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SIGNED ACCOUNTS

2010 Northern AIM VCT PLC

Annual report and financial statements
31 October 2010

nvm private equity

Northern AIM VCT PLC is a Venture Capital Trust (VCT) managed by NVM Private Equity. The trust was launched in October 2000. Its portfolio of VCT-qualifying investments is focused on companies quoted on AIM but also includes a number of later-stage unquoted holdings.

Financial Summary

Year ended 31 October	2010	2009
Net assets	£7 0m	£7 6m
Net asset value per share	31 6p	34 4p
Return per share		
Revenue	0 2p	0 1p
Capital	0 1p	4 6p
Total	0 3p	4 7p
Dividend per share declared in respect of the year		
Revenue	0 1p	–
Capital	2 9p	3 0p
Total	3 0p	3 0p
Cumulative return to shareholders since launch		
Net asset value per share	31 6p	34 4p
Dividends paid per share*	22 3p	19 3p
Net asset value plus dividends paid per share	53 9p	53 7p
Share price at end of year	25 5p	26 0p

*Excluding proposed final dividend

Key dates

Results announced	**15 December 2010**
Shares quoted ex dividend	**16 February 2011**
Annual general meeting	**11 March 2011** (11 30am, St Andrew Room, MWB Business Exchange 9-10 St Andrew Square, Edinburgh EH2 2AF)
Final dividend paid (to shareholders on register on 18 February 2011)	**18 March 2011**

Chairman's Statement

The impact of higher VAT and spending cuts has yet to be felt and it seems likely that some difficult times still lie ahead.

Overview of the year

During the past year the UK economy has begun a tentative recovery from the deep recession whose low point was reached in the first half of 2009 The new Government has maintained an expansionary monetary policy whilst seeking to impose a severe fiscal tightening over the next few years, based on revenue-raising measures such as the imminent increase in VAT as well as significant cuts in public expenditure These and other factors have combined to prolong the general uncertainty which has overshadowed the activities of smaller companies in the UK

The AIM market made little progress between November 2009 and July 2010 but then rose sharply over the last quarter of our financial year to 31 October 2010, ending the year 25% higher overall The number of VCT-qualifying new issues on AIM has again been disappointingly low Whilst a number of our investee companies have made encouraging progress despite the difficult conditions, in most cases this has yet to be reflected in a re-rating of the share price As a result Northern AIM VCT has generated only a modest return over the past year However it is pleasing that we have been able to maintain the annual dividend at 3 0p, in line with our stated objective for a fourth successive year

Performance and dividend

The return per share for the year as shown in the income statement was 0 3p, equivalent to 0 9% of the opening net asset value (NAV) per share, compared with 4 7p in the preceding year Investment income was slightly down from the corresponding period, but a reduction in the level of revenue expenses led to a small increase in the revenue surplus for the year The capital value of the investment portfolio showed little overall growth and, after taking account of the 3 0p dividend paid in March 2010, the NAV per share fell to 31 6p at 31 October 2010 from 34 4p a year ago

The proposed final dividend of 3 0p per share in respect of the year ended 31 October 2010 will, subject to shareholders' approval at the annual general meeting, be paid on 18 March 2011 to shareholders on the register on 18 February 2011 This will take the cumulative total dividends paid by the company to 25 3p per share

Investments

The business review on pages 6 to 11 contains a detailed discussion of developments in the investment portfolio during the year Three new investments were added, one of which resulted from the restructuring of an existing holding, and a number of disposals were completed so as to maintain an adequate level of cash reserves

Although the AIM market as a whole has performed well over the past two years, many of the smaller VCT-qualifying companies on AIM have seen their market value stagnate or fall due to a lack of significant buying interest Our policy of holding a significant weighting in unquoted UK companies continues, though in the prevailing economic conditions we have felt it right to take a cautious view on the valuation of unquoted holdings and consequently this part of the portfolio did not achieve a positive contribution this year

Shareholder issues

During the year the directors have again maintained a policy of not buying back the company's own shares in the market Over the past year there has been a steady level of secondary market activity in the shares, generally at a discount of around 20% to NAV, and it remains our view that the company s distributable reserves and cash resources should be focussed on making dividend distributions which benefit all shareholders equally

The company has now been in existence for ten years, and at the annual general meeting on 11 March 2011 shareholders will be invited to vote on the five-yearly resolution for the continuation of the company Whilst the directors are recommending shareholders to vote in favour of continuation, it is important to emphasise that the future direction of the company is being kept under careful review with a number of possible strategic options being considered High priority will be given to protection of the capital gains deferral obtained by many shareholders when making their original investment in the company

Shareholders will receive with the annual report a separate circular giving details of all the business to be transacted at the annual general meeting

VCT qualifying status

The company has continued to comply with the qualifying conditions for maintaining its approval by HM Revenue & Customs as a venture capital trust The board retains PricewaterhouseCoopers LLP as advisers on VCT taxation matters

Prospects

Although the financial markets have been on an upward trend in recent months many observers remain pessimistic about the short to medium term prospects for the UK economy The impact of higher VAT and spending cuts has yet to be felt and it seems likely that some difficult times still lie ahead This is bound to have some effect on the performance of our portfolio However we believe that our investments, both quoted and unquoted are currently held at a valuation which leaves some room for future enhancement We will continue to seek ways to realise this potential for the benefit of shareholders

James Dawnay
Chairman 15 December 2010

Directors and Advisers

James Dawnay (Chairman)
aged 64
trained in investment management with the M&G Group and spent five years in industry before joining the board of S G Warburg in 1983 He was a founder director of Mercury Asset Management Group on its flotation in 1985 and subsequently became chairman of Mercury Fund Managers He joined Martin Currie in 1992 as director of business development and stepped down as deputy chairman in 2000 He is chairman of CCLA Investment Management Limited and a non-executive director of a number of other companies He was appointed to the board in 2000

Stephen Bullock
aged 49
held senior marketing positions in the healthcare sector prior to founding Action International Marketing Services, an international pharmaceutical marketing agency, in 1988 In 1997 the company was acquired by Quintiles Transnational Corp and he became CEO of a global specialist division He left Quintiles in 2000 to focus on entrepreneurial ventures and is an active business angel, working with a number of businesses in the TMT sector He was appointed to the board in 2000

Alastair Conn FCA
aged 55
is financial director of NVM Private Equity Limited He qualified as a chartered accountant with Price Waterhouse and was a co-founder of NVM in 1988 He is a non-executive director of Northern 2 VCT PLC He was appointed to the board in 2000

Iain Macdonald
aged 66
worked in sales management and marketing with IBM before leaving to set up a computer services business On its acquisition by a Canadian/US systems integrator, SHL Systemhouse Inc , he joined the parent's main board and ran their business in Europe Since then he has been a non-executive director and chairman of a range of businesses He is currently on the main board of Sykes Enterprises Inc , an international NASDAQ-listed leader in the business process outsourcing sector is chairman of Yakara plc, a specialist telecoms solutions provider, and is a director of Scottish Enterprise, the economic development agency for Scotland He was appointed to the board in 2000

John Moxon
aged 70
worked as an economist at the Scottish Office before joining Wood Mackenzie In 1977 he joined Capel-Cure Myers, subsequently becoming head of research and then head of the smaller companies team In 1989 he was one of the founder directors of Beeson Gregory and stepped down in 2001 He was appointed to the board in 2000

Secretary and Registered Office
Christopher Mellor FCA MCSI
Northumberland House
Princess Square
Newcastle upon Tyne NE1 8ER
Telephone 0191 244 6000
Fax 0191 244 6001
E-mail naim@nvm co uk

Registered Number
4075686

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

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

Taxation Advisers
PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Solicitors
Dickinson Dees LLP
St Ann s Wharf
112 Quayside
Newcastle upon Tyne NE1 3DX

SJ Berwin LLP
10 Queen Street Place
London EC4R 1BE

Bankers
Barclays Bank PLC
71 Grey Street
Newcastle upon Tyne NE1 6EF

Registrars
Equiniti Limited
Aspect House
Spencer Road
Lancing BN99 6DA
Shareholder helpline 0800 028 2349

Business Review

The company's objective is to provide high long-term tax-free returns to investors through a combination of dividend yield and capital growth.

This review has been prepared by the directors in accordance with the requirements of Section 417 of the Companies Act 2006, and forms part of the directors' report to shareholders The company's independent 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 28

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 AIM-quoted and 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 not less than 80% in a portfolio of AIM-quoted and unquoted investments and up to 20% in cash or near-cash investments, 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

Investments will be structured using various quoted and unquoted 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 industry sectors and by holding investments in companies at various stages of maturity in the corporate development cycle, though it is not intended that investments will be made in early-stage unquoted companies which have yet to achieve profitability and cash generation The normal investment holding period will be in the range from three to seven years

The average book cost of the company's unquoted and AIM-quoted holdings is approximately £200 000 based on the company's present total assets of £7 0 million, the directors consider that it would not normally be appropriate for any single new investment commitment to exceed £250,000, equivalent to approximately 3 6% of 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

Table 1 Movement in net assets and net asset value per share

	£000	Pence per share
Net asset value at 31 October 2009	7,585	34 4
Net revenue (investment income less revenue expenses and tax)	39	0 2
Capital surplus/(deficit) arising on investments		
Realised loss on disposals	(106)	(0 5)
Movements in fair value of investments	197	0 9
Management expenses allocated to capital account (net of tax relief)	(74)	(0 3)
Total return for the year as shown in income statement	56	0 3
Proceeds of issue of new shares (net of expenses)	67	(0 1)
Shares re-purchased for cancellation	-	-
Net movement for the year before dividends	123	0 2
Net asset value at 31 October 2010 before dividends recognised	7,708	34 6
Dividends recognised in the financial statements for the year	(662)	(3 0)
Net asset value at 31 October 2010	7,046	31 6

Table 2 Venture capital portfolio cash flow

Year ended	New investment £000	Disposal proceeds £000	Net inflow/ (outflow) £000
31 October 2006	1,839	998	(841)
31 October 2007	544	2,237	1,693
31 October 2008	1,472	1,351	(121)
31 October 2009	476	2,222	1 746
31 October 2010	1,343	1,524	181
Total	5,674	8,332	2,658

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 AIM-quoted and later-stage unquoted investment opportunities developed by NVM Private Equity Limited (NVM) and regularly invests alongside the four other funds managed by NVM, enabling the funds together to undertake investment commitments in any one investee company of up to approximately £9 million Under a co-investment scheme introduced in 2006, NVM executives are required to invest personally alongside the funds in each new investee company on a predetermined basis

Investment management

NVM Private Equity Limited (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 approximately £190 million under management in five venture capital funds

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

Trading conditions for smaller AIM-quoted and unquoted companies have remained very difficult The company's return per share for the year as reported in the income statement was 0 3p, equivalent to 0 9% of the opening net asset value (NAV) per share of 34 4p Investment income was slightly down on the preceding year, NVM again restricted its management fee in line with the terms of the management agreement so as to keep the company's annual running costs within the agreed limit Consequently the company was again able to report a small positive revenue return As a result of continuing cash generation from the investment portfolio, the company has been able to maintain its target annual dividend of 3 0p for a fourth successive year

New investment activity continues to be at relatively low levels and £0 9 million was invested in new holdings during the year, with additional investments in the existing venture capital portfolio amounting to £0 4 million There have been some successful full or partial divestments from the AIM portfolio notably from **RCG Holdings**, **Andor Technology** and **Advanced Computer Software Group**

The movement in total net assets and net asset value per share is summarised in Table 1

The net cash inflow from the venture capital portfolio was £0 2 million, comprising sales proceeds of £1 5 million less new investments of £1 3 million Portfolio cash flow over the past five years is summarised in Table 2

After taking account of dividends and other cash flows, the company's total bank balance decreased over the year by £0 2 million

Business Review

Dividends

In line with the dividend policy announced in 2008, the directors propose a final dividend of 3 0p per ordinary share in respect of the year (last year 3 0p), of which 0 1p represents income distribution and 2 9p is derived from realised capital gains

Investment portfolio

During the year ended 31 October 2010, three new holdings were added to the venture capital portfolio at a cost of £0 9 million, and additional investments totalling £0 4 million were made in existing portfolio companies The portfolio at 31 October 2010 comprised 28 holdings with an aggregate value of £5 8 million

A summary of the venture capital holdings at 31 October 2010 is given on page 12 with information on the fifteen largest investments on pages 13 to 16

New investments

The new investments completed during the year were

- **Britspace Group (£372,000)** – manufacturer of modular buildings, Hull (acquired through a restructuring of Britspace Holdings)
- **Kerridge Commercial Systems (£251,000)** – developer of software for the distribution sector, Hungerford
- **Nationwide Accident Repair Services (£296,000)** – AIM-quoted repairer of motor vehicles and provider of accident claim management services, Witney

Investment realisations

Details of investment realisations are given in Note 9 on page 37 Proceeds from the sale of investments totalled £1 5 million, of which £1 2 million was derived from the AIM portfolio - principally **Andor Technology** and **RCG Holdings**

Andor Technology is based in Belfast and is a world-leading manufacturer of high-performance digital cameras and light measuring solutions During the year approximately two thirds of Northern AIM VCT's holding in Andor was sold, realising proceeds of £571,000 against an original book cost of £186,000 - a gain of £385,000 Andor is still the largest AIM holding in the portfolio and the prospects for the company look very good During the year Andor added to its expertise by acquiring the Zurich-based company Bitplane, which is the world leader in 3D and 4D image analysis software Andor's revenues have grown by 24% per annum compound since 2004 and with new launches of cameras planned in 2011 strong growth should continue in the medium term However with the shares having nearly tripled in value since November 2009 the managers will be considering whether to lock in further profits in the medium term

Our investment in **RCG Holdings**, the Hong Kong-based biometrics company, was sold during the year for £477,000 realising a gain against cost of £232,000 Although the company was operating in an exciting business sector and had reported impressive results, our managers had some reservations about future prospects and decided to exit the holding The shares currently stand at 60% below our average sale price, with the company recently announcing a further fund-raising round

The shares in **Advanced Computer Software Group** performed very well earlier in the year and 10% of the holding was sold, realising a gain of £30,000 This remains one of the larger holdings within the portfolio and its prospects are discussed in the AIM portfolio review below

AIM portfolio review

Despite continued challenging conditions, many of the AIM-quoted companies in the portfolio are trading well having cut operating costs and seen an improvement in order books It is disappointing but perhaps not surprising that there have been some failures within the AIM portfolio during the year

IS Pharma is performing very well with good prospects The shares were weak earlier in the year and the managers took the opportunity to add to the holding IS Pharma is a leading EU speciality pharmaceutical company focusing on critical care oncology and neurology The company specialises in acquiring products that are not huge 'blockbuster" drugs but have an important niche that can be developed and expanded geographically Three new products have been launched in the UK alone in the past six months The most recent results for the six months ended 30 September 2010 were impressive, with profit after tax up 192% and cash generated from operations up 135% at £2 0 million The company has recently successfully raised £16 million to use to add further to its portfolio of brands

Pilat Media Global shares have recovered substantially and are up 139% over the past year Pilat develops markets and supports business management software solutions for content and service providers in the media industry

Pilat's software improves business performance, accelerates time to market and enables diversification and growth of content, programming, advertising, sales traffic and media operations for multi platform and linear on-demand services Pilat has more than 50 blue chip customers around the world The company saw a marked downturn in business in 2008 and 2009, but more recently there has been a strong recovery in demand and prospects In the six months ended 30 June 2010 the company made an operating profit before amortisation of intangibles of £1 4 million compared with a loss of £1 5 million in the preceding year Some of the directors have recently been buying shares which is a good sign of confidence going forward

Advance Computer Software Group is a fast growing and acquisitive company providing software in the healthcare sector It has a leading position in unscheduled care, out of hospital, out of hours and in hospices and care homes In February 2010 the company was transformed by the acquisition of COA Solutions from Alchemy Partners for £100 million, financed from the company's cash resources and bank debt COA has been a leading supplier of software solutions to the public and private sectors for over 25 years with in excess of 5 000 direct and indirect customers in healthcare, public and emergency (blue light) services and the private sector The results for the six months ended 31 August 2010 were encouraging and indicated that COA had been successfully integrated into the group More than £2 million of cost savings have been realised, and cross-selling within the group has got off to a good start with contracts won worth £6 million for software and managed services Earnings before interest, tax, depreciation and amortisation (EBITDA) were up 307% year-on-year at £12 2 million It was encouraging that organic growth of 7% was achieved in the period Despite the challenging economic environment and concerns on public sector spending, the group is delivering growth and continues to see opportunities

Several other companies in the AIM portfolio are showing encouraging progress following a difficult period during the economic downturn **Cello Group** the market research and consulting group, announced results for the six months ended 30 June 2010 with operating profit before discontinued operations up 25% year on year **IDOX**, which supplies software to UK public sector users, continues to produce good results and has made acquisitions over this year that should be reflected in results going forward

It is disappointing to report that four companies in the portfolio have not been successful in trading their way through the recession and have gone into administration The demise of **Connaught**, the support services company which moved from AIM to the main market in 2006 was extensively reported in the press **1st Dental Laboratories** suffered a severe downturn in high-margin private dental work during the recession and was unable to maintain support from its bankers to continue trading **Legion Group**, the security guarding business reported reasonable trading but over-extended itself which caused severe pressure on working capital and the company failed to gain sufficient support from its bankers **Shieldtech**, the body armour business, appeared to have an excellent product but was reliant on the UK police forces for business, expected orders were continually delayed which resulted in a marked downturn in sales and heavy losses The adverse financial impact of the failure of these four companies on the results for the year amounted to £403 000, equivalent to 1 8p per Northern AIM VCT share

Unquoted portfolio review

The flat performance of the unquoted portfolio over the past year reflects the difficult trading conditions that many companies are still encountering The modular building business **Britspace Holdings** was sold to a new group holding company, **Britspace Group** as part of an exercise to rationalise shareholdings and the financial structure Britspace has a strong order book in the short term but is partly dependent on winning new business from the public sector, and in recognition of this the carrying value of the business has been reduced **Crantock Bakery**, the Cornish pasty manufacturer, is trading satisfactorily and the value of the holding has been increased marginally during the year **IG Doors**, one of the UK's largest manufacturers of steel and glass reinforced plastic composite doors, has seen strong growth in its business and this has been reflected in a cautious increase in the valuation **Optilan Group**, the telecommunication systems integrator in which we invested in 2008 has made a slower than expected start and its valuation has been reduced, though it is encouraging to report that there are signs of improvement **Kerridge Commercial Systems**, an investment newly acquired this year, has made good progress so far There were no other material changes to the unquoted portfolio during the year

Business Review

Table 3 Investment valuation by category

Category	31 October 2010 £000	%	31 October 2009 £000	%
Venture capital investments				
Listed on London Stock Exchange	–	–	192	2 5
Quoted on AIM	3,464	49 2	3,542	46 7
Unquoted	2,318	32 9	2,138	28 2
Total venture capital investments	**5,782**	**82 1**	**5,872**	**77 4**
Net current assets	1,264	17 9	1,713	22 6
Net assets	**7,046**	**100 0**	**7,585**	**100 0**

Valuation policy

Unquoted investments are valued in accordance with the accounting policy set out on page 33, which takes account of current industry guidelines for the valuation of venture capital portfolios Provision against cost is made where an investment is underperforming significantly, and investments are not normally revalued upwards within 12 months of acquisition

As at 31 October 2010 the number of investments falling into each valuation category was as shown in Table 3

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 following charts show the movement in net asset value and total return (net asset value plus cumulative dividends) per share over the past five years

Dividend distributions the following charts 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 following chart shows 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 years

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

Risk management

The board carries out a regular review of the risk environment in which the company operates The main areas of risk identified by the board are as follows

Investment risk the majority of the company's investments are in small and medium-sized AIM-quoted companies which are VCT qualifying holdings, and which by their nature entail a higher level of risk and lower liquidity than investments in large quoted companies The directors aim to limit the risk attaching to the portfolio as a whole by careful selection, close monitoring and timely realisation of investments, by carrying out rigorous due diligence procedures and by maintaining a wide spread of holdings in terms of financing stage and industry sector The board reviews the investment portfolio with the investment 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 The company has very little 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 The majority of the company s investments are quoted on AIM and will be subject to market fluctuations upwards and downwards External factors such as terrorist activity can negatively impact stock markets worldwide and AIM is no exception to this In times of adverse sentiment there tends to be very little if any, market demand for shares in the smaller companies quoted on AIM

Liquidity risk the company's investments may be difficult to realise The fact that a stock is quoted on AIM does not guarantee its liquidity and there may be a large spread between bid and offer prices Unquoted investments are not traded on a recognised stock exchange and are inherently illiquid

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

Although there has been evidence of improvement in the UK economy recently, the recovery remains fragile It is likely that smaller companies in the UK will continue to face stern challenges over the next 12 months, particularly in those business sectors where public sector spending cuts will have an impact With many valuations now at a relatively low level the portfolio as a whole has upside potential which our managers will be seeking to realise in the medium term

By order of the Board

C D Mellor
Secretary 15 December 2010

Investment Portfolio

as at 31 October 2010

	Market	Cost £000	Valuation £000	% of net assets by value
Fifteen largest venture capital investments (see pages 13 to 16)				
Crantock Bakery	Unquoted	490	756	10.7
Andor Technology	AIM	106	441	6.3
IS Pharma	AIM	404	417	5.9
IG Doors	Unquoted	255	364	5.2
Pilat Media Global	AIM	151	361	5.1
Advanced Computer Software Group	AIM	176	351	5.0
Longhirst Venues	Unquoted	145	349	5.0
Nationwide Accident Repair Services	AIM	296	332	4.7
Axial Systems Holdings	Unquoted	251	287	4.1
IDOX	AIM	250	260	3.7
Kerridge Commercial Systems	Unquoted	251	251	3.5
Brulines Group	AIM	262	214	3.0
Bond International Software	AIM	182	204	2.9
Britspace Group	Unquoted	372	186	2.6
Jelf Group	AIM	297	160	2.3
		3,888	**4,933**	**70.0**
Other venture capital investments				
Quadnetics Group	AIM	235	155	2.2
Cello Group	AIM	301	135	1.9
CVS Group	AIM	259	134	1.9
Optilan Group	Unquoted	250	125	1.8
Prologic	AIM	300	120	1.7
Baydonhill	AIM	251	42	0.6
Colliers International UK	AIM	331	37	0.5
Adept Telecom	AIM	233	35	0.5
Twenty	AIM	198	32	0.5
Belgravium Technologies	AIM	143	20	0.3
First Artist Corporation	AIM	502	10	0.1
Individual Restaurant Company	AIM	250	4	0.1
Spectrum Interactive	Unquoted	250	–	–
Total fixed asset investments		**7,391**	**5,782**	**82.1**
Net current assets			1,264	17.9
Net assets			**7,046**	**100.0**

Fifteen Largest Venture Capital Investments

CRANTOCK BAKERY LIMITED

Cost	£490,000
Valuation	£756,000
Basis of valuation	Earnings multiple
Equity held	6 8%
Business/location	Manufacture of premium hand-made Cornish pasties, Newquay
History	Management buy-in from private ownership October 2002, led by NVM
Other NVM funds investing	Northern Investors Company Northern 2 VCT, Northern 3 VCT
Income in year	Dividends £9,000, loan stock interest £64,000

Audited financial information

Year ended 30 September	2009 £m	2008 £m
Sales	11 6	9 3
Profit before tax	0 9	0 2
Profit after tax	0 7	0 1
Net assets	2 1	1 5

ANDOR TECHNOLOGY PLC

Cost	£106,000
Valuation	£441,000
Basis of valuation	Bid price (AIM)
Equity held	0 4%
Business/location	Manufacturer of high quality digital cameras, Belfast
History	The company floated on AIM in December 2004 with Northern AIM VCT participating in the share placing
Other NVM funds investing	Northern 2 VCT, Northern 3 VCT
Income in year	Nil

Audited financial information

Year ended 30 September	2009 £m	2008 £m
Sales	33 1	24 7
Profit before tax	3 4	1 5
Profit after tax	3 0	1 1
Net assets	16 4	13 3

IS PHARMA PLC

Cost	£404,000
Valuation	£417,000
Basis of valuation	Bid price (AIM)
Equity held	1 4%
Business/location	Specialist hospital medicines developer Chester
History	Quoted on AIM since 1987, Northern AIM VCT invested through a placing in 2007
Other NVM funds investing	Northern Venture Trust, Northern 2 VCT Northern 3 VCT
Income in year	Nil

Audited financial information

Year ended 31 March	2010 £m	2009 £m
Sales	14 2	12 2
Profit before tax	2 6	2 0
Profit after tax	1 5	6 7
Net assets	30 3	28 6

IG DOORS LIMITED

Cost	£255,000
Valuation	£364,000
Basis of valuation	Earnings multiple
Equity held	3 1%
Business/location	Manufacturer of steel and GRP composite doors, Cwmbran
History	Management buy-out from Expamet International, November 2003, led by NVM
Other NVM funds investing	Northern Investors Company Northern Venture Trust Northern 2 VCT Northern 3 VCT
Income in year	Dividends £5,000, loan stock interest £30,000

Audited financial information

Year ended 31 December	2009 £m	2008 £m
Sales	14 7	14 8
Profit/(loss) before tax	0 9	(0 5)
Profit/(loss) after tax	0 6	(0 4)
Net assets	1 2	0 6

Fifteen Largest Venture Capital Investments

PILAT MEDIA GLOBAL PLC

Cost	**£151,000**
Valuation	**£361,000**
Basis of valuation	Bid price (AIM)
Equity held	1 3%
Business/location	Provision of software for the broadcasting industry London
History	The company de-merged from Pilat Technology International in February 2002 and raised £3 4 million of expansion finance on AIM
Other NVM funds investing	None
Income in year	Nil

Audited financial information

Year ended 31 December	2009 £m	2008 £m
Sales	19 3	17 8
Profit/(loss) before tax	0 6	(2 4)
Profit/(loss) after tax	0 4	(1 7)
Net assets	17 4	15 7

ADVANCED COMPUTER SOFTWARE GROUP PLC

Cost	**£176,000**
Valuation	**£351,000**
Basis of valuation	Bid price (AIM)
Equity held	0 3%
Business/location	Provider of software to the healthcare sector, London
History	Reverse take-over of an AIM quoted company and additional fundraising, August 2008
Other NVM funds investing	Northern Venture Trust Northern 2 VCT, Northern 3 VCT
Income in year	Nil

Audited financial information

Period ended 28 February	2010 £m	2009* £m
Sales	30 2	7 3
Profit before tax	4 2	1 5
Profit after tax	3 2	1 2
Net assets	78 5	25 4

*14 months ended 28 February

LONGHIRST VENUES LIMITED

Cost	**£145,000**
Valuation	**£349,000**
Basis of valuation	Net asset value
Equity held	6 3%
Business/location	Ownership and management of two hotel and conference centres, Morpeth
History	Management buy-out from public sector ownership, December 2002, led by NVM De-merged from Longhirst Group in May 2007
Other NVM funds investing	Northern Investors Company, Northern 2 VCT, Northern 3 VCT
Income in year	Dividends nil loan stock interest £11,000

Audited financial information

Year ended 31 March	2010 £m	2009 £m
Sales	5 4	5 6
Profit/(loss) before tax	–	(5 0)
Profit/(loss) after tax	0 2	(4 7)
Net assets	7 3	7 2

NATIONWIDE ACCIDENT REPAIR SERVICES PLC

Cost	**£296,000**
Valuation	**£332,000**
Basis of valuation	Bid price (AIM)
Equity held	0 8%
Business/location	Repair of motor vehicles and the provision of accident claim management services Witney
History	The company floated on AIM in 2006 with Northern AIM VCT buying shares in the market in 2010
Other NVM funds investing	None
Income in year	Dividends £17 000

Audited financial information

Year ended 31 December	2009 £m	2008 £m
Sales	170 9	179 3
Profit before tax	5 1	7 1
Profit after tax	3 6	5 0
Net assets	28 3	26 7

AXIAL SYSTEMS HOLDINGS LIMITED

Cost	£251,000
Valuation	£287,000
Basis of valuation	Earnings multiple
Equity held	2 1%
Business/location	Supplier of distributed network management solutions, Maidenhead
History	Management buy-out from private ownership, March 2008, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT Northern 3 VCT
Income in year	Dividends nil, loan stock interest £10 000

Audited financial information

Period ended 31 May	2010 £m	2009* £m
Sales	18 3	21 9
Profit before tax	0 2	–
Loss after tax	–	(0 3)
Net assets	1 3	1 3

*14 months ended 31 May

IDOX PLC

Cost	£250,000
Valuation	£260,000
Basis of valuation	Bid price (AIM)
Equity held	0 6%
Business/location	Developer of software products for document, content and information management, London
History	The company floated on AIM in December 2000 with Northern AIM VCT participating in the share placing
Other NVM funds investing	Northern Venture Trust, Northern 3 VCT
Income in year	Dividends £5,000

Audited financial information

Year ended 31 October	2009 £m	2008 £m
Sales	32 2	34 0
Profit before tax	4 5	6 6
Profit after tax	3 5	4 8
Net assets	28 2	25 4

KERRIDGE COMMERCIAL SYSTEMS LIMITED

Cost	£251,000
Valuation	£251,000
Basis of valuation	Cost
Equity held	1 2%
Business/location	Software developer for wholesale and retail distribution sectors, Hungerford
History	Management buy-out from ADP Inc, March 2010, led by NVM
Other NVM funds investing	Northern Investors Company, Northern Venture Trust, Northern 2 VCT, Northern 3 VCT
Income in year	Dividends nil, loan stock interest £11,000

Audited financial information

First audited accounts will be for the period to 30 September 2010

BRULINES GROUP PLC

Cost	£262,000
Valuation	£214,000
Basis of valuation	Bid price (AIM)
Equity held	0 7%
Business/location	Provider of fluid monitoring equipment for the public house and petrol forecourt sectors Stockton-on-Tees
History	The company floated on AIM in 2006 with Northern AIM VCT buying shares in the market in 2009
Other NVM funds investing	Northern Venture Trust Northern 3 VCT
Income in year	Dividends £5,000

Audited financial information

Year ended 31 March	2010 £m	2009 £m
Sales	19 8	19 1
Profit before tax	4 0	4 6
Profit after tax	3 1	3 4
Net assets	30 7	31 5

Fifteen Largest Venture Capital Investments

BOND INTERNATIONAL SOFTWARE PLC

Cost	**£182,000**
Valuation	**£204,000**
Basis of valuation	Bid price (AIM)
Equity held	1 1%
Business/location	Provider of software for the recruitment market, Goring
History	The company floated on AIM in December 1997 A further share issue took place in March 2004, raising £4 million
Other NVM funds investing	None
Income in year	Dividends £3,000

Audited financial information

Year ended 31 December	2009 £m	2008 £m
Sales	32 5	32 0
Profit before tax	0 2	2 8
Profit after tax	0 2	2 0
Net assets	30 9	31 5

BRITSPACE GROUP LIMITED

Cost	**£372,000**
Valuation	**£186,000**
Basis of valuation	Cost less provision
Equity held	6 4%
Business/location	Manufacturer of modular buildings and steel fabrications, Hull
History	Acquired Britspace Holdings Limited in November 2009
Other NVM funds investing	Northern Investors Company, Northern 2 VCT Northern 3 VCT
Income in year	Dividends nil, loan stock interest £21,000

Audited financial information

Year ended 31 March	2010* £m
Sales	14 1
Loss before tax	(0 1)
Loss after tax	(0 2)
Net assets	2 8

*5 months ended 31 March

JELF GROUP PLC

Cost	**£297,000**
Valuation	**£160,000**
Basis of valuation	Bid price (AIM)
Equity held	0 3%
Business/location	Provider of commercial insurance, corporate healthcare and financial services, Bristol
History	The company floated on AIM in October 2004 A further share issue took place in February 2006, raising £4 million
Other NVM funds investing	None
Income in year	Nil

Audited financial information

Year ended 30 September	2009 £m	2008 £m
Sales	70 3	63 1
Profit/(loss) before tax	(11 3)	3 5
Profit/(loss) after tax	(9 8)	2 4
Net assets	66 0	75 4

Shareholder Information

The trust invests mainly in VCT-qualifying companies, particularly those quoted on AIM.

The Company

Northern AIM VCT PLC is a Venture Capital Trust (VCT) launched in October 2000, raising £22 million through a public share offer Subsequent share issues have taken the cumulative amount raised to over £24 million The trust invests mainly in VCT-qualifying companies, particularly those quoted on AIM

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

Northern AIM VCT PLC is managed by NVM Private Equity Limited (NVM), an independent specialist firm of venture capital managers based in Newcastle upon Tyne and Reading NVM also acts as manager of four other listed investment companies, Northern Investors Company PLC, Northern Venture Trust PLC, Northern 2 VCT PLC and Northern 3 VCT PLC, and has a total of approximately £190 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 principal events in the company's financial calendar for the year ending 31 October 2011 is as follows

June 2011
Half-yearly financial report for the six months ending 30 April 2011 published

December 2011
Final dividend and results for year ending 31 October 2011 announced

January 2012
Annual report and financial statements published

March 2012
Annual general meeting, final dividend paid

Share price

The company's share prices are 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 5 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 ordinary 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 scheme can be obtained from the Company Secretary (see page 5 for contact details)

Directors' Report

The directors have managed the affairs of the company with the intention of maintaining its status as an approved venture capital trust.

The directors present their report and the audited financial statements for the year ended 31 October 2010

Activities and status

The principal activity of the company during the year was the making of long term equity and loan investments, mainly in AIM-quoted 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 Section 414 of the Income and Corporation Taxes Act 1988 The company's registered number is 4075686

The directors are required by the articles of association to propose an ordinary resolution at the company's annual general meeting in 2011 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 22 to 26 is included in the directors' report by reference

Results and dividend

The return on ordinary activities after tax for the year of £56 000 has been transferred to reserves

The final dividend of 3 0p per share in respect of the year ended 31 October 2009 was paid during the year at a cost of £662,000 and has been charged to reserves

The proposed final dividend of 3 0p per share in respect of the year ended 31 October 2010 will, if approved by shareholders, be paid on 18 March 2011 to shareholders on the register on 18 February 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 ought 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 and the interests of their connected persons (in respect of which transactions are notifiable to the company under Disclosure and Transparency Rule 3 1 2R) in the issued ordinary shares of 5p of the company were as shown in Table 1

Table 1 Directors' shareholdings

	31 October 2010	1 November 2009
C J P Dawnay (Chairman)	102,800	102,800
S D Bullock	103 081	103,081
A M Conn	266,191	242,210
I A Macdonald	102,900	102,900
J W J Moxon	103,719	93,719

All of the directors' share interests shown above were held beneficially There have been no changes in the directors' share interests between 31 October 2010 and the date of this report

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

Directors' and officers' liability insurance

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

Creditor payment policy

The company's payment policy for the forthcoming financial year is to agree terms of payment before business is transacted and to settle accounts in accordance with those terms

There were no amounts owing to trade creditors at 31 October 2010

Management

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 A M Conn is an executive director of NVM

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

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

Share capital - purchase of shares

At the 2010 annual general meeting shareholders authorised the company to purchase in the market up to 2 206 673 ordinary shares (equivalent to approximately 10% of the then issued ordinary share capital) at a minimum price per share of 5p and a maximum price per share of not more than 105% of the average market value of the relevant shares for the five business days prior to the date on which the purchase is made As at 31 October 2010 no ordinary shares had been purchased under this authority, which at that date remained effective in respect of 2,206,673 ordinary shares, the authority will lapse at the conclusion of the annual general meeting of the company to be held on 11 March 2011

Share capital - issue of shares

During the year the company issued 254,379 new ordinary shares of 5p for a cash consideration of £77 000 through the company's dividend investment scheme Details of allotments during the year are given in Note 14 to the financial statements

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 11 March 2011 is set out in a separate circular to shareholders along with explanatory comments on the resolutions

Substantial shareholdings

No disclosures have 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
15 December 2010

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 28

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 C J P Dawnay 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 advisors 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 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 A M Conn is entitled to participate in performance incentive arrangements established for the benefit of certain executives of NVM, as described in the directors' report on page 19

Directors' fees were reviewed by the nomination committee during its meeting in October 2010, when it was recommended that annual fees should not be increased from the present level of £15,000 per annum for the chairman and £12,000 for the other directors for the year ending 31 October 2011 The articles of association place an overall limit (currently £100,000 per annum) on directors' remuneration

Directors' fees (audited information)

The fees paid to individual directors in respect of the years ended 31 October 2010 and 2009 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 that thereafter at least one-third of the directors shall retire and be eligible for re-election 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

Table 1 Directors' fees

	Year ended 31 October 2010 £	Year ended 31 October 2009 £
C J P Dawnay (Chairman)	15,000	15,000
S D Bullock	12,000	12,000
A M Conn	–	–
I A Macdonald	12,000	12,000
J W J Moxon	12,000	12,000

Mr A M Conn waived his entitlement to directors' fees in respect of both years and responsibilities A director's appointment may be terminated on three months' notice being given by the company and in certain other circumstances

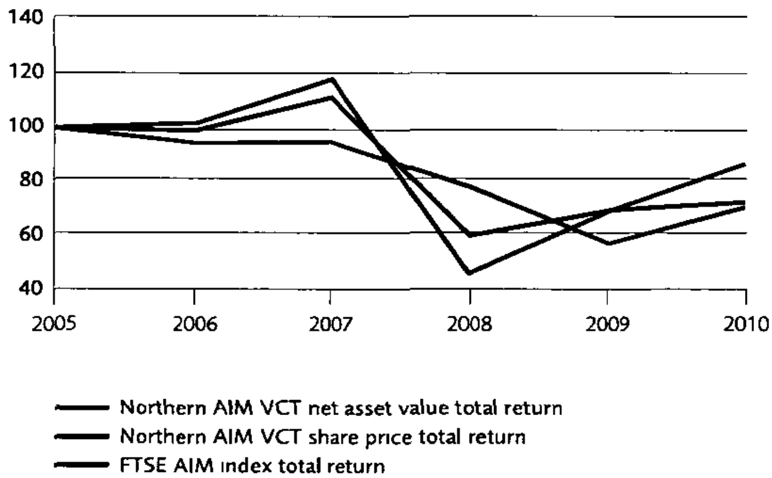
Company performance

The graph opposite compares the total return (assuming all dividends are re-invested) to ordinary shareholders in the company over the five years ended 31 October 2010 with the total return from a notional investment in the FTSE AIM 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 15 December 2010

Return to shareholders in Northern AIM VCT PLC
Five years to 31 October 2010 (October 2005 = 100)



Corporate Governance

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

The board has considered the principles and recommendations of the AIC Code of Corporate Governance ("the AIC Code') by reference to the AIC Corporate Governance Guide for Investment Companies ("the AIC Guide") The AIC Code, as explained by the AIC Guide, addresses all the principles set out in Section 1 of the Combined 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/AICCodeofCorporate GovernanceMarch2009 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 Combined Code), will provide better information to shareholders

The company is committed to maintaining high standards in corporate governance and during the year ended 31 October 2010 complied with the recommendations of the AIC Code and the relevant provisions of Section 1 of the Combined Code, except as set out below

The Combined 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 Combined Code, the board considers these provisions are not relevant to the position of the company, 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 C J P Dawnay, 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 committees and individual directors 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 directors under the leadership of Mr J W J Moxon

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 full 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 appointed by the board should seek re-appointment at the next annual general meeting The board complies with the requirement of the Combined Code that all directors are required to submit themselves for re-election at least every three years

Independence of directors

The board regularly reviews the independence of its members and is satisfied that (with the exception of Mr A M Conn who is a director and employee of NVM, the company's 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 in excess of nine years is not per se prejudicial to a director's ability to carry out his duties effectively and from an independent perspective the nature of the company's business is such that individual directors' experience and continuity of board membership can significantly enhance the effectiveness of the board as a whole Accordingly it is not considered appropriate to require directors who have served for more than nine years to seek annual re-election Nevertheless the board acknowledges that periodic refreshment of its membership is desirable

Board committees

The board has appointed three standing committees to make recommendations to the board in specific areas

Audit Committee

During the year the audit committee comprised

Mr J W J Moxon (Chairman)
Mr S D Bullock
Mr I A Macdonald

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,

Corporate Governance

- 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 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 Combined Code as to recent and relevant financial experience

The company does not have an independent internal audit function as it is not deemed appropriate given the size of the company and the nature of the company's business However the committee considers annually whether there is a need for such a function and if so would recommend this to the board

During the year ended 31 October 2010 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,
- 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 C J P Dawnay (Chairman)
Mr S D Bullock
Mr A M Conn
Mr I A Macdonald
Mr J W J Moxon

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 C J P Dawnay (Chairman)
Mr S D Bullock
Mr I A Macdonald
Mr J W J Moxon

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 34

Table 1 Directors' attendance at meetings

	Board	Audit Committee	Nomination Committee	Management Engagement Committee
Number of meetings held	5	3	1	1
Attendance (actual/possible)				
C J P Dawnay	5/5	n/a	1/1	1/1
S D Bullock	5/5	3/3	1/1	1/1
A M Conn	5/5	n/a	1/1	n/a
I A Macdonald	5/5	3/3	1/1	1/1
J W J Moxon	5/5	3/3	1/1	1/1

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 NVM has also performed its company secretarial and accounting duties efficiently and effectively

Attendance at board and committee meetings

Table 1 sets out the number of formal board and committee meetings held during the year ended 31 October 2010 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 Combined Code, the chairman gives feedback to the board on issues raised with him by shareholders with a view to ensuring that members of the board develop an understanding of the views of shareholders about their company The board recognises the value of maintaining regular communications with shareholders Formal reports are sent to shareholders at the half-year and year-end stages, and an opportunity is given to shareholders at the annual general meeting to question the board and the investment manager on matters relating to the company's operation and performance Proxy voting figures for each resolution are announced at general meetings and are made available publicly following the relevant meeting

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

Internal control

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

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

The directors confirm that by means of the procedures set out above and in accordance with "Internal Controls Guidance for Directors on the Combined Code", published by the Institute of Chartered Accountants in England and Wales, they have established a continuing process for identifying, evaluating and managing the significant potential risks faced by the company and are satisfied that these procedures represent a sound system of risk management and internal control 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 11

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

As at 31 October 2010 22 321 112 ordinary shares were in issue (as at that date none of the issued shares were held by the company as treasury shares) Subject to any suspension or abrogation of rights pursuant to relevant law or the company's articles of association, the shares confer on their holders (other than the company in respect of any treasury shares) the following principal rights

(a) the right to receive out of profits available for distribution such dividends as may be agreed to be paid (in the case of a final dividend in an amount not exceeding the amount recommended by the board as approved by shareholders in general meeting or in the case of an interim dividend in an amount determined by the board) All dividends unclaimed for a period of 12 years after having become due for payment are forfeited automatically and cease to remain owing by the company

(b) the right, on a return of assets on a liquidation, reduction of capital or otherwise, to share in the surplus assets of the company remaining after payment of its liabilities pari passu with the other holders of ordinary shares, and

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

Corporate Governance

The rights attaching to ordinary shares 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 company law (principally the Companies Act 2006)

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

Amendment of articles of association

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

Appointment and replacement of directors

A person may be appointed as a director of the company by the shareholders in general meeting by ordinary resolution (requiring a simple majority of the persons voting on the relevant resolution) or by the directors, no person other than a director retiring by rotation or otherwise, shall be appointed or reappointed as a director at any general meeting unless he is recommended by the directors or, not less than seven nor more than 42 days before the date appointed for the meeting, notice is given to the company of the intention to propose that person for appointment or reappointment 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 The company's articles of association require that one third of the directors should retire and seek re-election if they have been appointed by the directors since the last annual general meeting or if they have not retired at one of the previous two annual general meetings The board complies with the requirement of the AIC Code that all directors are required to submit themselves for re-election at least every three years

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 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 and the company A person also ceases to be a director if he 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 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 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 2,206,673 ordinary shares at any time up to the next annual general meeting and otherwise on the terms set out in the relevant resolution, and a successor authority is being sought at the annual general meeting to be held on 11 March 2011 as set out in a separate circular

By order of the Board

C D MELLOR
Secretary 15 December 2010

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 Standards)

The financial statements are required by law to give a true and fair view of the state of affairs of the company at the end of the financial period and of the return of the company for that period

In preparing these financial statements, the directors are required to

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

In relation to the financial statements for the year ended 31 October 2010, each of the directors confirms that to the best of his knowledge

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company, and
- the directors' report includes a fair review of the development and performance of the business and the position of the company together with a description of the principal risks and uncertainties that it faces

The directors are also responsible for keeping proper accounting records that 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, www 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 15 December 2010

Independent Auditors' Report

To the members of
NORTHERN AIM VCT PLC
We have audited the financial statements of Northern AIM VCT PLC for the year ended 31 October 2010 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes 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' Responsibilities Statement set out on page 27 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 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/UKP**

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 October 2010 and of its total return 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, and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared 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

Under the Listing Rules we are required to review

- the directors' statement, set out on page 19, in relation to going concern, and
- 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

Simon Pashby
(Senior Statutory Auditor)
for and on behalf of
KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Edinburgh 15 December 2010

Financial Statements

Income Statement

for the year ended 31 October 2010

	Notes	Year ended 31 October 2010 Revenue £000	Capital £000	Total £000	Year ended 31 October 2009 Revenue £000	Capital £000	Total £000
Gain/(loss) on disposal of investments	8	–	(106)	(106)	–	135	135
Movements in fair value of investments	8	–	197	197	–	895	895
		–	91	91	–	1 030	1,030
Income	2	218	–	218	236	–	236
Investment management fee	3	(25)	(74)	(99)	(18)	(55)	(73)
Recoverable VAT		–	–	–	7	22	29
Other expenses	4	(154)	–	(154)	(199)	–	(199)
Return on ordinary activities before tax		39	17	56	26	997	1 023
Tax on return on ordinary activities	5	–	–	–	–	–	–
Return on ordinary activities after tax		39	17	56	26	997	1,023
Return per share	7	0 2p	0 1p	0 3p	0 1p	4 6p	4 7p

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

Reconciliation of Movements in Shareholders' Funds

for the year ended 31 October 2010

	Notes	Year ended 31 October 2010 £000	Year ended 31 October 2009 £000
Equity shareholders' funds at 1 November 2009		7 585	7,152
Return on ordinary activities after tax		56	1,023
Dividends recognised in the year	6	(662)	(653)
Net proceeds of share issues	14	67	63
Equity shareholders' funds at 31 October 2010		7,046	7,585

- The accompanying notes are an integral part of this statement

Balance Sheet
as at 31 October 2010

	Notes	31 October 2010 £000	31 October 2009 £000
Fixed assets			
Investments	8	5 782	5 872
Current assets			
Debtors	12	40	353
Cash at bank		1 318	1 461
		1,358	1,814
Creditors (amounts falling due within one year)	13	(94)	(101)
Net current assets		1,264	1 713
Net assets		7,046	7,585
Capital and reserves			
Called-up equity share capital	14	1,116	1,103
Share premium	15	2,092	2 038
Capital redemption reserve	15	183	183
Capital reserve	15	5,147	7,272
Revaluation reserve	15	(1,609)	(3,089)
Revenue reserve	15	117	78
Total equity shareholders' funds		7,046	7,585
Net asset value per share	16	31 6p	34 4p

• The accompanying notes are an integral part of this statement

The financial statements on pages 30 to 41 were approved by the directors on 15 December 2010 and are signed on their behalf by

C J P Dawnay
Director

J W J Moxon
Director

Cash Flow Statement
for the year ended 31 October 2010

	Year ended 31 October 2010 £000	Year ended 31 October 2010 £000	Year ended 31 October 2009 £000	Year ended 31 October 2009 £000
Net cash inflow from operating activities		271		267
Taxation				
Corporation tax paid		-		-
Financial investment				
Purchase of investments	(1 343)		(476)	
Sale/repayment of investments	1,524		2,222	
Net cash inflow from financial investment		181		1,746
Equity dividends paid		(662)		(653)
Net cash inflow/(outflow) before financing		(210)		1,350
Financing				
Issue of ordinary shares	77		77	
Share issue expenses	(10)		(14)	
Net cash inflow from financing		67		63
Increase/(decrease) in cash at bank		(143)		1,413

Reconciliation of return before tax to net cash flow from operating activities	2010	2009
Return on ordinary activities before tax	56	1 023
(Gain)/loss on disposal of investments	106	(135)
Movements in fair value of investments	(197)	(895)
Decrease in debtors	313	220
Increase/(decrease) in creditors	(7)	54
Net cash inflow from operating activities	271	267

Analysis of movement in net funds	1 November 2009 £000	Cash flows £000	31 October 2010 £000
Cash at bank	1,461	(143)	1,318

Notes to the Financial Statements

for the year ended 31 October 2010

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, is set out below The policies are consistent with those applied in the preceding year

a Basis of accounting

The financial statements have been prepared 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 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 industry guidelines by using measurements of value such as price of recent transaction, earnings multiple and net assets, where no reliable fair value can be estimated using such techniques, unquoted investments are carried at cost subject to provision for impairment where necessary

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

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

c Income

Dividends receivable on quoted equity shares are brought into account on the ex-dividend date Dividends receivable on unquoted equity shares are brought into account when the company's right to receive payment is established and there is no reasonable doubt that payment will be received Fixed 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 charged to capital return as incurred and
- expenses are split and presented partly as capital items where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated, and accordingly 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

Notes to the Financial Statements
for the year ended 31 October 2010

2 Income

	Year ended 31 October 2010 £000	Year ended 31 October 2009 £000
Franked investment income		
Quoted companies	45	61
Unquoted companies	14	12
Interest receivable		
Bank deposits	2	21
Loans to unquoted companies	146	138
Sundry income	11	4
	218	236

3 Investment management fee

	Year ended 31 October 2010			Year ended 31 October 2009		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Investment management fee	25	74	99	18	55	73

NVM Private Equity Limited (NVM) provides investment management and secretarial services to the company under an agreement dated 19 October 2000, 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% of gross assets less current liabilities, calculated at half-yearly intervals as at 30 April and 31 October The annual running costs of the company, including management fees charged to capital return, are capped at 3 5% of net assets and the management agreement provides that any excess will be refunded by way of a reduction in NVM's management fee NVM also provides administrative and secretarial services to the company for a fee at the rate of 0 25% of gross assets less current liabilities, subject to a maximum of £35,000 (linked to the movement in the RPI) This fee is included in other expenses (see Note 4)

NVM is entitled to receive a performance-related incentive fee based upon returns to the shareholders If the company's net asset value per share in a relevant period increases so that it exceeds 100p (less the value of any distributions paid from time to time) plus notional interest thereon at the rate of 7% per annum (compounding annually), then NVM will be entitled to an incentive fee equal in value to 20% of such excess The first such period expired on 31 October 2003 and thereafter the periods will be of one year's duration In the event that the performance of the company falls short of the target in any year such shortfall must be made up before NVM is entitled to any incentive fee in respect of subsequent years No incentive fee had become payable as at 31 October 2010

4 Other expenses

	Year ended 31 October 2010 £000	Year ended 31 October 2009 £000
Administrative and secretarial services	19	18
Directors' remuneration	51	51
Auditors remuneration - audit services	15	15
Legal and professional expenses	11	15
Irrecoverable VAT	10	9
Other expenses	48	91
	154	199

Information on directors' remuneration is given in the directors' remuneration report on pages 20 and 21

5 Tax on return on ordinary activities

	Year ended 31 October 2010			Year ended 31 October 2009		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
(a) Analysis of charge/(credit) for the year						
UK corporation tax payable/(recoverable) on the return for the year	–	–	–	–	–	–
(b) Tax reconciliation						
Return on ordinary activities before tax	39	17	56	26	997	1,023
Return on ordinary activities multiplied by the smaller companies rate of UK corporation tax of 21% (2009 21%)	8	4	12	5	209	214
Effect of						
UK dividends not subject to tax	(12)	–	(12)	(15)	–	(15)
Capital returns not subject to tax	–	22	22	–	(28)	(28)
Movements in fair value of investments not subject to tax	–	(41)	(41)	–	(188)	(188)
Increase in surplus management expenses	4	15	19	10	7	17
Current tax charge/(credit) for the year	–	–	–	–	–	–

(c) Factors which may affect future tax charges

The company has not recognised a deferred tax asset in respect of surplus management expenses carried forward of £1,734,000 (31 October 2009 £1,638,000), 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

6 Dividends

	Year ended 31 October 2010			Year ended 31 October 2009		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
(a) Recognised as distributions in the financial statements for the year						
Previous year's final dividend	–	662	662	218	435	653
(b) Proposed in respect of the year						
Final proposed - 3 0p (2009 3 0p) per share	33	637	670	–	662	662

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

The proposed final dividend of 3 0p per share for the year ended 31 October 2010 is subject to approval by shareholders at the annual general meeting on 11 March 2011 and has not been recognised as a liability in these financial statements

7 Return per share

The calculation of the return per share is based on the return on ordinary activities after tax for the year of £56,000 (2009 £1,023,000) and on 22,234,693 (2009 21,970,512) shares, being the weighted average number of shares in issue during the year

Notes to the Financial Statements

for the year ended 31 October 2010

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

	31 October 2010 £000	31 October 2009 £000
Level 1		
Quoted venture capital investments	3,464	3,734
Level 2		
None	–	–
Level 3		
Unquoted venture capital investments	2,318	2,138
	5,782	5,872

Movements in investments during the year are summarised as follows

	Venture capital - AIM quoted Level 1 £000	Venture capital - unquoted Level 3 £000	Total £000
Book cost at 1 November 2009	6,719	2,242	8 961
Fair value adjustment at 1 November 2009	(2,985)	(104)	(3,089)
Fair value at 1 November 2009	3,734	2,138	5,872
Movements in the year			
Purchases at cost	719	624	1,343
Transfer to unquoted (at cost)	(250)	250	–
Disposals - proceeds	(1,158)	(366)	(1,524)
- net realised losses on disposal	(88)	(18)	(106)
Movements in fair value	507	(310)	197
Fair value at 31 October 2010	3,464	2,318	5,782
Comprising			
Book cost at 31 October 2010	5,127	2,264	7,391
Fair value adjustment at 31 October 2010	(1,663)	54	(1 609)
	3,464	2,318	5,782
Equity shares	3,464	883	4 347
Interest-bearing securities	–	1 435	1 435
	3,464	2,318	5,782

8 Fixed asset investments continued

The gains and losses included in the above table have all been recognised in the income statement on page 30

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

At 31 October 2010 there were commitments totalling £nil (31 October 2009 £nil) in respect of investments approved by the manager but not yet completed

9 Investment disposals

Disposals of venture capital investments during the year were as follows

	Original cost £000	Directors' valuation at 31 October 2009 £000	Disposal proceeds £000	Realised gain/(loss) against carrying value £000
Advance AIM Value Realisation Company	17	4	6	2
RCG Holdings	245	508	477	(31)
Intercytex Group	250	–	–	–
Advanced Computer Software Group*	23	47	53	6
Andor Technology*	186	258	571	313
Hartest Holdings	450	26	51	25
Shieldtech	248	84	–	(84)
Connaught	178	192	–	(192)
1st Dental Laboratories	350	39	–	(39)
Legion Group	117	88	–	(88)
Britspace Holdings	788	334	269	(65)
Others	61	50	97	47
	2,913	1 630	1 524	(106)

* Part disposal

Notes to the Financial Statements
for the year ended 31 October 2010

10 Unquoted investments

The cost and carrying value of significant investments in unquoted companies are shown below

	31 October 2010		31 October 2009	
	Total cost £000	Carrying value £000	Total cost £000	Carrying value £000
Crantock Bakery Limited				
Ordinary shares	100	366	100	334
Loan stock	390	390	390	390
	490	756	490	724
IG Doors Limited				
Ordinary shares	32	141	32	–
Loan stock	223	223	283	236
	255	364	315	236
Longhirst Venues Limited				
Ordinary shares	42	246	42	250
Loan stock	103	103	103	103
	145	349	145	353
Axial Systems Holdings Limited				
Ordinary shares	36	72	36	72
Loan stock	215	215	215	215
	251	287	251	287
Kerridge Commercial Systems Limited				
Ordinary shares	25	25	–	–
Loan stock	226	226	–	–
	251	251	–	–
Britspace Group Limited				
Ordinary shares	219	33	–	–
Loan stock	153	153	–	–
	372	186	–	–
Optilan Group Limited				
Ordinary shares	46	–	46	–
Loan stock	204	125	204	204
	250	125	250	204
Britspace Holdings Limited				
Ordinary shares	–	–	443	–
Loan stock	–	–	345	334
	–	–	788	334

Additional information relating to the fifteen largest venture capital investments is given on pages 13 to 16

11 Significant interests

There are no shareholdings in companies where the company's holding at 31 October 2010 represents (1) more than 20% of the allotted equity share capital of any class (2) more than 20% of the total allotted share capital or (3) more than 20% of the assets of the company itself

12 Debtors

	31 October 2010 £000	31 October 2009 £000
Prepayments and accrued income	40	353

13 Creditors (amounts falling due within one year)

	31 October 2010 £000	31 October 2009 £000
Accruals and deferred income	94	101

14 Called-up equity share capital

	31 October 2010 £000	31 October 2009 £000
Allotted and fully paid		
22 321,112 (2009 22,066,733) ordinary shares of 5p	1,116	1 103

The capital of the company is managed in accordance with its investment policy and objectives which are detailed in the business review on pages 6 to 11

During the year the company issued 254,379 ordinary shares of 5p for cash at an average premium of 25 3p per share in connection with the dividend investment scheme

15 Reserves

	Share premium £000	Capital redemption reserve £000	Capital reserve £000	Revaluation reserve £000	Revenue reserve £000
At 1 November 2009	2,038	183	7,272	(3,089)	78
Premium on issue of ordinary shares	64	–	–	–	–
Share issue expenses	(10)	–	–	–	–
Realised on disposal of investments	–	–	(106)	–	–
Transfer on disposal of investments	–	–	(1,283)	1,283	–
Movements in fair value of investments	–	–	–	197	–
Management fee capitalised net of associated tax	–	–	(74)	–	–
Revenue return on ordinary activities after tax	–	–	–	–	39
Dividends recognised in the year	–	–	(662)	–	–
At 31 October 2010	2,092	183	5,147	(1,609)	117

At 31 October 2010 distributable reserves amounted to £5,264,000 (31 October 2009 £7,350,000), comprising the capital reserve and the revenue reserve

16 Net asset value per share

The calculation of net asset value per share as at 31 October 2010 is based on net assets of £7,046,000 (2009 £7,585,000) divided by the 22,321,112 (2009 22,066,733) ordinary shares in issue at that date

Notes to the Financial Statements

for the year ended 31 October 2010

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 AIM-quoted and unquoted securities whilst also holding a proportion of its assets in cash 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

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 to 11 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 22 to 26, 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 12 An analysis of investments between debt and equity instruments is given in Note 8

49 2% (31 October 2009 49 2%) by value of the company's net assets comprise equity securities quoted on AIM A 5% movement in the bid price of these securities as at 31 October 2010 would have changed net assets and the total return for the year by £173 000 (31 October 2009 £187,000)

32 9% (31 October 2009 28 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% movement in the valuation of the unquoted investments at 31 October 2010 would have changed net assets and the total return for the year by £116,000 (31 October 2009 £107,000)

Interest rate risk

Some of the company's financial assets are interest-bearing, of which some are at fixed rates and some variable As a result, the company is exposed to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates

(a) Fixed rate investments

The table below summarises weighted average effective interest rates for the company's fixed rate interest-bearing financial instruments

	31 October 2010			31 October 2009		
	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
Fixed-rate investments in unquoted companies	479	11 1%	2 2	339	9 3%	1 0

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

17 Financial instruments continued

(b) Floating rate investments

The company's floating rate investments comprise floating-rate loans to unquoted companies and cash held in interest-bearing deposit accounts The benchmark rate which determines the rate of interest receivable on such investments is the UK bank base rate, which was 0 5% at 31 October 2010 (31 October 2009 0 5%) The amounts held in floating rate investments at the balance sheet date were as follows

	31 October 2010 £000	31 October 2009 £000
Floating rate loans to unquoted companies	956	1,143
Interest-bearing deposit accounts	1 318	1,461
	2,274	2,604

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the company The investment manager and the board carry out a regular review of counterparty risk The carrying values of financial assets represent the maximum credit risk exposure at the balance sheet date

At 31 October 2010 the company s financial assets exposed to credit risk comprised the following

	31 October 2010 £000	31 October 2009 £000
Fixed-rate investments in unquoted companies	479	339
Floating rate loans to unquoted companies	956	1 143
Interest-bearing deposit accounts	1,318	1 461
Accrued dividends and interest receivable	29	21
	2 782	2,964

Credit risk relating to loans to and preference shares in unquoted companies is considered to be part of market risk

The company s quoted equity securities are held on the company's behalf by a third party custodian, Brewin Dolphin Limited 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 31 October 2010 or 31 October 2009 No individual investment exceeded 16 0% of the company's net assets at 31 October 2010 (31 October 2009 19 3%)

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 liquidity risk is managed on a continuing basis by the investment manager in accordance with policies and procedures laid down by the board The company s overall liquidity risks are monitored on a quarterly basis by the board The company maintains sufficient investments in cash and readily realisable securities to pay accounts payable and accrued expenses At 31 October 2010 these investments were valued at £1,318,000 (31 October 2009 £1,461,000)

18 Contingent liabilities

At 31 October 2010 the company had a potential liability of £279,000 (31 October 2009 £nil) in respect of guarantees given to secure certain liabilities and obligations of investee companies

Designed and produced by The Roundhouse Newcastle upon Tyne

Northern AIM VCT PLC

Northumberland House
Princess Square
Newcastle upon Tyne NE1 8ER

Tel 0191 244 6000
Fax 0191 244 6001
E-mail naim@nvm co uk

www nvm co uk