are independent in character and judgement and there are no relationships or circumstances which could affect their objectivity

The AIC Code recommends that where a director has served for more than nine years, the board should state its reasons for believing that the individual remains independent The board is of the view that a term of service in excess of nine years is not in itself prejudicial to a director's ability to carry out his/her duties effectively and from an independent perspective, the nature of the company's business is such that individual directors' experience and continuity of board membership can significantly enhance the effectiveness of the board as a whole However the board has as a matter of good practice adopted the AIC Code recommendation that directors who have served for more than nine years should seek annual re-election, and acknowledges that regular 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 N J Beer (Chairman from 16 December 2010)
Mr E M P Denny
Mr J R Hustler
Mr R S Peters
Miss P S Scott (retired 16 December 2010)
Mr H P Younger

The audit committee's terms of reference include the following roles and responsibilities

- monitoring and making recommendations to the board in relation to the company's published financial statements and other formal announcements relating to the company's financial performance,
- monitoring and making recommendations to the board in relation to the company's internal control (including internal financial control) and risk management systems,
- periodically considering the need for an internal audit function,
- making recommendations to the board in relation to the appointment, re-appointment and removal of the external auditors and approving the remuneration and terms of engagement of the external auditors,
- reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements,
- monitoring the extent to which the external auditors are engaged to supply non-audit services, and
- ensuring that the investment manager has arrangements in place for the investigation and follow-up of any concerns raised confidentially by staff in relation to the propriety of financial reporting or other matters

The committee reviews its terms of reference and its effectiveness annually and recommends to the board any changes required as a result of the review The terms of reference are available on request from the company secretary and on the NVM Private Equity website, **www nvm co uk** The audit committee meets three times per year and has direct access to KPMG Audit Plc, the company's external auditors The board considers that the members of the committee are independent and have collectively the skills and experience required to discharge their duties effectively, and that the chairman of the committee meets the requirements of the UK Corporate Governance Code as to recent and relevant financial experience

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

Corporate governance continued

During the year ended 30 September 2011 the audit committee discharged its responsibilities by

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

Nomination Committee

During the year the nomination committee comprised

Mr J R Hustler (Chairman)
Mr N J Beer
Mr E M P Denny
Mr R S Peters
Miss P S Scott (retired 16 December 2010)
Mr H P Younger

The nomination committee considers the selection and appointment of directors and makes annual recommendations to the board as to the level of directors' fees The committee monitors the balance of skills, knowledge and experience offered by board members, and satisfies itself that they are able to devote sufficient time to carry out their role efficiently and effectively When recommending new appointments to the board the committee draws on its members' extensive business experience and range of contacts to identify suitable candidates, the use of formal advertisements and external consultants is not considered cost-effective given the company's size New directors are provided with briefing material relating to the company, its investment managers and the venture capital industry as well as to their own legal responsibilities as directors The committee has written terms of reference which are reviewed annually and are available on request from the company secretary and on the NVM Private Equity website, www nvm co uk

Management Engagement Committee

During the year the management engagement committee comprised

Mr J R Hustler (Chairman)
Mr N J Beer
Mr R S Peters
Miss P S Scott (retired 16 December 2010)
Mr H P Younger

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 30 September 2011 and the number attended by each director compared with the maximum possible attendance

Corporate responsibility

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

Investor relations

In fulfilment of the chairman's obligations under the UK Corporate Governance Code, the chairman gives feedback to the board on issues raised with him by shareholders with a view to ensuring that members of the board develop an understanding of the views of shareholders about their company The board recognises the value of maintaining regular communications with shareholders Formal reports are sent to shareholders at the half-year and year-end stages, and an opportunity is given to shareholders at the annual general meeting to question the board and the investment manager on matters relating to the company's operation and performance Proxy voting figures for each resolution are announced at general meetings and are made available publicly following the relevant meeting

Further information can also be obtained via the NVM website at **www nvm co uk**

Internal control

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

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

Table 1 Directors' attendance at meetings

	Board	Audit committee	Nomination committee	Management engagement committee
Number of meetings held	7	5	1	1
Attendance (actual/possible)				
J R Hustler (Chairman)	7/7	5/5	1/1	1/1
N J Beer	7/7	5/5	1/1	1/1
E M P Denny	5/7	3/5	0/1	N/A
R S Peters	7/7	5/5	1/1	1/1
P S Scott (retired 16 December 2010)	2/3	1/1	0/0	0/0
H P Younger	7/7	5/5	1/1	1/1

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

Risk management

Risk management is discussed in the business review on page 10

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

As at 30 September 2011 71,278,380 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

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

Corporate governance continued

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 2010 annual general meeting to make market purchases of up to 5,913,941 ordinary shares at any time up to the 2011 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 14 December 2011 as set out in a separate circular

By order of the Board

C D Mellor
Secretary 9 November 2011

Directors' responsibility statement

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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

In preparing these financial statements, the directors are required to

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

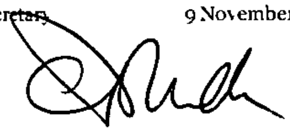
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

Under applicable law and regulations, the directors are also responsible for preparing a directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations

The company's financial statements are published on the NVM website, **ww nvm co uk** The maintenance and integrity of this website is the responsibility of NVM and not of the company The work carried out by KPMG Audit Plc as independent auditors 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

By order of the Board

C D Mellor
Secretary 9 November 2011



Independent auditors' report

To the members of NORTHERN VENTURE TRUST PLC

We have audited the financial statements of Northern Venture Trust PLC for the year ended 30 September 2011 set out on pages 28 to 40 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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 explained more fully in the Directors' Responsibility Statement set out on page 25, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at
www frc.org uk/apb/scope/private cfm

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 September 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

In our opinion

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006,
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements, and
- the information given in the Corporate Governance Statement set out on pages 20 to 24 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit, or
- a Corporate Governance Statement has not been prepared by the company

Under the Listing Rules we are required to review

- the directors' statement, set out on page 16, in relation to going concern,
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review, and
- certain elements of the report to shareholders by the board on directors' remuneration

Simon Pashby
Simon Pashby
(Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc,
Statutory Auditor Chartered Accountants,
Edinburgh

9 November 2011

Financial statements

Income statement

for the year ended 30 September 2011

	Notes	Year ended 30 September 2011 Revenue £000	Capital £000	Total £000	Year ended 30 September 2010 Revenue £000	Capital £000	Total £000
Gain on disposal of investments	8	–	1,277	1,277	–	3,119	3,119
Movements in fair value of investments	8	–	5,125	5,125	–	1,493	1,493
		–	6,402	6,402	–	4,612	4,612
Income	2	1,845	–	1,845	1,350	–	1,350
Investment management fee	3	(289)	(867)	(1,156)	(244)	(733)	(977)
Recoverable VAT		33	99	132	-	–	–
Other expenses	4	(350)	(14)	(364)	(326)	–	(326)
Return on ordinary activities before tax		1,239	5,620	6,859	780	3,879	4,659
Tax on return on ordinary activities	5	(264)	264	–	(95)	95	–
Return on ordinary activities after tax		975	5,884	6,859	685	3,974	4,659
Return per share	7	1 5p	8 8p	10 3p	1 2p	6 8p	8 0p

- The total column of this statement is the profit and loss account of the company The supplementary revenue return and capital return columns have been prepared under guidance published by the Association of Investment Companies, as set out in the accounting policies note
- 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 30 September 2011

	Notes	Year ended 30 September 2011 £000	Year ended 30 September 2010 £000
Equity shareholders' funds at 1 October 2010		50,414	47,875
Return on ordinary activities after tax		6,859	4,659
Dividends recognised in the year	6	(4,789)	(1,781)
Net proceeds of share issues	14	14,782	(35)
Shares purchased for cancellation	14	(4,696)	(304)
Equity shareholders' funds at 30 September 2011		62,570	50,414

•The accompanying notes are an integral part of this statement

Balance sheet

as at 30 September 2011

	Notes	30 September 2011 £000	30 September 2010 £000
Fixed assets			
Investments	8	44,148	35,096
Current assets			
Debtors	12	218	1,063
Cash and deposits		18,294	14,323
		18,512	15,386
Creditors (amounts falling due within one year)	13	(90)	(68)
Net current assets		18,422	15,318
Net assets		62,570	50,414
Capital and reserves			
Called-up equity share capital	14	17,820	14,785
Share premium	15	10,491	12,222
Capital redemption reserve	15	14,353	12,875
Capital reserve	15	17,053	14,280
Revaluation reserve	15	961	(5,020)
Revenue reserve	15	1,892	1,272
Total equity shareholders' funds		62,570	50,414
Net asset value per share	16	87 8p	85 2p

The financial statements on pages 28 to 40 were approved by the directors on 9 November 2011 and are signed on their behalf by

J R Hustler
Director

N J Beer
Director

Cash flow statement

for the year ended 30 September 2011

	Year ended 30 September 2011 £000	Year ended 30 September 2010 £000
Net cash inflow from operating activities	1,324	1,595
Taxation		
Corporation tax paid	–	(261)
Financial investment		
Purchase of investments	(10,925)	(8,688)
Sale/repayment of investments	8,275	10,124
Net cash (outflow)/ inflow from financial investment	(2,650)	1,436
Equity dividends paid	(4,789)	(1,781)
Net cash inflow/(outflow) before financing	(6,115)	989
Financing		
Issue of shares	15,618	–
Share issue expenses	(836)	(35)
Purchase of shares for cancellation	(4,696)	(304)
Net cash inflow/(outflow) from financing	10,086	(339)
Increase in cash and deposits	3,971	650
Reconciliation of return before tax to net cash flow from operating activities		
Return on ordinary activities before tax	6,859	4,659
Gain on disposal of investments	(1,277)	(3,119)
Movements in fair value of investments	(5,125)	(1,493)
Decrease in debtors	845	1,622
Increase/(decrease) in creditors	22	(74)
Net cash inflow from operating activities	1,324	1,595

Analysis of movement in net funds	1 October 2010 £000	Cash flows £000	30 September 2011 £000
Cash and deposits	14,323	3,971	18,294

Notes to the financial statements

for the year ended 30 September 2011

1 Accounting policies

A summary of the principal accounting policies, all of which have been consistently applied throughout the year and the preceding year, is set out below

(a) Basis of accounting

The financial statements have been prepared on a going concern basis under the historical cost convention, except for the revaluation of certain financial instruments, and in accordance with UK Generally Accepted Accounting Practice (UK GAAP) Where presentational guidance set out in the Statement of Recommended Practice (SORP) "Financial Statements of Investment Trust Companies", revised in January 2009, is consistent with the requirements of UK GAAP, the directors have sought to prepare the financial statements on a consistent basis compliant with the recommendations of the SORP

(b) Valuation of investments

Purchases and sales of investments are recognised in the financial statements at the date of transaction (trade date)

The company's investments have been designated by the directors as fair value through profit and loss at the time of acquisition and are measured at subsequent reporting dates at fair value In the case of investments quoted on a recognised stock exchange, fair value is established by reference to the closing bid price on the relevant date or the last traded price, depending on the convention of the exchange on which the investment is quoted In the case of unquoted investments, fair value is established in accordance with the International Private Equity and Venture Capital valuation guidelines by using measurements of value such as price of recent transaction, earnings multiple and net assets, where no reliable fair value can be estimated using such techniques, unquoted investments are carried at cost subject to provision for impairment where necessary

Gains and losses arising from changes in fair value of investments are recognised as part of the capital return within the income statement and allocated to the revaluation reserve Transaction costs attributable to the acquisition or disposal of investments are charged to capital return within the income statement

Those venture capital investments that may be termed associated undertakings are carried at fair value as determined by the directors in accordance with the company's normal policy and are not equity accounted as required by the Companies Act 2006 The directors consider that, as these investments are held as part of the company's portfolio with a view to the ultimate realisation of capital gains, equity accounting would not give a true and fair view of the company's interests in these investments Quantification of the effect of this departure is not practicable Carrying investments at fair value is specifically permitted under Financial Reporting Standard 9 "Associates and Joint Ventures", where venture capital entities hold investments as part of a portfolio

(c) Income

Dividends receivable on quoted equity shares are brought into account on the ex-dividend date Dividends receivable on unquoted equity shares are brought into account when the company's right to receive payment is established and there is no reasonable doubt that payment will be received Fixed returns on non-equity shares and debt securities are recognised on an effective interest rate basis, provided there is no reasonable doubt that payment will be received in due course

(d) Expenses

All expenses are accounted for on an accruals basis Expenses are charged to revenue return within the income statement except that

- expenses which are incidental to the acquisition or disposal of an investment are allocated to capital return as incurred, and
- expenses are split and allocated partly to capital return where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated, and accordingly the basic element of the investment management fee has been allocated 25% to revenue return and 75% to capital return, in order to reflect the directors' expected long-term view of the nature of the investment returns of the company

(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 30 September 2011

2 Income

	Year ended 30 September 2011 £000	Year ended 30 September 2010 £000
Franked investment income		
Unquoted companies	155	389
Quoted companies	93	34
Interest receivable		
Bank deposits *	99	134
Loans to unquoted companies	1,356	553
Listed fixed-interest investments	142	240
	1,845	1,350

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

3 Investment management fee

	Year ended 30 September 2011			Year ended 30 September 2010		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Investment management fee	289	867	1,156	244	733	977

NVM Private Equity Limited (NVM) provides investment management and secretarial services to the company under an agreement dated 6 November 1997, which may be terminated at any time by not less than twelve months' notice being given by either party

NVM receives a management fee, payable quarterly in advance, at the rate of 2 06% of gross assets less current liabilities, calculated at half-yearly intervals as at 31 March and 30 September NVM also provides administrative and secretarial services to the company for a fee of £57,000 per annum (linked to the movement in the RPI from April 2006 onwards) This fee is included in other expenses (see Note 4) NVM bears the cost of Sarasin & Partners LLP's fees for managing the listed fixed-interest portfolio

The total annual running costs of the company 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 30 September 2011 £000	Year ended 30 September 2010 £000
Administrative and secretarial services	57	54
Directors' remuneration	119	113
Auditors' remuneration – audit services	17	16
Legal and professional expenses	40	39
Share issue promoter's commission	15	–
Irrecoverable VAT	15	14
Other expenses	87	90
	350	326

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

5 Tax on return on ordinary activities

	Year ended 30 September 2011 Revenue £000	Capital £000	Total £000	Year ended 30 September 2010 Revenue £000	Capital £000	Total £000
(a) Analysis of charge/(credit) for the year						
UK corporation tax payable/(recoverable) on the return for the year	264	(264)	–	95	(95)	–
(b) Tax reconciliation						
Return on ordinary activities before tax	1,239	5,620	6,859	780	3,879	4,659
Return on ordinary activities multiplied by the standard rate of UK corporation tax of 27% (2010 28%)	334	1,517	1,851	218	1,086	1,304
Effect of						
UK dividends not subject to tax	(67)	–	(67)	(118)	–	(118)
Capital returns not subject to tax	–	(345)	(345)	–	(873)	(873)
Movements in fair value of investments not subject to tax	–	(1,384)	(1,384)	–	(418)	(418)
Marginal relief	(3)	3	–	(5)	5	–
Increase in surplus management expenses	–	–	–	–	105	105
Utilisation of prior year surplus management expenses	–	(55)	(55)	–	–	–
Current tax charge/(credit) for the year	264	(264)	–	95	(95)	–

(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 £174,000 (30 September 2010 £377,000), 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 deferred tax has been provided in respect of any capital gains or losses arising on the revaluation or disposal of investments

A reduction in the UK corporation tax rate from 28% to 26% with effect from 1 April 2011 was enacted during the period The Government has announced its intention to further reduce the UK corporation tax rate to 23% by 1 April 2014

6 Dividends

	Year ended 30 September 2011 Revenue £000	Capital £000	Total £000	Year ended 30 September 2010 Revenue £000	Capital £000	Total £000
(a) Recognised as distributions in the financial statements for the year						
Previous year's final dividend	–	2,661	2,661	–	–	–
Current year's interim dividend	355	1,773	2,128	594	1,187	1,781
	355	4,434	4,789	594	1,187	1,781
b) Paid and proposed in respect of the year						
Interim paid – 3 0p (2010 3 0p) per share	355	1,773	2,128	594	1,187	1,781
Final proposed – 3 0p (2010 4 5p) per share	499	1,639	2,138	–	2,661	2,661
	854	3,412	4,266	594	3,848	4,442

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

Notes to the financial statements continued

for the year ended 30 September 2011

7. Return per share

The calculation of the return per share is based on the return on ordinary activities after tax for the year of £6,859,000 (2010 £4,659,000) and on 66,533,370 (2010 57,887,209) shares, being the weighted average number of ordinary shares in issue during the year

8 Fixed asset 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

	30 September 2011 £000	30 September 2010 £000
Level 1		
Quoted venture capital investments	3,784	2,566
Listed equity investments	3,458	–
Listed fixed-interest investments	2,557	6,222
Level 2		
None	–	–
Level 3		
Unquoted venture capital investments	34,349	26,308
	44,148	35,096

Movements in investments during the year are summarised as follows

	Venture capital – unquoted £000	Venture capital – quoted £000	Listed equity £000	Listed fixed-interest £000	Total £000
Book cost at 1 October 2010	30,312	3,451	–	6,353	40,116
Unrealised appreciation at 1 October 2010	(4,004)	(885)	–	(131)	(5,020)
Valuation at 1 October 2010	26,308	2,566	–	6,222	35,096
Movements in the year					
Purchases at cost	6,107	292	3,993	533	10,925
Disposals – proceeds	(4,195)	(4)	–	(4,076)	(8,275)
– net realised gains/(losses) on disposal	1,295	(14)	–	(4)	1,277
Movements in fair value	4,834	944	(535)	(118)	5,125
Valuation at 30 September 2011	34,349	3,784	3,458	2,557	44,148
Comprising					
Book cost at 30 September 2011	33,138	3,245	3,993	2,811	43,187
Unrealised appreciation at 30 September 2011	1,211	539	(535)	(254)	961
	34,349	3,784	3,458	2,557	44,148
Equity shares	11,323	3,784	3,458	–	18,565
Preference shares	360	–	–	–	360
Interest-bearing securities	22,666	–	–	2,557	25,223
	34,349	3,784	3,458	2,557	44,148

8 Fixed asset investments *continued*

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 basis the directors consider that the impact of changing one or more of the inputs to reasonably possible alternative assumptions would not change the fair value significantly

9 Investment disposals

Disposals of venture capital investments during the year were as follows

	Original cost £000	Directors' valuation at 30 September 2010* £000	Disposal proceeds £000	Realised gain/(loss) against carrying value £000
DxS (deferred proceeds)	–	–	886	886
Frontier Foods	579	37	–	(37)
CloserStill Holdings	750	750	750	–
Promanex Group Holdings	1,695	1,853	2,136	283
Others	756	278	426	148
	3,780	2,918	4,198	1,280

* Including subsequent additions at cost

10 Unquoted investments

The cost and carrying value of material investments in unquoted companies held at 30 September 2011 are shown below For this purpose any investment included in the table of the fifteen largest venture capital investments on pages 12 to 15, or in the corresponding table in the previous year's annual report, is regarded as material

	30 September 2011 Total cost £000	30 September 2011 Carrying value £000	30 September 2010 Total cost £000	30 September 2010 Carrying value £000
Kerridge Commercial Systems Limited				
Ordinary shares	175	2,107	175	175
Loan stock	1,565	1,565	1,565	1,565
	1,740	3,672	1,740	1,740
Weldex (International) Offshore Holdings Limited				
Ordinary shares	51	51	51	51
Loan stock	3,211	3,211	3,211	3,211
	3,262	3,262	3,262	3,262
Alaric Systems Limited				
Ordinary shares	1,704	1,623	1,703	372
Loan stock	471	979	471	979
	2,175	2,602	2,174	1,351
CGI Group Holdings Limited				
Ordinary shares	175	–	175	–
Loan stock	3,274	1,965	3,274	1,725
	3,449	1,965	3,449	1,725
CloserStill Holdings Limited				
Ordinary shares	191	922	191	555
Loan stock	809	809	1,559	1,559
	1,000	1,731	1,750	2,114
Paladin Group Limited				
Ordinary shares	432	324	432	147
Loan stock	1,277	1,277	1,020	1,020
	1,709	1,601	1,452	1,167

Notes to the financial statements continued

for the year ended 30 September 2011

10 Unquoted investments continued

	30 September 2011 Total cost £000	30 September 2011 Carrying value £000	30 September 2010 Total cost £000	30 September 2010 Carrying value £000
Kitwave One Limited				
Ordinary shares	161	161	–	–
Loan stock	1,421	1,421	–	–
	1,582	1,582	–	–
Envirotec Limited				
Ordinary shares	188	513	188	438
Loan stock	625	750	625	625
	813	1,263	813	1,063
Arleigh International Limited				
Ordinary shares	38	473	38	453
Loan stock	737	737	771	771
	775	1,210	809	1,224
Axial Systems Holdings Limited				
Ordinary shares	144	258	144	286
Loan stock	860	859	860	860
	1,004	1,117	1,004	1,146
Cawood Scientific Limited				
Ordinary shares	124	124	–	–
Loan stock	949	949	–	–
	1,073	1,073	–	–
Evolve Investments Limited				
Ordinary shares	100	100	100	100
Loan stock	895	895	895	895
	995	995	995	995
RCC Lifesciences Limited				
Ordinary shares	100	100	100	100
Loan stock	895	895	895	895
	995	995	995	995
Tinglobal Holdings Limited				
Ordinary shares	228	228	–	–
Loan stock	760	760	–	–
	988	988	–	–
Wear Inns Limited				
Ordinary shares	242	242	242	242
Loan stock	737	737	737	737
	979	979	979	979
Promatic Group Limited				
Ordinary shares	103	–	103	–
Loan stock	1,126	922	1,126	922
	1,229	922	1,229	922
KPJ Software Services Limited				
Ordinary shares	100	–	100	100
Loan stock	895	870	895	895
	995	870	995	995

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

11 Significant interests

Details of shareholdings in those companies where the company's holding at 30 September 2011 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, are given below All of the companies named are incorporated in Great Britain

Company	Class of shares (nominal value £1 unless stated)	Number held	Proportion of class held
Direct Valeting Limited	Ordinary (1p)	119,760	12 0%
	Redeemable preference	360,000	24 0%
Paladin Group Limited	Ordinary (10p)	5,783	9 9%
	Redeemable preference	289	28 9%
Promatic Group Limited	Ordinary	12,141	12 5%
	Preferred ordinary (1p)	284	28 4%

12 Debtors

	30 September 2011 £000	30 September 2010 £000
Prepayments and accrued income	218	284
Other debtors	–	779
	218	1,063

13 Creditors (amounts falling due within one year)

	30 September 2011 £000	30 September 2010 £000
Accruals and deferred income	90	68

14 Called-up equity share capital

	30 September 2011 £000	30 September 2010 £000
Allotted and fully paid		
71,278,380 (2010 59,139,418) ordinary shares of 25p	17,820	14,785

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 pages 6 and 7

The company is not subject to externally imposed capital requirements

During the year the company issued 18,052,903 ordinary shares of 25p for cash at an average premium of 61 5p per share through offers for subscription 5,913,941 shares were re-purchased for cancellation at a cost of £4,696,000

Notes to the financial statements continued

for the year ended 30 September 2011

15 Reserves

	Share premium £000	Capital redemption reserve £000	Capital reserve £000	Revaluation reserve £000	Revenue reserve £000
At 1 October 2010	12,222	12,875	14,280	(5,020)	1,272
Premium on issue of ordinary shares	11,105	–	–	–	–
Share issue expenses	(836)	–	–	–	–
Shares purchased for cancellation	–	1,478	(4,696)	–	–
Transfer on reduction of share premium account	(12,000)	–	12,000	–	–
Share premium reduction expenses	–	–	(14)	–	–
Realised on disposal of investments	–	–	1,277	–	–
Transfer on disposal of investments	–	–	(856)	856	–
Movements in fair value of investments	–	–	–	5,125	–
Management fee capitalised net of associated tax	–	–	(603)	–	–
VAT recovered	–	–	99	–	–
Revenue return on ordinary activities after tax	–	–	–	–	975
Dividends recognised in the year	–	–	(4,434)	–	(355)
At 30 September 2011	10,491	14,353	17,053	961	1,892

At 30 September 2011 distributable reserves amounted to £18,945,000 (30 September 2010 £15,421,000), comprising the capital reserve, the revenue reserve and that part of the revaluation reserve relating to holding gains/losses on readily realisable listed fixed-interest investments

16 Net asset value per share

The calculation of net asset value per share as at 30 September 2011 is based on net assets of £62,570,000 (30 September 2010 £50,414,000) divided by the 71,278,380 (30 September 2010 59,139,418) ordinary shares in issue at that date

17 Financial instruments

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

Fixed asset investments (see Note 8) are valued at fair value For quoted investments this is either bid price or the latest traded price, depending on the convention of the exchange on which the investment is quoted Unquoted investments are carried at fair value as determined by the directors in accordance with current venture capital industry guidelines The fair value of all other financial assets and liabilities is represented by their carrying value in the balance sheet

In carrying on its investment activities, the company is exposed to various types of risk associated with the financial instruments and markets in which it invests The most significant types of financial risk facing the company are market risk, credit risk and liquidity risk The company's approach to managing these risks is set out below together with a description of the nature and amount of the financial instruments held at the balance sheet date

17 Financial instruments *continued*

Market risk

The company's strategy for managing investment risk is determined with regard to the company's investment objective, as outlined in the business review on pages 6 and 7 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

11 6% (30 September 2010 5 1%) by value of the company's net assets comprise equity securities listed on the London Stock Exchange or quoted on AIM A 5% increase in the bid price of these securities as at 30 September 2011 would have increased net assets and the total return for the year by £362,000 (30 September 2010 £128,000), a corresponding fall would have reduced net assets and the total return for the year by the same amount

55 0% (30 September 2010 52 2%) by value of the company's net assets comprise 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% overall increase in the valuation of the unquoted investments at 30 September 2011 would have increased net assets and the total return for the year by £1,721,000 (30 September 2010 £1,315,000), an equivalent change in the opposite direction would have reduced net assets and the total return for the year by the same amount

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

	30 September 2011			30 September 2010		
	Total fixed rate portfolio £000	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Total fixed rate portfolio £000	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Listed fixed-interest investments	2,557	3 9%	2 0	6,222	4 7%	1 4
Fixed-rate investments in unquoted companies	4,857	7 6%	4 3	5,091	9 1%	2 7
	7,414			11,313		

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 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 30 September 2011 (30 September 2010 0 5%) The amounts held in floating rate investments at the balance sheet date were as follows

	30 September 2011 £000	30 September 2010 £000
Floating rate loans to unquoted companies	17,809	15,649
Interest-bearing deposit accounts	18,294	14,323
	36,103	29,972

Notes to the financial statements continued

for the year ended 30 September 2011

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 30 September 2011 the company's financial assets exposed to credit risk comprised the following

	30 September 2011 £000	30 September 2010 £000
Listed fixed-interest investments	2,557	6,222
Fixed-rate investments in unquoted companies	4,857	5,091
Floating rate loans to unquoted companies	17,809	15,649
Interest-bearing deposit accounts	18,294	14,323
Accrued dividends and interest receivable	198	988
	43,715	42,273

Credit risk relating to listed fixed-interest investments is mitigated by investing in a portfolio of investment instruments of high credit quality, comprising securities issued by the UK Government, European Union governments and major UK and international companies and institutions Credit risk relating to loans to and preference shares in unquoted companies is considered to be part of market risk

Those assets of the company which are traded on recognised stock exchanges are held on the company's behalf by third party custodians (Bank of New York Mellon in the case of listed fixed-interest investments and Brewin Dolphin 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 banks

There were no significant concentrations of credit risk to counterparties at 30 September 2011 or 30 September 2010 No individual investment exceeded 5 9% of the company's net assets at 30 September 2011 (30 September 2010 6 5%)

Liquidity risk

The company's financial assets include investments in unquoted equity securities which are not traded on a recognised stock exchange and which generally may be illiquid As a result, the company may not be able to realise some of its investments in these instruments quickly at an amount close to their fair value in order to meet its liquidity requirements, or to respond to specific events such as a deterioration in the creditworthiness of any particular issuer

The company's listed fixed-interest investments are considered to be readily realisable as they are of high credit quality as outlined above

The company's liquidity risk is managed on a continuing basis by the investment manager in accordance with policies and procedures laid down by the board The company's overall liquidity risks are monitored on a quarterly basis by the board

The company maintains sufficient investments in cash and readily realisable securities to pay accounts payable and accrued expenses At 30 September 2011 these investments were valued at £20,851,000 (30 September 2010 £20,545,000)

18 Contingencies

At 30 September 2011 contingent assets in respect of potential deferred proceeds from the sale of investee companies not recognised in these financial statements amounted to approximately £1,124,000 (30 September 2010 £4,254,000) The extent to which these amounts will become receivable is dependent on future events and accordingly it is not considered appropriate to recognise them in the financial statements at this stage

At 30 September 2011 the company had a potential liability of £nil (30 September 2010 £37,000) in respect of a guarantee given to secure certain liabilities of an investee company

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