

# Downing Structured Opportunities VCT 1 PLC

---

Report & Accounts  
for the year ended  
31 March 2013

## SHAREHOLDER INFORMATION

### Selling shares

The Company's shares can be bought and sold in the same way as any other company listed on the London Stock Exchange, using a stockbroker. Disposing of shares may have tax implications, so Shareholders are urged to contact their independent financial adviser before making a decision.

The Company has stated that it will, from time to time, consider making market purchases of its own shares, in accordance with the policy set out in the Chairman's Statement. Shareholders who wish to sell should contact Downing LLP who will be able to provide up-to-date details. Downing LLP can be contacted on 020 7416 7780.

### Financial calendar

19 July 2013	Payment of Ordinary Share interim dividend of 15.0p
5 September 2013	Annual General Meeting
13 September 2013	Payment of final dividend on 'B' Shares and 'D' Shares
November 2013	Announcement of half yearly financial results

### Dividends

Dividends will be paid by the registrar on behalf of the Company. Shareholders who wish to have dividends paid directly into their bank account, rather than by cheque to their registered address, can complete a mandate form for this purpose. Queries relating to dividends, shareholdings, and requests for mandate forms should be directed to the Company's registrar, Capita Registrars, on 0871 664 0324 (calls cost 10p per minute plus network extras, lines open 8:30am to 5:30pm Monday to Friday), or by writing to them at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Mandate forms can also be downloaded from Capita's website (see below).

### Notification of change of address

Communications with Shareholders are mailed to the registered address held on the share register. In the event of a change of address or other amendment this should be notified to the Company's registrar, Capita Registrars, under the signature of the registered holder.

### Share scam warning

We have become aware that a significant number of shareholders of VCTs managed by both Downing and other VCT managers have recently received unsolicited telephone calls from a company purporting to be acting on behalf of a client who is looking to acquire their VCT shares at an attractive price. We believe these calls to be part of a "Boiler Room Scam". **Shareholders are warned to be very suspicious if they receive any similar type of telephone call.**

Further information can be found on Downing's website under "Existing Investments". If you have any concerns, please contact Downing on 020 7416 7780.

### Other information for Shareholders

Up-to-date Company information (including financial statements, share prices, and dividend history) may be obtained from Downing's website at:

**[www.downing.co.uk](http://www.downing.co.uk)**

If you have any queries regarding your shareholding in Downing Structured Opportunities VCT 1 plc, please contact the registrar on the above number or visit Capita's website at [www.capitaregistrars.com](http://www.capitaregistrars.com) and click on "Shareholders and employees".

## CONTENTS

	<b>Page</b>
Company information	1
Investment objectives and Directors	2
Chairman’s Statement	3
Ordinary Share pool Summary	5
Investment Manager’s Report – Ordinary Share pool	6
Review of investments - Ordinary Share pool	8
‘B’ Share pool Summary	16
Investment Manager’s Report – ‘B’ Share pool	17
Review of investments - ‘B’ Share pool	19
‘D’ Share pool Summary	27
Investment Manager’s Report – ‘D’ Share pool	28
Review of investments - ‘D’ Share pool	29
Report of the Directors	35
Directors’ remuneration report	41
Corporate governance	43
Independent Auditor’s report	46
Income statement	47
Reconciliation of movements in Shareholders’ funds	47
Balance sheet	50
Cash flow statement	51
Notes to the accounts	52
Notice of Annual General Meeting	67

## COMPANY INFORMATION

<b>Registered number</b>	6789187
<b>Directors</b>	Lord Flight (Chairman) Robin Chamberlayne Mark Mathias
<b>Secretary and registered office</b>	Grant Whitehouse 10 Lower Grosvenor Place London SW1W 0EN
<b>Investment and Administration Manager</b>	Downing LLP 10 Lower Grosvenor Place London SW1W 0EN Tel: 020 7416 7780 <a href="http://www.downing.co.uk">www.downing.co.uk</a>
<b>Structured Product Manager</b>	Brewin Dolphin Limited 9 Colmore Row Birmingham B3 2BJ
<b>Auditor</b>	BDO LLP Farringdon Place 20 Farringdon Road London EC1M 3AP
<b>VCT status advisers</b>	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH
<b>Registrars</b>	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU Tel: 0871 664 0324 (calls cost 10p per minute plus network extras, lines open 8:30am to 5:30pm Monday to Friday) <a href="http://www.capitaregistrars.com">www.capitaregistrars.com</a>
<b>Bankers</b>	Bank of Scotland plc 33 Old Broad Street London EC2N 1HZ  Royal Bank of Scotland plc London Victoria Branch 119/121 Victoria Street London SW1E 6RA

## INVESTMENT OBJECTIVES

Downing Structured Opportunities VCT 1 plc is a Venture Capital Trust established under the legislation introduced in the Finance Act 1995. The Company's principal objectives are to:

- invest in a portfolio of Venture Capital investments and Structured Products;
- reduce the risks normally associated with Venture Capital investments;
- target an annual dividend of at least 5p per Ordinary, 'B' Share and 'D' Share;
- provide a full exit for Shareholders in approximately six years at no discount to NAV; and
- maintain VCT status to enable Shareholders to retain their 30% income tax relief on investment.

The detailed investment policy adopted to achieve the investment objectives is set out in the Report of the Directors on page 37 to 38.

## DIRECTORS

**Lord Flight** (Chairman) has worked in the financial services industry for over 40 years and co-founded Guinness Flight Global Asset Management. In 1998, upon Guinness Flight's acquisition by Investec, he became joint chairman of Investec Asset Management Limited. He was MP for Arundel and South Downs from 1997 to 2005 and Shadow Chief Secretary to the Treasury between 2000 and 2004. He was appointed to the House of Lords in January 2011. He is chairman of the EIS Association and CIM Investment Management Limited; and is a director of Metro Bank plc, Investec Asset Management Limited and of a number of other companies in the financial services sector. He is also a Commissioner of the Guernsey Financial Services Commission.

**Robin Chamberlayne** is a chartered financial planner and has over 20 years' experience in the financial services industry. He formed Progressive Strategic Solutions in 1997, which provides financial advice and tax planning strategies. He is also a non-executive director of one other VCT managed by Downing LLP and holds a number of board positions in companies in the renewable energy sector, including Armstrong Energy Limited.

**Mark Mathias** is an investment director at Arbor Ventures, an early stage investment business. He is a founder and director of Capital Home Care. Previously, he founded and was chief executive of Quantum Asset Management, an award winning fund Management Company which specialised in risk management, derivatives and structured investments. He has an MBA from Cranfield School of Management and has extensive experience of closed ended investment funds, having also been marketing director of the investment trust business at Henderson Investors, and managing director of Finsbury Asset Management.

All the Directors are non-executive.

## CHAIRMAN'S STATEMENT

### Introduction

I am pleased to present the Company's Annual Report for the year ended 31 March 2013. The Company has three share pools at different stages in their lives. The year has seen a good performance from the more mature pools with both the Venture Capital and Structured Product portfolios delivering solid results. In the case of the newer share pool, this has been its first full year and good progress has been made in starting to invest the pool's funds.

### Ordinary Share pool

The net asset value ("NAV") of a combined holding of one Ordinary Share and one 'A' Share increased by 11.1p (11.2%) over the year after adjusting for the dividend paid during the year. Total Return (NAV plus cumulative dividends paid to date) stood at 124.9p at the year end, compared to the cost for most Shareholders who invested in the original share offer, net of income tax relief, of 70.0p.

A dividend of 15.0p per Ordinary Share was paid on 19 July 2013. This represented historic gains earned on the Structured Product portfolio and has brought cumulative dividends paid to 35.0p per Ordinary Share. Since the year end, the final Structured Product investment has been redeemed and, in view of the relatively short time remaining until the pool starts to seek returning funds to Shareholders, the Manager has decided not to make any new Structured Product investments and instead distribute some funds now. The strategy of investing in defensive Structured Products against a background of generally rising markets has delivered excellent results over the life of the portfolio for the share pool.

The pool's remaining funds are employed in Venture Capital investments which are generally performing well. Over the coming year, the Manager will be starting to work on plans for realisations which is targeted to commence in late 2014.

A more detailed review of the Ordinary Share pool is presented in the Investment Manager's report on pages 6 to 7.

### 'B' Share pool

The NAV of a combined holding of one 'B' Share and one 'C' Share increased by 5.0p (5.9%) over the year after adjusting for the dividend paid during the year. Total Return stood at 100.0p at the year end, compared to the cost for Shareholders who invested in the 'B' Share offer, net of income tax relief, of 70.0p.

The Structured Product portfolio delivered a solid performance. In the Venture Capital portfolio, a number of investments have now started to make progress and historic issues with a small number of investments now appear to have been mostly resolved. The portfolio looks to have reasonable potential to deliver further growth before the planned exit date of 2015.

A more detailed review of the 'B' Share pool is presented in the Investment Manager's report on pages 17 to 18.

### 'D' Share pool

The 'D' Share NAV stood at 87.7p at the year end, a fall of 1.8p per share or 1.9% over the year after adjusting for the dividends of 5p per share paid in the year. Total Return now stands at 92.7p per share, compared to the cost for Shareholders who invested in the 'D' Share offer, net of income tax relief, of 70.0p.

This has been the first full year for the 'D' Share pool, which completed its fundraising in August 2012. Several Structured Product investments have been completed, however, opportunities have been limited and potential returns unattractive. As a result, the Manager has held back and is monitoring the market for improved conditions.

A number of new Venture Capital investments have been completed, all in the renewable energy sector, which has provided attractive opportunities with income streams arising from government-backed schemes. There has been negative news, in the form of weak trading results, from two Venture Capital investments which have resulted in write downs, but all other investments have performed satisfactorily.

A more detailed review of the 'D' Share pool is presented in the Investment Manager's report on page 28.

### Dividends

It is the Company's intention to pay dividends of at least 5p per annum on each of the Ordinary, 'B' and 'D' Shares on a twice yearly basis.

In line with this policy, final dividends for the year ended 31 March 2013 are proposed as follows:

'B' Shares	2.5p
'D' Shares	2.5p

No further Ordinary Share dividend is being proposed as, following the 15.0p dividend paid on 19 July 2013, Ordinary Shareholders have already received dividends of 17.5p per share in respect of the year.

## CHAIRMAN'S STATEMENT (continued)

### Dividends (continued)

Subject to approval at the forthcoming AGM, the proposed dividends will be paid on 13 September 2013 to Shareholders on the register at the close of business on 16 August 2013.

### Share buybacks

The Company operates a policy of buying in its own shares that become available in the market subject to regulatory restrictions and other factors such as availability of liquid funds. In the initial years of each share class, purchases are undertaken at prices approximately equal to NAV i.e. at a nil discount.

Shares purchased in the year to 31 March 2013 are summarised as follows:

Share class	Number	Average price
Ordinary Shares	10,200	98.0p
'A' Shares	9,750	0.001p
'C' Shares	10,300	0.001p

All of these shares were subsequently cancelled.

### Annual General Meeting

The Company's fourth AGM will be held at 10 Lower Grosvenor Place, London SW1W 0EN at 10:30 a.m. on 5 September 2013.

One item of special business is proposed: a special resolution to renew the authority to allow the Company to make market purchases of the Company's shares.

### Outlook

Over the next year, we expect to see limited investment activity in the Ordinary and 'B' Share pools as both are fully invested and have planned dates for the commencement of the return of funds to shareholders in 2014 and 2015 respectively. The Manager will continue to work closely with all investee companies to ensure they develop to plan and will start work on formulating realisation plans.

The 'D' Share pool is expected to be an active investor over the coming year as it continues to build its Venture Capital portfolio. The Manager will continue to monitor the market for Structured Product investments and should conditions improve, will consider making further investments.



**Lord Flight**  
Chairman

24 July 2013

## ORDINARY SHARE POOL SUMMARY

### Financial highlights

	<b>31 March 2013 pence</b>	<b>31 March 2012 pence</b>
Net asset value per Ordinary Share	104.8	98.7
Net asset value per 'A' Share	0.1	0.1
Cumulative distributions	20.0	15.0
Total Return per Ordinary Share and 'A' Share	<u>124.9</u>	<u>113.8</u>

### Dividend history

<b>Period end</b>	<b>Date paid</b>	<b>Pence per share</b>
2010 First Interim	25 September 2009	2.5
2010 Second Interim	29 January 2010	2.5
2010 Final	30 September 2010	2.5
2011 Interim	28 January 2011	2.5
2011 Final	30 September 2011	2.5
2012 Interim	27 January 2012	2.5
2012 Final	28 September 2012	2.5
2013 Interim	25 January 2013	2.5
2013 Second Interim	19 July 2013	15.0
		<u>35.0</u>

### Share prices

The Company's share price can be found in various financial websites with the following TIDM/EPIC codes:

	<b>Ordinary Shares</b>	<b>'A' Shares</b>
TIDM/EPIC codes	DO10	DO1A
Latest share price (23 July 2013)	80.0p per share	5.025p per share

### Structure of shareholdings

The Company's Ordinary Share offer for subscription was open between 27 January 2009 and 2 September 2009 when the Company was under its former name, Downing Protected Opportunities VCT 1 plc. Shareholders who invested in this offer received an equal number of Ordinary Shares and 'A' Shares. The combined price of issue of one Ordinary Share and one 'A' Share was £1 in respect of allotments which took place on or before 30 April 2009. Shares allotted after this date were issued at slightly higher prices to take account of the increase in NAV that had occurred by that time.

The 'A' Shares are designed to facilitate the payment of a performance incentive to management should any such incentive become payable in the future. The 'A' Shares initially had a net asset value of 0.1p per share which is only expected to increase when, and if, a performance incentive becomes payable. Any performance incentive due will be paid by declaring dividends in respect of the 'A' Shares, of which approximately one third are held by management.

### Target exit date

It is intended that the Ordinary Share pool will seek to realise its investments and start returning proceeds to investors around September 2014. Shareholders should note that the process of realising the share pool's investments may take some time to complete.



## INVESTMENT MANAGER'S REPORT – ORDINARY SHARE POOL

### Introduction

The Ordinary Share pool held 19 Venture Capital investments and one Structured Product investment at the year end and continues to be fully invested. The majority of the Ordinary Share pool's investments are performing well and we are pleased to report realised and unrealised gains on the pool's investments of £689,000 over the year.

### Net asset value and results

The net asset value ("NAV") per Ordinary Share at 31 March 2013 stood at 104.8p and NAV per 'A' Share at 0.1p, an increase of 11.1p for a combined holding of one Ordinary Share and one 'A' Share (after adjusting for dividends paid in the year). Total Return (combined NAV plus cumulative dividends) stood at 124.9p for a holding of one Ordinary and one 'A' Share.

A dividend of 15.0p per Ordinary Share was paid on 19 July 2013 to Ordinary Shareholders on the register at 28 June 2013.

The return on ordinary activities after taxation for the year was £1,158,000 (2012: £256,000), comprising a revenue return of £547,000 (2012: £144,000) and a capital profit of £611,000 (2012: £112,000).

### Venture Capital investments

#### Investment activity

At 31 March 2013, the pool held a Venture Capital portfolio with a total valuation of £9.0 million, comprising 19 investments, spread across a number of sectors. During the year, the share pool made further investments totalling £237,000, which were offset by divestments of £92,000 and a net increase in value of £562,000.

The pool made three follow-on investments and one new non-qualifying investment during the year at a total cost of £237,000. A further £110,000 was invested in The 3D Pub Co. Limited, £92,000 in Quadrate Spa Limited and £13,000 in Atlantic Dogstar Limited.

A new investment of £22,000 was made in Kilmarnock Monkey Bar Limited after one of the two pubs owned by Camandale was transferred into the Company. The Monkey Bar is now let to a third party manager, who pays a regular rent to the company.

#### Portfolio valuation

The majority of the investments within the Ordinary Share portfolio performed well throughout the year with a net valuation uplift of £562,000 recognised at the year end for the Venture Capital investments.

The largest valuation movements are discussed below:

The valuation of the investment in Redmed Limited was increased by £255,000. The company owns The Home nightclub in Lincoln city centre, which is producing results that are ahead of the original business plan.

The valuation of the investment in Atlantic Dogstar Limited was increased by £152,000. The company owns and operates The Dogstar pub in Brixton and The Clapton Hart in Clapton. Both pubs are trading significantly ahead of their original business plans. An independent valuation of each of pubs was commissioned, on which the year end valuation has been based.

Domestic Solar Limited owns a portfolio of solar panels on the rooftops of domestic properties across the UK. The panels have now been operational for over a year and are starting to establish a track record of income generation. An uplift of £120,000 in the value of the investment in Domestic Solar Limited was made at the year end.

Westow House Limited owns the Westow House pub in Crystal Palace, south London. A £115,000 increase in the valuation was recognised at the year end to reflect that the pub is performing beyond the original business plan.

Further increases in value were recognised in East Dulwich Tavern Limited (£55,000), Quadrate Catering Limited (£26,000) and Bijou Wedding Venues Limited (£17,000) to reflect that the businesses are performing well and in line with expectations.

A £75,000 reduction in value of Ecosol Limited was recognised at the year end as the business, which owns a portfolio of commercial solar installations, has experienced contractual difficulties at a number of the sites. We believe that these difficulties will be successfully overcome, however, they have resulted in performance to date below forecast and, therefore, a cautionary provision has been made until the difficulties are resolved.

A £37,000 reduction in value to both Chapel Street Services Limited and Chapel Street Food and Beverage Limited was recognised at the year end. Although the performance of each business is improving, they are unlikely to meet the original business plan as expected.

A further reduction in value was recognised in Camandale Limited of £28,000 after one of the two pubs owned by the Company was transferred into a new investment, Kilmarnock Monkey Bar Limited. The new valuation of Camandale reflects the standalone valuation of the remaining pub, The Riverbank.

## INVESTMENT MANAGER'S REPORT – ORDINARY SHARE POOL (continued)

### Structured products

The Structured Product portfolio was valued at £613,000 as at 31 March 2013. During the year, sales and redemptions realised £1.1 million, giving an adjusted total return for the year of 8.7%.

The objective with the Structured Product portfolio has been to seek to produce a better return from the non-qualifying investments than the pool could obtain from holding cash deposits or low risk fixed interest securities. The specific strategy employed has been to focus on structured products such as defensive auto-callables or synthetic zeros which offer clearly defined returns that, although linked to equity markets, have not required a positive performance from the underlying index to generate a positive return.

This strategy has once again produced a positive return and shortly after the year end, the final remaining Structured Product redeemed. For the year, the portfolio produced unrealised gains of £89,000 and realised gains of £44,000.

Over the life of the portfolio, the Structured Product investments have delivered considerably in excess of what was expected at inception, producing total gains of £1.7 million. The Board decided to distribute a large proportion of these gains by means of a dividend of 15.0p per Ordinary Share which was paid on 19 July 2013.

### Outlook

The Ordinary Share pool now just holds a portfolio of Venture Capital investments, which is reasonably well diversified and continues to perform well despite the challenging economic environment. There is potential for further short term investments in the portfolio before we start to seek realisations and commence returning funds to Shareholders in 2014. Trading conditions do, however, remain testing for most businesses and therefore close monitoring of all portfolio companies will remain a priority.

### Downing LLP

24 July 2013

## REVIEW OF INVESTMENTS - ORDINARY SHARE POOL

### Portfolio of investments

The following investments were held at 31 March 2013:

	Cost £'000	Valuation £'000	Valuation movement in year £'000	% of portfolio
<b>Structured Product investments</b>				
Elders Capital Accumulator VIII (29A)	486	613	89	5.6%
	486	613	89	5.6%
<b>Venture Capital investments</b>				
Redmed Limited*	999	1,254	255	11.5%
Domestic Solar Limited	1,000	1,120	120	10.2%
Future Biogas (SF) Limited	909	1,018	-	9.3%
Atlantic Dogstar Limited	585	971	152	8.9%
Bijou Wedding Venues Limited	815	901	17	8.2%
Quadrate Spa Limited*	635	635	-	5.8%
Quadrate Catering Limited	577	603	26	5.5%
Westow House Limited	405	557	115	5.1%
East Dulwich Tavern Limited	459	514	55	4.7%
The 3D Pub Company Limited*	627	472	-	4.3%
Ecosol Limited	500	425	(75)	3.9%
Mosaic Spa and Health Clubs Limited*	250	250	-	2.3%
Slopingtactic Limited	102	102	-	0.9%
Fenkle Street LLP**	58	58	-	0.5%
Chapel Street Services Limited	75	38	(37)	0.3%
Chapel Street Food and Beverage Limited	75	38	(37)	0.3%
Camandale Limited*	269	30	(28)	0.3%
Kilmarnock Monkey Bar Limited**	22	22	-	0.2%
Chapel Street Hotel Limited**	3	2	(1)	0%
	8,365	9,010	562	82.2%
	<u>8,851</u>	<u>9,623</u>	<u>651</u>	87.8%
Cash at bank and in hand		<u>1,316</u>		<u>12.2%</u>
Total investments		<u>10,939</u>		<u>100.0%</u>

\* partially qualifying investment

\*\* non-qualifying investment

All Venture Capital investments are incorporated in England and Wales.

## REVIEW OF INVESTMENTS - ORDINARY SHARE POOL (continued)

### Investment movements for the year ended 31 March 2013

#### ADDITIONS

	£'000
<b>Venture Capital investments</b>	
The 3D Pub Company Limited	110
Quadrate Spa Limited	92
Atlantic Dogstar Limited	13
Kilmarnock Monkey Bar Limited~~	22
	<u>237</u>

#### DISPOSALS

	Cost £'000	Valuation <sup>~</sup> at 31/03/12 £'000	Proceeds £'000	Profit vs. cost £'000	Realised gain/(loss) £'000
<b>Structured Product investments</b>					
Symphony Structure 3.5yr FTSE 4.85 Call Spread	355	539	561	206	22
Morgan Stanley Synthetic Zero	297	473	495	198	22
	<u>652</u>	<u>1,012</u>	<u>1,056</u>	<u>404</u>	<u>44</u>
<b>Venture Capital investments</b>					
Redmed Limited**	64	64	64	-	-
Fenkle Street LLP**	11	11	11	-	-
Camandale Limited~~	23	23	17	(6)	(6)
	<u>98</u>	<u>98</u>	<u>92</u>	<u>(6)</u>	<u>(6)</u>
	<u>750</u>	<u>1,110</u>	<u>1,148</u>	<u>398</u>	<u>38</u>

\* partially non-qualifying investment

\*\* non-qualifying investment

~ adjusted for purchases during the year

~~ investment restructuring see Investment Managers Report on page 6 for further details

## REVIEW OF INVESTMENTS - ORDINARY SHARE POOL (continued)

Further details of the ten largest Venture Capital investments held by the Ordinary Share pool:

Redmed Limited  
www.homelincoln.co.uk



Cost at 31/03/13:	£998,750	Valuation at 31/03/13:	£1,253,750
Cost at 31/03/12:	£1,062,500	Valuation at 31/03/12:	£1,062,500
Date of first investment:	May 11	Valuation method:	Net assets

Investment comprises:

A ordinary shares:	£127,500	Proportion of equity held:	18.2%
B ordinary shares:	£127,500	Proportion of equity held:	42.5%
A loan stock:	£148,750	Proportion of loan stock held:	8.5%
B loan stock:	£595,000	Proportion of loan stock held:	42.5%

Summary financial information from statutory accounts to 30 April

	2012	2011
Turnover:	n/a*	n/a*
Operating profit:	n/a*	n/a*
Net assets:	£735,537	£69,095

Redmed Limited owns and operates Home, a large entertainment venue with a restaurant, roof terrace, and nightclub with six themed rooms in Lincoln city centre. The venue, which is located close to the University of Lincoln, was completely refurbished and relaunched in October 2011.

Domestic Solar Limited



Cost at 31/03/13:	£1,000,000	Valuation at 31/03/13:	£1,120,000
Cost at 31/03/12:	£1,000,000	Valuation at 31/03/12:	£1,000,000
Date of first investment:	Mar 11	Valuation method:	Cost (reviewed for impairment)

Investment comprises:

A ordinary shares:	£150,000	Proportion of equity held:	10.0%
A loan stock:	£350,000	Proportion of loan stock held:	20.0%
B loan stock:	£500,000	Proportion of loan stock held:	25.0%

Summary financial information from statutory accounts to 31 March

	2012	2011
Turnover:	n/a*	None filed
Operating profit:	n/a*	None filed
Net assets:	£304,711	None filed

Domestic Solar Limited owns solar panels on residential rooftops throughout the south of England. The company has contracted with over 600 households who benefit from free electricity through an arrangement that allows Domestic Solar to receive the Feed-in Tariffs and payments for the surplus electricity produced and exported to the National Grid.

Future Biogas (SF) Limited  
www.futurebiogas.com



Cost at 31/03/13:	£908,727	Valuation at 31/03/13:	£1,017,774
Cost at 31/03/12:	£908,727	Valuation at 31/03/12:	£1,017,686
Date of first investment:	May 10	Valuation method:	Net assets

Investment comprises:

Ordinary shares:	£320,727	Proportion of equity held:	15.3%
A loan stock:	£588,000	Proportion of loan stock held:	30.5%

Summary financial information from statutory accounts to 31 May

	2012	2011
Turnover:	n/a*	n/a*
Operating profit:	n/a*	n/a*
Net assets:	£936,933	£406,757

Future Biogas Limited owns and operates a 1.4MW self-contained biogas plant in Norfolk. Through an Anaerobic Digestion process, biogas is produced which is used to generate electricity. The company benefits from the receipt of Feed-in Tariffs and payments for electricity exported to the National Grid.

## REVIEW OF INVESTMENTS – ORDINARY SHARE POOL (continued)

Atlantic Dogstar Limited  
www.dogstarbrixton.com



Cost at 31/03/13:	£584,643	Valuation at 31/03/13:	£970,743
Cost at 31/03/12:	£572,000	Valuation at 31/03/12:	£806,221
Date of first investment:	Sep 09	Valuation method:	Net assets

Investment comprises:

A ordinary shares:	£184,243	Proportion of equity held:	16.0%
B loan stock:	£400,400	Proportion of loan stock held:	40.0%

Summary financial information from statutory accounts to 31 December

	2011	2010
Turnover:	n/a*	n/a*
Operating profit:	n/a*	n/a*
Net assets:	£908,690	£351,511

Atlantic Dogstar Limited owns two pubs in London, The Dogstar in Brixton and The Clapton Hart in Clapton. The pubs are operated by Antic Limited which has also invested in the company.

Bijou Wedding Venues Limited  
www.bijouweddingvenues.co.uk



Cost at 31/03/13:	£815,000	Valuation at 31/03/13:	£900,750
Cost at 31/03/12:	£815,000	Valuation at 31/03/12:	£883,600
Date of first investment:	Sep 09	Valuation method:	Net assets

Investment comprises:

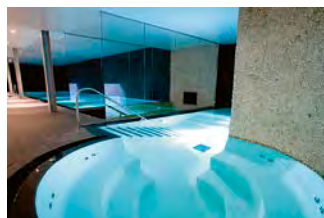
A ordinary shares:	£245,000	Proportion of equity held:	10.0%
C loan stock:	£570,000	Proportion of loan stock held:	17.4%

Summary financial information from statutory accounts to 31 December

	2011	2010
Turnover:	n/a*	n/a*
Operating profit:	n/a*	n/a*
Net assets:	£1,665,335	£865,770

Bijou Wedding Venues Limited purchased Botleys Mansion, located in Chertsey Surrey, from the administrator for £3.55m in September 2009. It is a Grade 2 listed building which was refurbished in 2010. The company operates as a dedicated exclusive wedding venue.

Quadrate Spa Limited  
www.theclubandspabirmingham.co.uk



Cost at 31/03/13:	£635,554	Valuation at 31/03/13:	£635,554
Cost at 31/03/12:	£543,200	Valuation at 31/03/12:	£543,200
Date of first investment:	Aug 10	Valuation method:	Net assets

Investment comprises:

A ordinary shares:	£183,960	Proportion of equity held:	7.4%
Secured loan stock:	£380,240	Proportion of loan stock held:	12.5%
Loan stock:	£49,000	Proportion of loan stock held:	1.6%
Short term loan stock:	£22,354	Proportion of loan stock held:	0.7%

Summary financial information from statutory accounts to 31 March

	2012	2011
Turnover:	£224,365	-
Operating loss:	(£577,040)	(£192,020)
Net assets:	£130,560	£437,911

Quadrate Spa Limited has developed a spa and health club in the lower floors of a canal-side mixed-use building in Birmingham known as The Cube. The health club and spa opened for trading in January 2012.

## REVIEW OF INVESTMENTS – ORDINARY SHARE POOL (continued)

Quadrate Catering Limited  
www.mpwsteakhousebrimingham.co.uk



Cost at 31/03/13:	£576,800	Valuation at 31/03/13:	£602,756
Cost at 31/03/12:	£576,800	Valuation at 31/03/12:	£576,800
Date of first investment:	Aug 10	Valuation method:	Net assets

Investment comprises:

A ordinary shares:	£173,040	Proportion of equity held:	7.6%
Secured loan stock:	£403,760	Proportion of loan stock held:	15.0%

Summary financial information from statutory accounts to 31 March

	2012	2011
Turnover:	£1,035,382	-
Operating loss:	(£276,926)	(£181,566)
Net assets:	£459,310	£525,463

Quadrate Catering Limited has developed the top floor of a canal-side mixed-use building in Birmingham known as The Cube which opened as a Marco Pierre-White branded restaurant in December 2011.

Westow House Limited  
www.westowhouse.com



Cost at 31/03/13:	£405,000	Valuation at 31/03/13:	£556,875
Cost at 31/03/12:	£405,000	Valuation at 31/03/12:	£441,450
Date of first investment:	Sep 09	Valuation method:	Net assets

Investment comprises:

A ordinary shares:	£121,500	Proportion of equity held:	16.0%
B loan stock:	£283,500	Proportion of loan stock held:	21.9%

Summary financial information from statutory accounts to 31 December

	2011	2010
Turnover:	n/a*	n/a*
Operating profit:	n/a*	n/a*
Net assets:	£601,404	£468,954

Westow House Limited is a public house in south London. The company purchased the freehold interest from Punch Taverns and the leasehold interest from the operator (who is the investment partner) in 2009.

East Dulwich Tavern Limited  
www.eastdulwichtavern.com



Cost at 31/03/13:	£459,000	Valuation at 31/03/13:	£514,080
Cost at 31/03/12:	£459,000	Valuation at 31/03/12:	£459,000
Date of first investment:	Sep 09	Valuation method:	Net assets

Investment comprises:

A ordinary shares:	£137,700	Proportion of equity held:	16.0%
B loan stock:	£321,300	Proportion of loan stock held:	21.0%

Summary financial information from statutory accounts to 31 December

	2011	2010
Turnover:	n/a*	n/a*
Operating profit:	n/a*	n/a*
Net assets:	£648,834	£591,988

The East Dulwich Tavern is a public house in south London. The company purchased the freehold interest from Punch Taverns and the leasehold interest from the operator (who is the investment partner) in 2009.

## REVIEW OF INVESTMENTS – ORDINARY SHARE POOL (continued)

The 3D Pub Company Limited  
[www.thejollyfarmersreigate.co.uk](http://www.thejollyfarmersreigate.co.uk)  
[www.thefoxrevived.co.uk](http://www.thefoxrevived.co.uk)



Cost at 31/03/13:	£626,667	Valuation at 31/03/13:	£471,667
Cost at 31/03/12:	£516,667	Valuation at 31/03/12:	£361,667
Date of first investment:	Sep 10	Valuation method:	Net assets

Investment comprises:

A ordinary shares:	£155,000	Proportion of equity held:	13%
B loan stock:	£110,000	Proportion of loan stock held:	6.6%
Secured loan stock:	£361,667	Proportion of loan stock held:	21.7%

Summary financial information from statutory accounts to 30 September

	2012	2011
Turnover:	n/a*	n/a*
Operating profit:	n/a*	n/a*
Net assets:	£840,164	£862,545

The 3D Pub Company Limited owns two pubs based in Surrey, The Jolly Farmers in Reigate and The Fox Revived in Horley. The company backed an experienced Management team with strong front and back-of-house experience. Management have been operating The Jolly Farmers for 5 years and The Fox Revived since September 2009. The pubs, which are prominent premises in an affluent part of the country, are operated as food-led destination venues.

Note: the proportion of equity held by each investment also represents the level of voting rights held by the Company in respect of the investment.

\* Turnover and operating profit figures not publicly available as company has filed abbreviated small company accounts.



## REVIEW OF INVESTMENTS – ORDINARY SHARE POOL (continued)

### Summary of loan stock interest income

	£'000
<b>Loan stock interest receivable in the year</b>	
Redmed Limited	92
Domestic Solar Limited	175
Future Biogas (SF) Limited	66
Atlantic Dogstar Limited	48
Bijou Wedding Venues Limited	192
Quadrate Spa Limited	-
Quadrate Catering Limited	84
Westow House Limited	34
East Dulwich Tavern Limited	38
The 3D Pub Company Limited	-
	<u>729</u>
Receivable from other investments	54
	<u>783</u>

### Analysis of investments by type

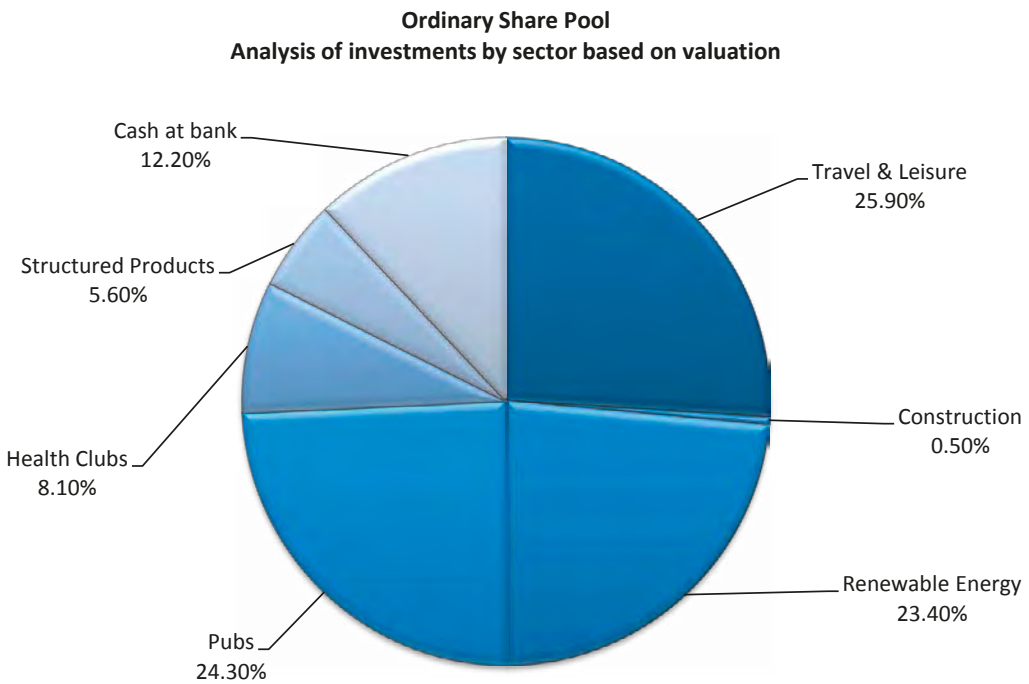
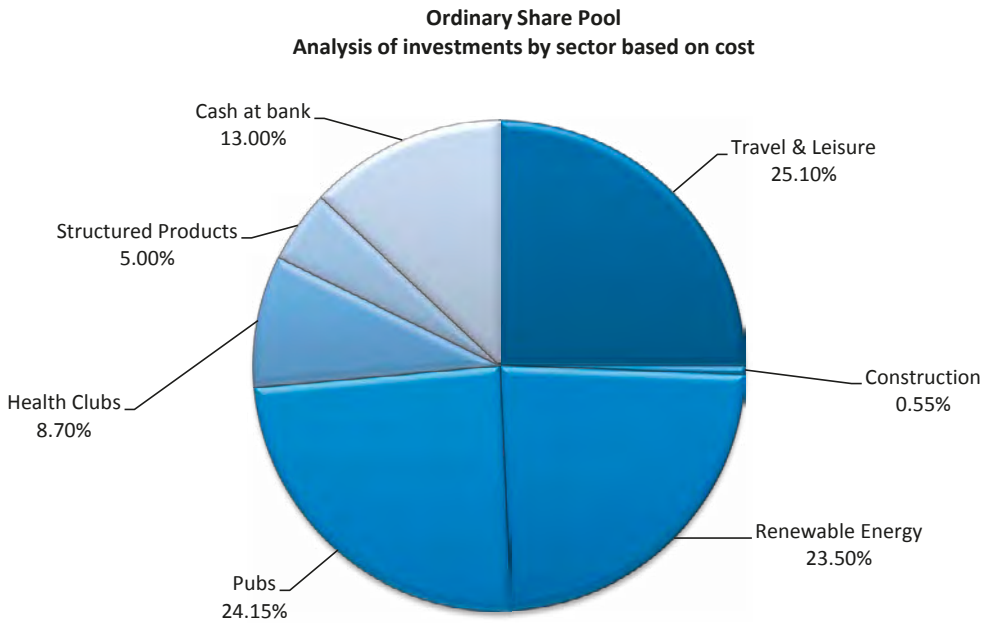
The allocation of the Ordinary Share funds compared to the target split based on cost is summarised as follows:

	Actual portfolio split at 31 March 2013	Target portfolio split at 31 March 2012
<b>VCT qualifying investments</b>		
Qualifying loan stock	52%	50%
Ordinary shares	<u>25%</u>	<u>25%</u>
<b>Total</b>	<u>77%</u>	<u>75%</u>
<b>Non-qualifying investments</b>		
Non-qualifying loan stock	5%	-
Structured Products	<u>5%</u>	<u>25%</u>
<b>Total</b>	<u>10%</u>	<u>25%</u>
<b>Cash</b>	13%	-
	<u>100%</u>	<u>100%</u>

## REVIEW OF INVESTMENTS – ORDINARY SHARE POOL (continued)

### Analysis of investments by commercial sector

The split of the Ordinary Share pool investment portfolio by commercial sector (by cost and by value at 31 March 2013) is as follows:



## 'B' SHARE POOL SUMMARY

### Financial highlights

	<b>31 March 2013 pence</b>	<b>31 March 2012 pence</b>
Net asset value per 'B' Share	84.9	84.9
Net asset value per 'C' Share	0.1	0.1
Cumulative distributions	15.0	10.0
Total return per 'B' Share and 'C' Share	<u>100.0</u>	<u>95.0</u>

### Dividend history

<b>Period end</b>	<b>Date paid</b>	<b>Pence per share</b>
2010 Final	30 September 2010	2.5
2011 Interim	28 January 2011	2.5
2011 Final	30 September 2011	2.5
2012 Interim	27 January 2012	2.5
2012 Final	28 September 2012	2.5
2013 Interim	25 January 2013	<u>2.5</u>
		<u>15.0</u>
Proposed 2013 Final	(Payable 13 September 2013)	<u>2.5</u>

### Share prices

The Company's share prices can be found in various financial websites with the following TIDM/EPIC codes:

	<b>'B' Shares</b>	<b>'C' Shares</b>
TIDM/EPIC codes	DO1B	DO1C
Latest share price (23 July 2013)	79.0p per share	0.1p per share

### Structure of shareholdings

The Company's 'B' Share offer for subscription was open between 15 October 2009 and 26 April 2010. For every £1 invested, Shareholders received one 'B' Share and one 'C' Share.

The 'C' Shares are designed to facilitate the payment of a performance incentive to management should any such incentive become payable in the future. The 'C' Shares initially had a net asset value of 0.1p per share which is only expected to increase when, and if, a performance incentive becomes payable. Any performance incentive due will be paid by declaring dividends in respect of the 'C' Shares, of which approximately one third are held by management.

### Target exit date

It is intended that the 'B' Share pool will seek to realise its investments and start returning proceeds to investors around April 2015. Shareholders should note that the process of realising the share pool's investments may take some time to complete.

## INVESTMENT MANAGER'S REPORT- 'B' SHARE POOL

### Introduction

The 'B' Share pool held 21 Venture Capital investments and four Structured Product investments at the year end and is fully invested. The majority of the 'B' Share pool's investments are performing to plan, resulting in an increase to adjusted net asset value ("NAV") over the year. Overall the pool had a net increase in value of its investments held of £622,000 over the year (including Structured Products valuation increase of £515,000).

### Net asset value, results and dividend

The NAV per 'B' Share at 31 March 2013 stood at 84.9p and per 'C' Share at 0.1p, a rise of 5.0p for a combined holding of one 'B' Share and one 'C' Share over the year after adjusting for dividends. Total Return (combined NAV plus cumulative dividends) stood at 100.0p for a combined holding.

The return on ordinary activities after taxation for the year was £1,004,000 (2012: loss £801,000), comprising a revenue return of £472,000 (2012: loss £133,000) and a capital profit of £532,000 (2012: loss £668,000).

A dividend of 2.5p per 'B' Share will be paid on 13 September 2013 to Ordinary Shareholders on the register at 16 August 2013.

### Venture Capital investments

#### Investment activity

At 31 March 2013, the 'B' Share pool held a Venture Capital portfolio with a valuation of £11.8 million comprising investments in 21 companies. During the year, the Company made investments totalling £2.0 million, which was partly funded by divestments of £1.5 million.

The pool made five Venture Capital investments during the year, two of which were new qualifying investments. An overview of the largest new qualifying investments is detailed below.

An investment of £500,000 was made in West Tower Property Limited in January 2013. The funding assisted the company in its purchase of "The West Tower", an exclusive wedding venue located in Aughton, Lancashire.

A number of transactions took place in respect of a reorganisation of Gingerbread Pre-School Nurseries where the trade was ultimately acquired by Liverpool Nurseries (Holdings) Limited. As part of the reorganisation a new manager and investment partner was brought in and is making progress in recovering from the initial difficulties that the business faced.

A new investment of £60,000 was made in Kilmarnock Monkey Bar Limited after one of the two pubs owned by Camandale was transferred into the company. The Monkey Bar is now let out to a third party manager who pays rent to the company.

Further follow on investments of £350,000 and £147,000 were made in Mosaic Spa and Health Clubs Limited and Quadrate Spa Limited respectively.

### Portfolio valuation

The majority of the 'B' Share investments continued to make progress, offsetting a small number of minor setbacks, such that the portfolio delivered a net unrealised gain of £107,000 for the year.

Domestic Solar Limited and Green Electricity Generation Limited both own a portfolio of solar panels on the rooftops of domestic properties across the UK. The panels have now been generating income for over a year and have started to establish reliable track records, resulting in an uplift of £96,000 for Domestic Solar and £37,000 for Green Electricity Generation.

Alpha Schools Holdings Limited, an independent primary school operator, is performing well and in line with expectations and was revalued upwards by £44,000.

Further increases in value were recognised for Quadrate Catering Limited (£38,000); Kidspace Adventures Holdings Limited (£34,000) and Antelope Pub Limited (£23,000) to reflect that the businesses are performing well and in line with expectations.

A £75,000 reduction in value of Ecosol Limited was made at the year end to reflect that the business, which owns a portfolio of commercial solar installations, has experienced contractual difficulties at a number of the sites. We believe that these difficulties will be successfully overcome, however, they have resulted in performance to date below forecast; therefore, a cautionary provision has been made until the difficulties are resolved.

A further reduction in value was recognised in Camandale Limited of £79,000 after one of the two pubs owned by the Company was transferred into a new investment Kilmarnock Monkey Bar Limited. The new valuation of Camandale reflects the standalone valuation of the remaining pub The Riverbank.

A £11,000 decrease in the value of Ridgeway Pub Company Limited was made at the year end. The investment, which owns and operates two pubs in Oxfordshire, is operating behind budget with no immediate sign of improvement. As a result, a small reduction in value has been made.

## INVESTMENT MANAGER'S REPORT- 'B' SHARE POOL (continued)

### Structured Products

The Structured Product portfolio was valued at £4.7 million as at 31 March 2013. During the year, sales and redemptions realised £1.3 million, giving an adjusted total return for the year of 10.4%. This is comfortably ahead of the yield that could have been obtained on cash deposits.

The objective with the Structured Product portfolio has been to focus on investments such as defensive auto-callables or synthetic zeros which offer clearly defined returns that, although linked to equity markets, do not require a positive performance from the underlying index to generate a positive return. We are pleased to report that this strategy has once again produced a positive return.

As the 'B' Share pool is now in its fourth year, the greater focus has now shifted to the Venture Capital portfolio and future activity in the Structured Product portfolio is likely to be in further sales and redemptions rather than new investments.

Since the 'B' Share pool was launched, the Structured Product portfolio recorded realised gains of £344,000 and unrealised gains of £515,000 and has performed favourably compared to UK stock markets. The defensive approach to Structured Product investing has resulted in a portfolio that has delivered what was expected of it and is well placed to continue generating positive returns.

### Outlook

The Structured Product portfolio has driven performance of the 'B' Share pool over the year, but looking forward its contribution is likely to be reduced. The Venture Capital portfolio is making satisfactory progress and we expect to see the stronger businesses continue to make headway despite the depressed economic environment.

### Downing LLP

24 July 2013

## REVIEW OF INVESTMENTS - 'B' SHARE POOL

### Portfolio of investments

The following investments were held at 31 March 2013:

	Cost £'000	Valuation £'000	Valuation movement in year £'000	% of portfolio
<b>Structured Product investments</b>				
Barclays 5Y Synthetic Zero	1,003	1,328	188	7.8%
Elders Capital Accumulator VIII	970	1,226	178	7.2%
Goldman Sachs 6YR Phoenix Autocall 3	1,003	1,108	54	6.5%
HSBC US Trade Range	752	1,011	95	5.9%
	<u>3,728</u>	<u>4,673</u>	<u>515</u>	<u>27.4%</u>
<b>Venture Capital investments</b>				
Future Biogas (Reepham Road) Limited*	1,476	1,476	-	8.6%
Quadrate Spa Limited*	954	954	-	5.6%
Liverpool Nurseries (Holdings) Limited*	934	934	-	5.5%
Domestic Solar Limited	800	896	96	5.3%
Quadrate Catering Limited	850	888	38	5.2%
Antelope Pub Limited	750	829	23	4.8%
Kidspace Adventures Holdings Limited	750	784	34	4.6%
Alpha Schools Holdings Limited	733	777	44	4.6%
Mosaic Spa and Health Clubs Limited*	600	600	-	3.5%
Green Electricity Generation Limited	500	537	37	3.2%
Avon Solar Energy Limited	500	500	-	2.9%
Westcountry Solar Solutions Limited	500	500	-	2.9%
West Tower Property Limited	500	500	-	2.9%
Ecossol Limited	500	425	(75)	2.5%
Progressive Energies Limited	340	340	-	2.0%
Slopingtactic Limited	277	277	-	1.6%
Commercial Street Hotel Limited**	185	185	-	1.1%
Fenkle Street LLP**	154	154	-	0.9%
Ridgeway Pub Company Limited	137	126	(11)	0.7%
Camandale Limited*	732	81	(79)	0.5%
Kilmarnock Monkey Bar Limited**	60	60	-	0.4%
	<u>12,232</u>	<u>11,823</u>	<u>107</u>	<u>69.3%</u>
	<u>15,960</u>	<u>16,496</u>	<u>622</u>	<u>96.7%</u>
Cash at bank and in hand		<u>564</u>		<u>3.3%</u>
Total investments		<u>17,060</u>		<u>100.0%</u>

\* partially qualifying investment

\*\* non-qualifying investment

All Venture Capital investments are incorporated in England and Wales.

## REVIEW OF INVESTMENTS - 'B' SHARE POOL (continued)

### Investment movements for the year ended 31 March 2013

#### ADDITIONS

	£'000
<b>Venture Capital investments</b>	
Liverpool Nurseries (Holdings) Limited*	932
West Tower Property Limited	500
Quadrate Spa Limited	147
Kilmarnock Monkey Bar Limited†	60
Mosaic Spa and Health Clubs Limited~~	350
	1,989

#### DISPOSALS

	Cost £'000	Valuation at 31/3/12 ~ £'000	Proceeds £'000	Profit vs. cost £'000	Realised gain/(loss) £'000
<b>Structured Product investments</b>					
Symphony Structure 3.5yr FTSE 4.85 Call Spread	497	539	561	64	22
JP Morgan 8% Defensive FTSE Autocall	356	413	434	78	21
Barclays 6Y 10% Def FTSE Autocall	291	339	348	57	9
	1,144	1,291	1,343	199	52
<b>Venture Capital investments</b>					
Liverpool Nurseries (House) Limited	405	405	405	-	-
Mosaic Spa and Health Club (Shrewsbury) Limited~~	350	350	350	-	-
Liverpool Nurseries (Greenbank) Limited	276	276	276	-	-
Liverpool Nurseries (Cottage) Limited	135	135	135	-	-
Kidspac Adventures Limited	270	270	270	-	-
Camandale Limited†	63	63	45	(18)	(18)
Fenkle Street LLP	31	31	31	-	-
Gingerbread Limited‡	-	-	2	2	2
	1,530	1,530	1,514	(16)	(16)
	2,674	2,821	2,857	183	36

\* partially qualifying investment

~ adjusted for purchases during the year

~~ share for share exchange during the year from Mosaic Spa and Health Club (Shrewsbury) Limited to Mosaic Spa and Health Clubs Limited

† investment restructuring whereby one of the pubs owned by Camandale Limited was transferred into Kilmarnock Monkey Bar Limited

‡ investment previously realised but further proceeds received

## REVIEW OF INVESTMENTS - 'B' SHARE POOL (continued)

Further details of the 10 largest Venture Capital investments held by the 'B' Share pool:

Future Biogas (Reepham Road) Limited  
www.futurebiogas.com



Cost at 31/03/13:	£1,475,934	Valuation at 31/03/13:	£1,475,934
Cost at 31/03/12:	£1,475,910	Valuation at 31/03/12:	£1,475,910
Date of first investment:	Mar 11	Valuation method:	Cost (reviewed for impairment)

Investment comprises:

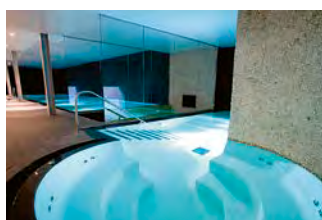
B ordinary shares:	£446,238	Proportion of equity held:	18.6%
A loan stock:	£1,029,696	Proportion of loan stock held:	37.2%

Summary financial information from statutory accounts to 30 September

	2012	2011
Turnover:	n/a*	n/a*
Operating profit:	n/a*	n/a*
Net assets:	£445,613	£58,022

Future Biogas (Reepham Road) is the second renewable energy investment with our partner Future Biogas. The site is located in Norfolk and the business is currently in the final stages of constructing the new anaerobic digestion plant.

Quadrate Spa Limited  
www.theclubandspabirmingham.co.uk



Cost at 31/03/13:	£953,596	Valuation at 31/03/13:	£953,596
Cost at 31/03/12:	£805,450	Valuation at 31/03/12:	£805,450
Date of first investment:	Aug 10	Valuation method:	Net assets

Investment comprises:

A ordinary shares:	£276,135	Proportion of equity held:	11.1%
Secured loan stock:	£563,815	Proportion of loan stock held:	18.5%
Loan stock:	£80,500	Proportion of loan stock held:	2.6%
Short term loan stock:	£33,146	Proportion of loan stock held:	1.1%

Summary financial information from statutory accounts to 31 March

	2012	2011
Turnover:	£224,365	-
Operating loss:	(£577,040)	(£191,020)
Net assets:	£130,560	£437,911

Quadrate Spa Limited has developed a spa and health club in the lower floors of a canal-side mixed-use building in Birmingham known as "The Cube". The health club and spa opened for trading in January 2012.

Liverpool Nurseries (Holdings) Limited



Cost at 31/03/13:	£933,625	Valuation at 31/03/13:	£933,625
Cost at 31/03/12:	£2,310	Valuation at 31/03/12:	£2,310
Date of first investment:	Feb 12	Valuation method:	Cost (reviewed for impairment)

Investment comprises:

Ordinary shares:	£260,932	Proportion of equity held:	4.7%
A loan stock:	£63,852	Proportion of loan stock held:	3.6%
B loan stock:	£608,841	Proportion of loan stock held:	34.8%

Summary financial information from statutory accounts: None filed

Liverpool Nurseries operates three Children's Day Nurseries based in Liverpool; 'The Cottage Day Nursery' in Fazakerley, which is registered for 88 children, and 'The House Day Nursery' in Crosby, which is registered for 154 children and 'Greenbank Park Day Nursery' in Greenbank which is registered for 116 children.



## REVIEW OF INVESTMENTS - 'B' SHARE POOL (continued)

### Domestic Solar Limited



Cost at 31/03/13:	£800,000	Valuation at 31/03/13:	£896,000
Cost at 31/03/12:	£800,000	Valuation at 31/03/12:	£800,000
Date of first investment:	Mar 11	Valuation method:	Cost (reviewed for impairment)

#### Investment comprises:

A ordinary shares:	£240,000	Proportion of equity held:	8.9%
A loan stock:	£560,000	Proportion of loan stock held:	17.8%

#### Summary financial information from statutory accounts to 31 March

	2012	2011
Turnover:	n/a*	None filed
Operating profit:	n/a*	None filed
Net assets:	£304,711	None filed

Domestic Solar owns solar panels on residential rooftops throughout the south of England. The company has contracted with over 600 households who benefit from free electricity through an arrangement that allows Domestic Solar to receive the Feed-in Tariffs and payments for the surplus electricity produced and exported to the National Grid.

### Quadrate Catering Limited

www.mpwsteakhousebirmingham.co.uk



Cost at 31/03/13:	£849,550	Valuation at 31/03/13:	£887,780
Cost at 31/03/12:	£849,550	Valuation at 31/03/12:	£849,550
Date of first investment:	Aug 10	Valuation method:	Net assets

#### Investment comprises:

A ordinary shares:	£254,865	Proportion of equity held:	11.2%
Secured loan stock:	£594,685	Proportion of loan stock held:	22.0%

#### Summary financial information from statutory accounts to 31 March

	2012	2011
Turnover:	£1,035,382	-
Operating loss:	(£276,926)	(£181,566)
Net assets:	£459,310	£525,463

Quadrate Catering Limited has developed the top floor of a canal-side mixed-use building in Birmingham known as "The Cube" which opened as a Marco Pierre-White branded restaurant in December 2011.

### Antelope Pub Limited

www.theantelopepub.com



Cost at 31/03/13:	£750,000	Valuation at 31/03/13:	£828,750
Cost at 31/03/12:	£750,000	Valuation at 31/03/12:	£806,250
Date of first investment:	Jun 10	Valuation method:	Net assets

#### Investment comprises:

Ordinary shares:	£225,000	Proportion of equity held:	15.0%
B loan stock:	£525,000	Proportion of loan stock held:	31.8%

#### Summary financial information from statutory accounts to 31 December

	2011	2010
Turnover:	n/a*	n/a*
Operating profit:	n/a*	n/a*
Net assets:	£1,012,764	£960,279

The Antelope Pub is a public house in Tooting, south London. The company purchased the freehold interest from Punch Taverns and the leasehold interest from the operator (who is the investment partner) in 2010.

## REVIEW OF INVESTMENTS - 'B' SHARE POOL (continued)

Kidspace Adventures  
Holdings Limited  
www.kidspaceadventures.com



Cost at 31/03/13:	£750,000	Valuation at 31/03/13:	£783,750
Cost at 31/03/12:	£750,000	Valuation at 31/03/12:	£750,000
Date of first investment:	Mar 12	Valuation method:	Cost (reviewed for impairment)

Investment comprises:

Ordinary shares:	£225,000	Proportion of equity held:	12.5%
D loan stock:	£525,000	Proportion of loan stock held:	18.7%

Summary financial information from statutory accounts: None filed

Kidspace Adventures Holdings Limited is the holding company of Kidspace Adventures Limited which owns two well established and profitable indoor children's play centres in Croydon and Romford. The company has developed an adventure farm park called Hobbledown, located in Epsom Surrey, which opened in July 2012.

Alpha Schools Holdings  
Limited



Cost at 31/03/13:	£733,333	Valuation at 31/03/13:	£777,333
Cost at 31/03/12:	£733,333	Valuation at 31/03/12:	£733,333
Date of first investment:	Jun 11	Valuation method:	Net assets

Investment comprises:

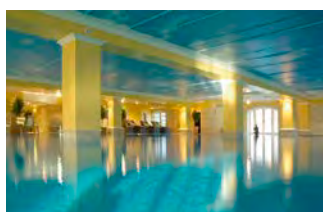
A ordinary shares:	£110,000	Proportion of equity held:	4%
B ordinary shares:	£110,000	Proportion of equity held:	4%
A loan stock:	£513,333	Proportion of loan stock held:	36.7%

Summary financial information from statutory accounts to 31 August

	2011	2010
Turnover:	£658,746	n/a*
Operating profit:	£45,604	n/a*
Net assets:	£872,090	£110,500

Alpha Schools is an independent primary school operator, which owns several sites and is run by an experienced head teacher. The company has recently purchased Ladymeade School in Buckinghamshire.

Mosaic Spa and Health Clubs  
Limited  
www.mosaichealthandspa.com



Cost at 31/03/13:	£600,000	Valuation at 31/03/13:	£600,000
Cost at 31/03/12:	£250,000	Valuation at 31/03/12:	£250,000
Date of first investment:	Feb 11	Valuation method:	Cost (reviewed for impairment)

Investment comprises:

A ordinary shares:	£165,000	Proportion of equity held:	6.3%
A loan stock:	£50,000	Proportion of loan stock held:	0.9%
B loan stock:	£385,000	Proportion of loan stock held:	7.0%

Summary financial information from statutory accounts to 31 December

	2011	2010
Turnover:	£5,048,936	None filed
Operating profit:	£58,150	None filed
Net assets:	£867,817	None filed

Mosaic Spa and Health Clubs Limited owns two spas and operates a spa and health club management company which trades under the name of Fitness Express. The Downing funds backed the existing experienced management team who started the business over 20 years ago. The company currently has 30 management contracts to provide gyms and spas to hotels, university and corporate clients. In December 2011, the business bought a health and tennis club known as The Shrewsbury Club and in October 2012 a second freehold health club was purchased known as Holmer Park.

## REVIEW OF INVESTMENTS - 'B' SHARE POOL (continued)

Green Electricity Generation  
Limited  
www.freesolarinstallations.net

Cost at 31/03/13:	£500,000	Valuation at 31/03/13:	£537,000
Cost at 31/03/12:	£500,000	Valuation at 31/03/12:	£500,000
Date of first investment:	May 11	Valuation method:	Discounted cash flow



Investment comprises:

A ordinary shares:	£150,000	Proportion of equity held:	15.0%
Secured loan stock:	£350,000	Proportion of loan stock held:	25.0%

Summary financial information from statutory accounts to 30 June

	2012	2011
Turnover:	n/a*	None filed
Operating profit:	n/a*	None filed
Net assets:	£450,735	None filed

Green Electricity Generation owns solar panels on the rooftops of over 200 domestic properties in the UK. The households benefit from free electricity whilst Green Electricity receives Feed-in Tariffs and payments for the surplus electricity produced and exported to the National Grid.

Note: the proportion of equity held by each investment also represents the level of voting rights held by the Company in respect of the investment.

\* Turnover and operating profit figures not publicly available as abbreviated small company accounts filed.

## REVIEW OF INVESTMENTS - 'B' SHARE POOL (continued)

### Summary of loan stock interest income

	£'000
<b>Loan stock interest receivable in the year</b>	
Future Biogas (Reepham Road) Limited	31
Quadrate Spa Limited	-
Liverpool Nurseries (Holdings) Limited	-
Domestic Solar Limited	140
Quadrate Catering Limited	127
Antelope Pub Limited	63
Kidspace Adventures Holdings Limited	60
Alpha Schools Holdings Limited	98
Mosaic Spa and Health Clubs Limited	35
Green Electricity Generation Limited	49
	<u>603</u>
<b>Receivable from other investments</b>	130
	<u>733</u>

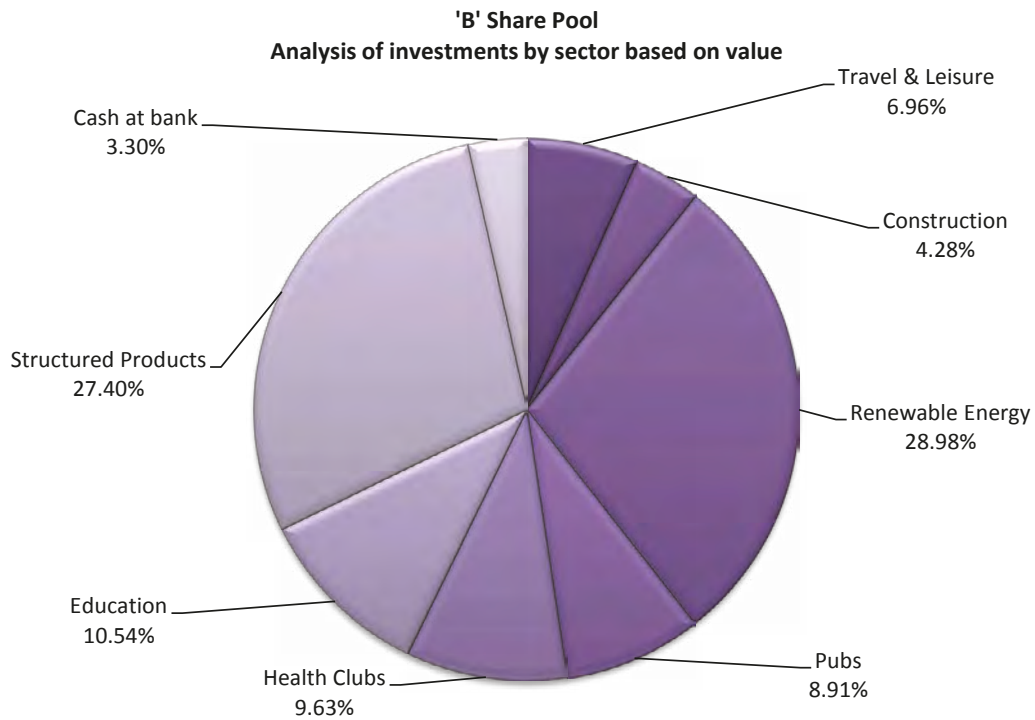
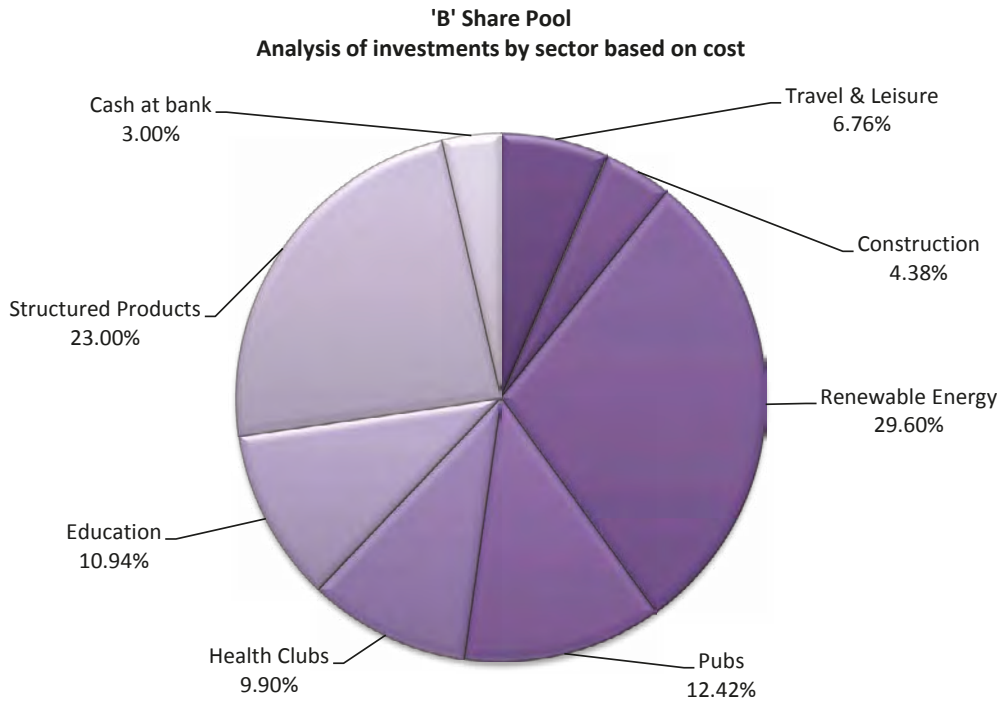
### Analysis of investments by type

The allocation of the 'B' Share funds compared to the target split based on cost is summarised as follows:

	Actual portfolio split at 31 March 2013	Target portfolio split at 31 March 2013
<b>VCT qualifying investments</b>		
Qualifying loan stock	49%	50%
Ordinary shares	21%	25%
<b>Total</b>	<u>70%</u>	<u>75%</u>
<b>Non-qualifying investments</b>		
Non-qualifying loan stock	4%	-
Structured Products	23%	25%
<b>Total</b>	<u>27%</u>	<u>25%</u>
<b>Cash</b>	3%	-
	<u>100%</u>	<u>100%</u>

## REVIEW OF INVESTMENTS - 'B' SHARE POOL (continued)

The split of the 'B' Share pool investment portfolio by commercial sector (by cost and by value at 31 March 2013) is as follows:



## 'D' SHARE POOL SUMMARY

### Financial highlights

	<b>31 March 2013 pence</b>	<b>31 March 2012 pence</b>
Net asset value per 'D' Share	87.7	94.5
Cumulative distributions	5.0	-
Total return per 'D' Share	<u>92.7</u>	<u>94.5</u>

### Dividend history

<b>Period end</b>	<b>Date paid</b>	<b>Pence per share</b>
2012 Final	28 September 2012	2.5
2013 Interim	25 January 2013	<u>2.5</u>
		<u>5.0</u>
Proposed 2013 Final	(Payable 13 September 2013)	<u>2.5</u>

### Share prices

The Company's share prices can be found in various financial websites with the following TIDM/EPIC codes:

	<b>'D' Shares</b>
TIDM/EPIC codes	DO1D
Latest share price (23 July 2013)	91.0p per share

### Structure of shareholdings

The Company's 'D' Share offer for subscription was open between 31 August 2011 and 17 August 2012. For every £1 invested Shareholders received one 'D' Share.

### Target exit date

It is intended that the 'D' Share pool will seek to realise its investments and start returning proceeds to investors around August 2017. Shareholders should note that the process of realising the share pool's investments may take some time to complete.

## INVESTMENT MANAGER'S REPORT- 'D' SHARE POOL

### Introduction

The 'D' Share pool completed fundraising in August 2012, raising net proceeds of approximately £1.5 million. To date, the pool has invested £4.0 million in eight VCT qualifying investments and three Structured Product investments.

### Net asset value, results and dividend

The net asset value ("NAV") per 'D' Share at 31 March 2013 stood at 87.7p, a small fall of 1.9% after adjusting for the dividend paid in the year. Total Return stands at 92.7p per share compared to initial cost to Shareholders, net of income tax relief, of 70.0p per share.

The loss on ordinary activities after taxation for the period was £143,000 (2012: profit £2,000), comprising a revenue loss of £60,000 (2012: profit £5,000) and a capital loss of £83,000 (2012: £3,000).

A dividend of 2.5p per 'D' Share will be paid on 13 September 2013 to Ordinary Shareholders on the register at 16 August 2013.

### Venture Capital investments

#### Investment activity

At 31 March 2013 the 'D' Share pool held a Venture Capital portfolio with a valuation of £2.2 million comprising investments in eight companies. During the year, the share pool made investments totalling £1.6 million.

The four investments made during the year were in Government-backed renewable energy investments:

A net investment of £768,000 was made in Tor Solar PV Limited which owns a portfolio of Solar PV panels located on farms in the south west of the UK.

£560,000 was invested in Vulcan Renewables Limited. Vulcan Renewables is developing a 2MW maize fed biogas plant near Doncaster which will generate both gas and electricity.

A £200,000 investment was made in Fresh Green Power Limited and £100,000 was invested in Green Energy Production UK Limited. Both companies install and own solar PV systems on the roofs of domestic properties in the UK.

The four investments above will benefit from the receipt of Feed-in-Tariffs from the production of electricity. Vulcan Renewables will also receive payments under the Renewable Heat Incentive scheme from gas injection into the gas main.

### Portfolio valuation

The majority of the investments were held at valuations equal to cost at the year end. Some valuation adjustments have, however, been necessary where businesses have not performed to plan.

City Falkirk owns a large nightclub in Falkirk, Scotland. The club was purchased out of administration in March 2012 at, what was considered to be, an attractive price. It has become apparent that the long period in administration, when there was poor customer service and a lack of maintenance, has damaged the business. This along with generally challenging trading conditions has resulted in the performance of the club falling well behind forecast. Accordingly, a reduction in value of £236,000 was recognised at the year end. Lochrise Limited acts as the manager to City Falkirk and a number of other bars and clubs. The value of Lochrise is based on the performance of the nightclubs and bars that it manages. In view of the performance of City Falkirk and other disappointing trading, a full provision of £17,000 has been made.

### Structured Products

At the year end, the pool's Structured Product portfolio comprised three investments with a value of £1.7 million. During the period, the number of attractive Structured Product opportunities has been limited and so we have decided to hold uninvested funds as cash for the time being. We continue to monitor the Structured Product market and will consider making further investments when better value opportunities arise.

Over the year, the portfolio produced unrealised gains of £116,000 and realised gains of £106,000.

### Outlook

The 'D' Share pool's funds are currently spread between a portfolio of Structured Products, a portfolio of venture capital investments and cash. We plan to take a flexible approach as to when and where the uninvested cash is employed. We expect that suitable and attractive opportunities will arise in the Structured Product market in due course which will allow us to further build that portfolio. In respect of the Venture Capital portfolio, dealflow of potential investments is looking promising and we are confident that these will provide us with the means to develop a high quality portfolio which can deliver good results by the target exit date of 2017.

### Downing LLP

24 July 2013

## REVIEW OF INVESTMENTS - 'D' SHARE POOL

### Portfolio of investments

The following investments were held at 31 March 2013:

	Cost £'000	Valuation £'000	Valuation movement in year £'000	% of portfolio
<b>Structured Product investments</b>				
JPMorgan 7% Defensive FTSE AC	517	565	49	8.1%
Credit Suisse 7.25% FTSE Autocall	523	565	45	8.1%
Royal Bank of Canada 8% worst of AC	502	524	22	7.5%
	<u>1,542</u>	<u>1,654</u>	<u>116</u>	<u>23.7%</u>
<b>Venture Capital investments</b>				
Tor Solar PV Limited	640	640	-	9.1%
Vulcan Renewables Limited	560	560	-	8.0%
Fubar Stirling Limited	357	357	-	5.1%
City Falkirk Limited*	562	326	(236)	4.8%
Fresh Green Power Limited	200	200	-	2.8%
Green Energy Production UK Limited	100	100	-	1.4%
Cheers Dumbarton Limited	64	64	-	0.9%
Lochrise Limited	17	-	(17)	0.0%
	<u>2,500</u>	<u>2,247</u>	<u>(253)</u>	<u>32.1%</u>
	<u>4,042</u>	<u>3,901</u>	<u>(137)</u>	<u>55.8%</u>
Cash at bank and in hand		<u>3,092</u>		<u>44.2%</u>
Total investments		<u>6,993</u>		<u>100.0%</u>

\* partially qualifying investment

All Venture Capital investments are incorporated in England and Wales.

### Investment movements for the year ended 31 March 2013

#### ADDITIONS

	£'000
<b>Structured Product investments</b>	
Goldman Sachs 9.6% Reservoir Autocall	558
Royal Bank of Canada 8% worst of AC	502
UBS 8.15% Defensive FTSE Autocall	<u>501</u>
	1,561
<b>Venture Capital investments</b>	
Tor Solar PV Limited*	768
Vulcan Renewables Limited	560
Fresh Green Power Limited	200
Green Energy Production UK Limited	<u>100</u>
	1,628
	<u>3,189</u>

\* partially qualifying investment



## REVIEW OF INVESTMENTS - 'D' SHARE POOL (continued)

### DISPOSALS

	Cost £'000	Valuation at 31/3/12 £'000	Proceeds £'000	Profit vs. cost £'000	Realised gain £'000
<b>Structured Product investments</b>					
Barclays 8% FTSE/S&P Worst-Of Def AC	752	758	809	57	51
Goldman Sachs 9.6% Reservoir Autocall	558	558	596	38	38
UBS 8.15% Defensive FTSE Autocall	501	501	518	17	17
	1,811	1,817	1,923	112	106
<b>Venture Capital investments</b>					
Tor Solar PV Limited	128	128	128	-	-
	128	128	128	-	-
	1,939	1,945	2,051	112	106

### Further details of the Venture Capital investments held by the 'D' Share pool:

#### Tor Solar PV Limited



Cost at 31/03/13:	£640,000	Valuation at 31/03/13:	£640,000
Cost at 31/03/12:	n/a	Valuation at 31/03/12:	n/a
Date of first investment:	Apr 12	Valuation method:	Cost (reviewed for impairment)

#### Investment comprises:

A ordinary shares:	£32	Proportion of A equity held:	16%
Preference B shares:	£448,000	Proportion of B equity held:	32%
A loan stock:	£191,968	Proportion of A loan stock held:	32%

Summary financial information from statutory accounts: None filed

Tor Solar PV owns a portfolio of ground mounted solar panels on farms in the south west of the UK. Tor Solar PV receives Feed-in Tariffs and payments for the surplus electricity produced and exported to the National Grid.

#### Vulcan Renewables Limited



Cost at 31/03/13:	£560,000	Valuation at 31/03/13:	£560,000
Cost at 31/03/12:	n/a	Valuation at 31/03/12:	n/a
Date of first investment:	Apr 12	Valuation method:	Cost (reviewed for impairment)

#### Investment comprises:

A ordinary shares:	£392,000	Proportion of A equity held:	5.6%
A loan stock:	£168,000	Proportion of A loan stock held:	11.2%

Summary financial information from statutory accounts: None filed

Vulcan Renewables is developing a 2.0MW maize fed biogas plant near Doncaster. Through an Anaerobic Digestion process biogas is produced which is used to generate gas. The company benefits from the receipt of Feed-in Tariffs and payments for gas exported to the National Gas Grid.

## REVIEW OF INVESTMENTS – ‘D’ SHARE POOL (continued)

### Fubar Stirling Limited



Cost at 31/03/13:	£357,436	Valuation at 31/03/13:	£357,436
Cost at 31/03/12:	£357,436	Valuation at 31/03/12:	£357,436
Date of first investment:	Feb 12	Valuation method:	Cost (reviewed for impairment)

#### Investment comprises:

A ordinary shares:	£nil	Proportion of A equity held:	17.8%
B ordinary shares:	£107,231	Proportion of B equity held:	18.2%
B loan stock:	£250,205	Proportion of B loan stock held:	18.2%

Summary financial information from statutory accounts: None filed

Fubar Stirling Limited owns and operates the Fubar nightclub in Stirling, Scotland. This freehold asset was purchased out of administration, and is being run on a management contract by Lochrise Limited.

### City Falkirk Limited



Cost at 31/03/13:	£562,000	Valuation at 31/03/13:	£325,613
Cost at 31/03/12:	£561,982	Valuation at 31/03/12:	£561,982
Date of first investment:	Feb 12	Valuation method:	Cost (reviewed for impairment)

#### Investment comprises:

A ordinary shares:	£18	Proportion of A equity held:	18.0%
B ordinary shares:	£109,085	Proportion of B equity held:	18.2%
A loan stock:	£198,365	Proportion of A loan stock held:	18.2%
B loan stock:	£254,532	Proportion of B loan stock held:	18.2%

Summary financial information from statutory accounts: None filed

City Falkirk Limited owns and operates the City & Sportsters sports bar and nightclub in Falkirk. This freehold asset was purchased out of administration, and is being run on a management contract by Lochrise Limited.

### Fresh Green Power Limited



Cost at 31/03/13:	£200,000	Valuation at 31/03/13:	£200,000
Cost at 31/03/12:	n/a	Valuation at 31/03/12:	n/a
Date of first investment:	Apr 12	Valuation method:	Cost (reviewed for impairment)

#### Investment comprises:

A ordinary shares:	£20	Proportion of A equity held:	3.1%
Preference C shares:	£139,980	Proportion of C equity held:	20%
A loan stock:	£60,000	Proportion of A loan stock held:	20%

Summary financial information from statutory accounts to 30 September

	2012	2011
Turnover:	n/a*	None filed
Operating profit:	n/a*	None filed
Net assets:	£684,723	None filed

Fresh Green Power owns solar panels on the rooftops of domestic properties in the UK. The households benefit from free electricity whilst Fresh Green receive Feed-in Tariffs and payments for the surplus electricity produced and exported to the National Grid.

## REVIEW OF INVESTMENTS – ‘D’ SHARE POOL (continued)

Green Energy Production UK Limited



Cost at 31/03/13:	£100,000	Valuation at 31/03/13:	£100,000
Cost at 31/03/12:	n/a	Valuation at 31/03/12:	n/a
Date of first investment:	Apr 12	Valuation method:	Cost (reviewed for impairment)

Investment comprises:

A ordinary shares:	£10	Proportion of A equity held:	3.1%
Preference C shares:	£69,990	Proportion of C equity held:	20%
A loan stock:	£30,000	Proportion of A loan stock held:	20%

Summary financial information from statutory accounts: None filed

Green Energy has installed a portfolio of Commercial Solar panels on the roofs of chicken sheds in Lincolnshire. The companies benefit from free electricity whilst Green Energy receive Feed-in Tariffs and payments for the surplus electricity produced and exported to the National Grid.

Cheers Dumbarton Limited  
www.cheersnightclub.info



Cost at 31/03/13:	£63,709	Valuation at 31/03/13:	£63,709
Cost at 31/03/12:	£63,709	Valuation at 31/03/12:	£63,709
Date of first investment:	Feb 12	Valuation method:	Cost (reviewed for impairment)

Investment comprises:

A ordinary shares:	£nil	Proportion of A equity held:	17.2%
B ordinary shares:	£19,113	Proportion of B equity held:	18.2%
B loan stock:	£44,596	Proportion of B loan stock held:	18.2%

Summary financial information from statutory accounts: None filed

Cheers Dumbarton Limited owns and operates the Cheers nightclub in Dumbarton, Scotland. This freehold asset was purchased out of administration, and is being run on a management contract by Lochrise Limited.

Lochrise Limited



Cost at 31/03/13:	£16,873	Valuation at 31/03/13:	£nil
Cost at 31/03/12:	£16,873	Valuation at 31/03/12:	£16,873
Date of first investment:	Feb 12	Valuation method:	Cost (reviewed for impairment)

Investment comprises:

A ordinary shares:	£nil	Proportion of A equity held:	17.8%
B ordinary shares:	£5,062	Proportion of B equity held:	18.2%
B loan stock:	£11,811	Proportion of B loan stock held:	18.2%

Summary financial information from statutory accounts: None filed

The company operates a number of licensed businesses on a leasehold basis and holds management contracts with City Falkirk Limited, Fubar Stirling Limited and Cheers Dumbarton Limited.

Note: the proportion of equity held by each investment also represents the level of voting rights held by the Company in respect of the investment.

\* Turnover and operating profit figures not publicly available as abbreviated small company accounts filed.

## REVIEW OF INVESTMENTS – ‘D’ SHARE POOL (continued)

### Summary of loan stock interest income and interest on advances

	£'000
<b>Loan stock interest and interest on advances receivable in the year</b>	
Tor Solar Limited	4
Vulcan Renewables Limited	-
Fubar Stirling Limited	15
City Falkirk Limited	23
Fresh Green Power Limited	-
Green Energy Production Limited	-
Cheers Dumbarton Limited	3
Lochrise Limited	1
	<u>46</u>

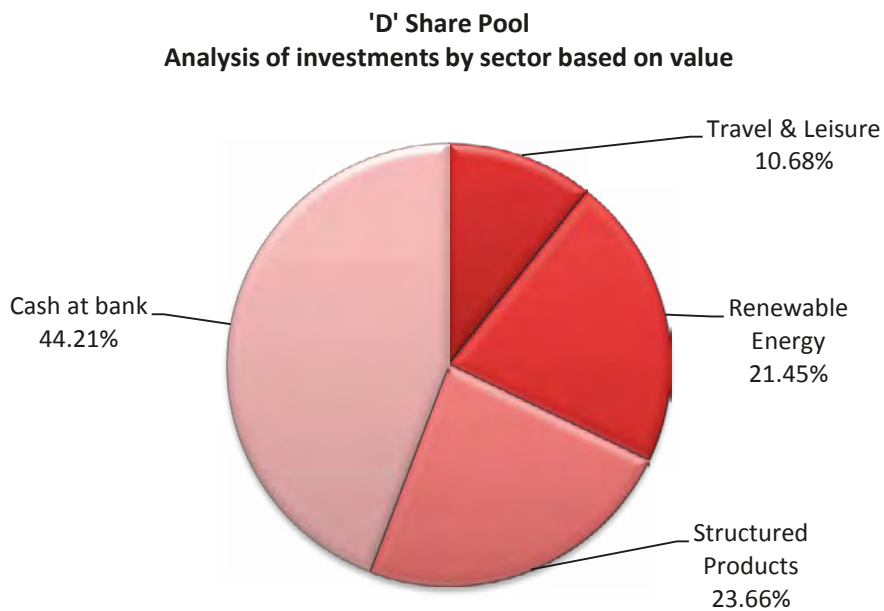
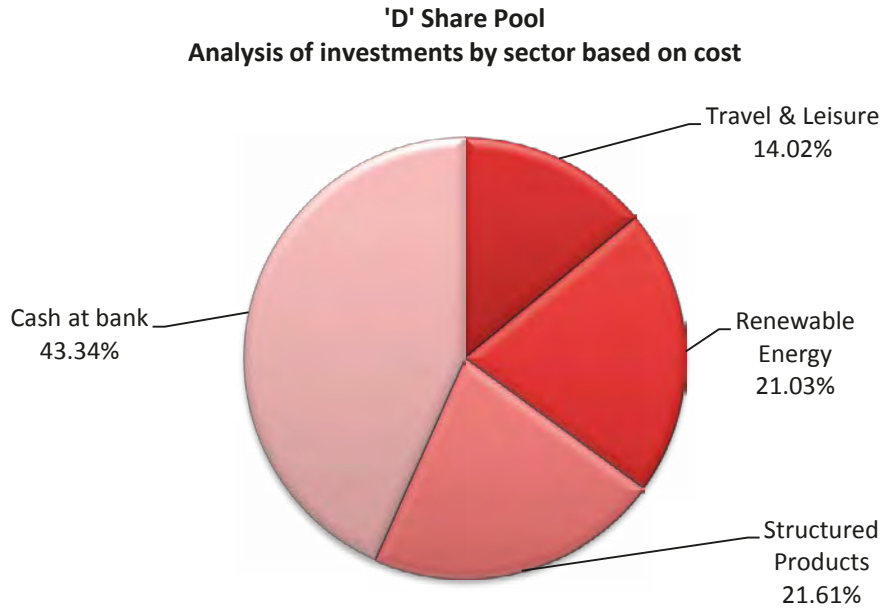
### Analysis of investments by type

The allocation of the ‘D’ Share funds compared to the target split is summarised as follows:

	Actual portfolio split at 31 March 2013	Target portfolio split at 31 March 2015
<b>VCT qualifying investments</b>		
Qualifying loan stock	14%	50%
Ordinary shares	18%	25%
<b>Total</b>	<u>32%</u>	<u>75%</u>
<b>Non-qualifying investments</b>		
Non-qualifying loan stock and advances	3%	-
Structured Products	22%	25%
<b>Total</b>	<u>25%</u>	<u>25%</u>
<b>Cash</b>	43%	-
	<u>100%</u>	<u>100%</u>

## REVIEW OF INVESTMENTS – 'D' SHARE POOL (continued)

The split of the 'D' share pool investment portfolio by commercial sector (by cost and by value at 31 March 2013) is as follows:



## REPORT OF THE DIRECTORS

The Directors present the Annual Report and Accounts of the Company for the year ended 31 March 2013. The Company was incorporated on 12 January 2009 and commenced activities from 21 January 2009.

### Principal activity and status

The Directors initially obtained approval for the Company to act as a Venture Capital Trust from HM Revenue & Customs and have continued to meet the standards set out by HM Revenue & Customs.

The Directors consider that the Company has conducted its affairs in a manner to enable it to continue to comply with Part 6 of the Income Tax Act 2007.

The Company has no employees (other than the Directors).

### Business review and developments

The Company's business review and developments during the year are set out in the Chairman's Statement, Investment Manager's Report and the Review of Investments.

### Share capital

At the year end, the Company had in issue 10,361,027 Ordinary Shares, 15,547,088 'A' Shares, 19,936,370 'B' Shares, 29,926,070 'C' Shares, and 7,887,527 'D' Shares. Only the holders of the Ordinary Shares, 'B' Shares, and 'D' Shares have voting rights, except where there are issues in respect of the variation of rights of the 'A' Shares and 'C' Shares. There are no other share classes in issue.

Shareholders who invested in the Company's Ordinary Share offer for subscription received equal numbers of Ordinary Shares and 'A' Shares. The 'A' Shares have been structured to be part of the Company's performance incentive scheme as described below. 'A' Shares had a net asset value of 0.1p per share at the year end. This is unlikely to change significantly until it appears that various performance hurdles have been met and a performance fee might become payable in respect of the Ordinary Share pool.

Shareholders who invested in the Company's 'B' Share offer for subscription received equal numbers of 'B' Shares and 'C' Shares. As with the 'A' Shares described above, the 'C' Shares are related to the Company's performance incentive scheme. They also have a net asset value at the year end of 0.1p per share. This is unlikely to change significantly until it appears that various performance hurdles will be met and a performance fee might become payable in respect of the 'B' Share pool.

The Company operates a policy, subject to certain restrictions, of buying shares that become available in the market at a price equal to the latest published NAV (i.e. at nil discount).

During the year, the Company repurchased 10,200 Ordinary Shares for an aggregate consideration of £10,000 being an average price of 98.0p per share which represented 0.1% of the Company's issued Ordinary Share capital and 9,750 'A' Shares for an aggregate consideration of £10 being an average price of 0.001p per share which represented 0.06% of the Company's issued 'A' Share capital. In addition, 10,300 'C' Shares were repurchased for an aggregate consideration of £10 being an average price of 0.001p per share and which represented 0.03% of the Company's issued 'C' Share capital. These shares were subsequently cancelled.

At the AGM that took place on 25 September 2012, the Company was authorised to make market purchases of its Ordinary Shares, 'A' Shares, 'B' Shares, and 'C' Shares up to a limit of 1,545,313 Ordinary Shares, 2,317,969 'A' Shares, 2,970,519 'B' Shares, 4,460,519 'C' Shares and 1,131,954 'D' Shares which represented approximately 14.9% of the issued Ordinary Share capital, 'A' Share capital, 'B' Share capital, 'C' Share capital and 'D' Share capital at the date of the AGM. At the current date, authority remains for 1,535,113 Ordinary Shares, 2,308,219 'A' Shares, 2,970,519 'B' Shares, 4,450,219 'C' Shares and 1,131,954 'D' Shares. A resolution to renew this authority will be put to Shareholders at the AGM taking place on 5 September 2013.

The minimum price which may be paid for an Ordinary Share, an 'A' Share, a 'B' Share, a 'C' Share or a 'D' Share is 0.1p, exclusive of all expenses, and the maximum price which may be paid for an Ordinary Share, 'A' Share, 'B' Share, 'C' Share or a 'D' Share is an amount, exclusive of all expenses, equal to 105% of the average of the middle market quotations.

### Results and dividends

Profit/(loss) for the year

	£'000	Pence per share
Ordinary Share	1,158	11.2p
'B' Share	1,004	5.1p
'D' Share	(143)	(1.9p)

Interim dividend paid in respect of current period

	£'000	Pence per share
Ordinary Share	259	2.5p
'B' Share	499	2.5p
'D' Share	197	2.5p

## REPORT OF THE DIRECTORS (continued)

Your Board is proposing to pay a final dividend of 2.5p per 'B' Share and 2.5p per 'D' Share payable on 13 September 2013 to Shareholders on the register at 16 August 2013.

### Performance incentive fees

The structure of 'A' Shares and 'C' Shares enables a payment, by way of a distribution of income, of the performance incentive fees to the Management Team.

No performance incentive fee will be payable until Shareholders:

- i) receive proceeds, by way of dividends/distributions/ share buybacks ("Total Proceeds"), of at least 100p per £1 invested; and
- ii) achieve a tax-free compound return of at least 7% per annum (after allowing for income tax relief on investment).

Subject to these conditions being met, Total Proceeds will be distributed as follows:

Shareholders	97% of the first 100p of proceeds per £1 invested and 80% thereafter
Management	3% of the first 100p of proceeds and 20% thereafter

If the above distribution would result in Shareholders receiving less than 100p per £1 invested or lower than a 7% compound return, then the return to the Management Team will be reduced until Shareholders receive at least 100p per £1 invested and a 7% compound return. Management's share of the Total Proceeds will be subject to a cap at 1.25% of net assets of the Company per annum and will only be payable if the hurdle is achieved.

The maximum performance incentive is limited to an amount equivalent to 1.25% of net assets per annum ("the Cap"). If, in any accounting period, the performance incentive payable is less than the Cap then the shortfall shall be aggregated to the Cap in respect of the following accounting period and so on until fully utilised.

### 'D' Share performance incentive fee

The 'D' Shares enable a payment, by way of a fee, of the performance incentive fees to the Management Team.

No performance incentive fee will be payable until Shareholders:

- i) receive proceeds, by way of dividends/distributions/ share buybacks ("Total Proceeds"), of at least 100p per £1 invested; and
- ii) achieve a tax-free compound return of at least 7% per annum (after allowing for income tax relief on investment).

Subject to these conditions, 'the Hurdles', being met, the performance incentive will be 3p per 'D' Share plus 20% above 100p per 'D' Share of the funds available (for distribution to 'D' Shareholders and the payment of the performance incentive).

The performance incentive will only be paid to the extent that the Hurdles continue to be met and will be subject to a maximum amount over the life of the Company equivalent to 7p per 'D' Share (based on the number of 'D' Shares in issue at the close of the Offers). After the Hurdles have been met, the performance incentive will be deducted from any distribution.

As the targets have not been met, no fee is due to be paid for the year ended 31 March 2013. It will be recalculated for the year ended 31 March 2014, and annually thereafter, following approval of the audited accounts by Shareholders.

### Directors

The Directors of the Company during the year and their beneficial interests (including connected persons) in the issued Ordinary Shares, 'A' Shares, 'B' Shares, 'C' Shares, and 'D' Shares at 31 March 2012 and at 31 March 2013.

#### No. of shares at 31/03/12 and at 31/03/13

Share class	Lord Flight	Robin Chamberlayne	Mark Mathias
Ord	31,100	126,000	-
A	31,100	385,280	129,640
B	62,550	83,000	-
C	62,550	583,000	-
D	20,800	20,600	10,350

Between 31/03/13 and the date of this report there has been no movement in Directors' shareholdings.

In accordance with developments in corporate governance practice, the Board has decided that all Directors will retire at each Annual General Meeting. Accordingly, all the Directors will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. The Board recommends that Shareholders take into consideration each Director's considerable experience in VCTs and other areas, as shown in their respective biographies on page 2, together with the results for the period to date, in order to support the resolutions to re-appoint all three Directors.

Each of the Directors entered into a letter of appointment with the Company dated 27 January 2009. These agreements were for a period of three years and thereafter were terminable on three months' notice by either side. Each Director is required to devote such time to the affairs of the Company as the Board reasonably requires.

## REPORT OF THE DIRECTORS (continued)

### Insurance cover

Directors' and Officers' liability insurance cover is held by the Company in respect of the Directors.

### Investment policy

#### Asset allocation

Initially, up to 90% of the Ordinary Share pool, 'B' Share pool, and 'D' Share pool funds are to be invested in Structured Products, with the balance held in cash or cash equivalents. Funds are then gradually invested in Venture Capital investments over the first three years of the life of the pool. The level of funds held in Structured Products is reduced as funds are employed in Venture Capital investments.

It is intended that 75% of the share pools' funds are invested in Venture Capital investments by the following dates:

Ordinary Shares	31 March 2012
'B' Shares	31 March 2013
'D' Shares	31 March 2015

#### Venture Capital investments

Venture Capital investments comprise investments in UK businesses that own substantial assets (over which a charge will be taken by the Company) or have predictable revenue streams from financially sound customers.

As a condition of each of its investments, it is intended that the Company will have the ability to restrict the investee company's ability to borrow. Typically, Downing VCTs' investee companies have no external borrowings ranking ahead (for security purposes) of the VCTs' investments. However, certain investee companies may be permitted to borrow limited sums (typically up to 25% of the value of their assets) where the Manager believes it is prudent to do so.

#### Structured Products

The institutional Structured Product portfolios are managed by Brewin Dolphin who has investment discretion but operates within the Board's guidelines.

The Company's holdings of Structured Products are primarily designed to produce capital appreciation, rather than income. Therefore, the profit arising from the disposal or maturity of the Structured Products typically gives rise to capital gains, which are tax-free for the Company and can be distributed tax-free to Shareholders.

All Structured Products will have a level of downside protection. The choice of index or exchange that the Company's Structured Products are linked to will be dependent on market conditions at the time of investment. The maximum exposure to various indices and exchanges will be as follows: i) between 50% and 100% will be linked to the FTSE 100; ii) no more than 20% will be linked to the S&P 500; iii) no more than 20% will be linked to the Dow Jones Euro Stoxx 50; iv) no more than 20% will be linked to the Topix 1000; and v) no more than 20% in aggregate will be linked to all other indices and exchanges.

#### Counterparty risk on Structured Products

Brewin Dolphin monitors the counterparty risk on an on-going basis and follows the guidelines set out below.

- **Types of counterparties:** Combination of UK gilt backed, A rated or higher (Standard and Poor's) and cash collateralised issues.
- **Examples of currently acceptable counterparties:** Citigroup; Morgan Stanley; Barclays Bank; Credit Suisse; HSBC Bank; and Bank of America and UK Government (Gilts).
- **Maximum exposure to any one counterparty:** 20% (no maximum for UK Gilts or cash), at the time of investment.

#### Risk diversification

The Directors control the overall risk of the Company. The Manager ensures that the Company has exposure to a diversified range of Venture Capital investments from different sectors. The Structured Product portfolio is a separate asset class to that of its Venture Capital investments and this provides further diversification.



## REPORT OF THE DIRECTORS (continued)

### Investment policy (continued)

#### **Venture Capital Trust regulations**

In continuing to maintain its VCT status, the Company complies with a number of regulations as set out in Part 6 of the Income Tax Act 2007. How the main regulations apply to the Company is summarised as follows:

1. The Company holds at least 70% of its investments in qualifying companies (as defined by Part 6 of the Income Tax Act 2007) (by 31 March 2012 in respect of the Ordinary Share pool, by 31 March 2013 in respect of the 'B' Share pool, and by 31 March 2015 in respect of the 'D' Share pool);
2. At least 30% of the Company's qualifying investments (by value) are held in "eligible shares" for funds raised before 6 April 2011 and at least 70% in "eligible shares" for funds raised after 6 April 2011– ("eligible shares" generally being ordinary share capital) (by 31 March 2012 in respect of the Ordinary Share pool, by 31 March 2013 in respect of the 'B' Share pool, and by 31 March 2015 in respect of the 'D' Share pool);
3. At least 10% of each investment in a qualifying company is held in "eligible shares" (by cost at time of investment);
4. No investment constitutes more than 15% of the Company's portfolio (by value at time of investment);
5. The Company's income for each financial year is derived wholly or mainly from shares and securities; and
6. The Company distributes sufficient revenue dividends to ensure that not more than 15% of the income from shares and securities in any one year is retained.

#### **Borrowings**

Under its Articles, the Company has the ability to borrow a maximum amount equal to 15% of the aggregate amount paid on any shares issued by the Company (together with any share premium thereon), currently equal to £5.3 million.

Although the Board does not intend to borrow, it has the flexibility to do so. In particular, because the Board intends to minimise cash balances, the Company may borrow on a short-term basis for cashflow purposes.

### Investment management and administration fees

Downing LLP ("Downing") provides investment management services to the Company. Downing is paid a fee equivalent to 1.5% of Ordinary Share net assets per annum, 1.5% of 'B' Share net assets per annum, and 1.5% of 'D' Share net assets per annum.

The Board is satisfied with Downing's strategy, approach and procedures in providing investment management services to the Company. The Directors have therefore concluded that the continuing appointment of Downing as Investment Manager remains in the best interests of Shareholders.

Additionally, Downing has been appointed to provide administration services to the Company for a fee of £65,000 (plus VAT, if applicable, and RPI linked) per annum.

The agreement is for a minimum term of three years, with effect from 27 January 2009, with a twelve month notice period on either side thereafter.

The annual running costs of the Company, for the period, are also subject to a cap of 3.5% of net assets of the Company. Any excess costs over this cap are met by Downing through a reduction in fees.

#### **Trail commission**

The Company has an agreement to pay trail commission annually, to Downing, in connection to the funds raised under the offers for subscription. This is calculated at 0.5% of the net assets of the Company at each period end.

#### **Creditor payment policy**

The Company's payment policy is to pay creditors within thirty days of receipt of an invoice except where other terms have been agreed. The Company did not have any trade creditors at the year end (2012: £nil).

#### **Environmental and social policy**

As a VCT, with all of its executive and administrative activities delegated to third parties, the Company does not have a policy on either environmental or social and community issues.

#### **Key performance indicators**

At each Board meeting, the Directors consider a number of performance measures to assess the Company's success in meeting its objectives. The Board believes the Company's key performance indicators are Net Asset Value Total Return (NAV plus cumulative dividends paid to date) and dividends per share (see Shareholder Information pages).

In addition, the Board considers the Company's performance in relation to other VCTs.

## REPORT OF THE DIRECTORS (continued)

### VCT status

The Company has retained PricewaterhouseCoopers LLP (“PwC”) to advise it on compliance with VCT requirements, including evaluation of investment opportunities as appropriate and regular review of the portfolio. Although PwC works closely with the Investment Manager, they report directly to the Board.

Compliance with the main VCT regulations (as described in the Investment policy) at 31 March 2013 and for the period under review is summarised as follows:

- |  |          |
|--|----------|
| 1. 70% of its investments held in qualifying companies;  | 87.7%    |
| 2. At least 30% of the Company’s qualifying investments are held in “eligible shares”;   | 34.9%    |
| 3. At least 10% of each investment in a qualifying company is held in eligible shares;   | Complied |
| 4. No investment constitutes more than 15% of the Company’s portfolio;   | Complied |
| 5. Income for the year is derived wholly or mainly from shares and securities; and   | 97.7%    |
| 6. The Company distributes sufficient revenue dividends to ensure that not more than 15% of the income from shares and securities in any one year is retained. | Complied |

### Principal risks and uncertainties

The principal financial risks faced by the Company, which include interest rate, investment price, credit and liquidity risks, are summarised within note 17 to the financial statements.

In addition to these risks, the Company, as a fully listed company on the London Stock Exchange and as a Venture Capital Trust, operates in a complex regulatory environment and therefore faces a number of related risks. A breach of the VCT Regulations could result in the loss of VCT status and consequent loss of tax reliefs currently available to Shareholders and the Company being subject to capital gains tax. Serious breaches of other regulations, such as the Listing Rules of the Financial Conduct Authority, and the Companies Act, could lead to suspension from the Stock Exchange and damage to the Company’s reputation.

The Board reviews and agrees policies for managing each of these risks. They receive quarterly reports from the Manager which monitors the compliance of these risks, and places reliance on the Manager to give updates in the intervening periods. These policies have remained unchanged since the beginning of the financial year.

### Substantial interests

As at 31 March 2013, and the date of this report, the Company had not been notified of any beneficial interest exceeding 3 per cent of the issued share capital.

### Auditor

Since the year end, the Auditor PKF (UK) LLP merged its business into BDO LLP. A resolution proposing the appointment of BDO LLP as the Company’s Auditor will be submitted at the Annual General Meeting.

### Annual General Meeting

The Company’s fourth Annual General Meeting (“AGM”) will be held at 10 Lower Grosvenor Place, London SW1W 0EN at 10.30 a.m. on 5 September 2013. The Notice of the Annual General Meeting and Form of Proxy are at the end of this document.

### Directors’ responsibilities

The Directors are responsible for preparing the Report of the Directors, the Directors’ Remuneration Report and the financial statements in accordance with applicable law and regulations. They are also responsible for ensuring that the Annual Report includes information required by the Listing Rules of the Financial Conduct Authority.

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

## REPORT OF THE DIRECTORS (continued)

### Directors' responsibilities (continued)

In preparing these financial statements the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, to disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Directors' statement pursuant to the Disclosure Rules and Transparency Rules

Each of the Directors, whose names and functions are listed on page 2, confirms that, to the best of each person's knowledge:

- the financial statements, which have been prepared in accordance with UK Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the management report included within the Report of the Directors, Chairman's Statement, Investment Manager's Report, and Review of Investments 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.

### Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the website of the Investment and Administration Manager ([www.downing.co.uk](http://www.downing.co.uk)) in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The Directors' responsibility also extends to the on-going integrity of the financial statements contained therein.

### Corporate governance

The Company's compliance with, and departures from, the Financial Reporting Council's UK Corporate Governance Code June 2010 ([www.frc.org.uk](http://www.frc.org.uk)) is shown on page 45.

### Statement as to disclosure of information to Auditor

The Directors in office at the date of the report have confirmed, as far as they are aware, that there is no relevant audit information of which the Auditor is unaware. Each of the Directors has confirmed that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the Auditor.

By order of the Board



**Grant Whitehouse**

Secretary of Downing Structured Opportunities VCT 1 plc  
Company number: 6789187

Registered office:  
10 Lower Grosvenor Place  
London SW1W 0EN

24 July 2013

## DIRECTORS' REMUNERATION REPORT

The Board has prepared this report in accordance with the requirements of Sections 420 to 422 of the Companies Act 2006. A resolution to approve this report will be put to the Shareholders at the AGM to be held on 5 September 2013.

Under the requirements of Section 497, the Company's Auditor is required to audit certain disclosures contained within the report. These disclosures have been highlighted and the audit opinion thereon is contained within the Auditor's Report on page 46.

### Directors' remuneration policy

Directors' remuneration is calculated in accordance with the Company's Articles of Association as follows:

- (i) The Directors shall be paid out of the funds of the Company, by way of fees for their services, an aggregate sum not exceeding £100,000 per annum (excluding any performance incentive fees to which the Directors may be entitled from time to time). The Directors shall also receive by way of additional fees such further sums (if any) as the Company in General Meeting may from time to time determine. Such fees and additional fees shall be divided among the Directors in such proportion and manner as they may determine and in default of the determination equally.
- (ii) The Directors shall be entitled to be repaid all reasonable travelling, hotel and other expenses incurred by them respectively in or about the performance of their duties as Directors. This includes any expenses incurred in attending meetings of the Board, Committees of the Board or General Meetings. If in the opinion of the Directors it is desirable that any of their number should make any special journeys or perform any special services on behalf of the Company or its business, such Director or Directors may be paid reasonable additional remuneration and expenses as the Directors may from time to time determine.

### Agreement for services

Each of the Directors entered into a letter of appointment with the Company dated 27 January 2009. These agreements are for a period of three years and thereafter are terminable on three months' notice by either side. Each Director is required to devote such time to the affairs of the Company as the Board reasonably requires.

### Performance incentive fees

The structure of 'A' Shares and 'C' Shares enables a payment, by way of a distribution of income, of the performance incentive fees to the Directors and Management Team (as defined in the prospectus, includes Downing LLP). As the targets have not been met, no fee is due to be paid for the year ended 31 March 2013.

### Directors' remuneration (audited)

Directors' remuneration for the Company for the year under review was as follows:

	Current annual fee £	Year ended 31/03/13 £	Year ended 31/03/12 £
Lord Flight	18,000	18,000	16,750
Robin Chamberlayne	12,500	12,500	11,458
Mark Mathias	12,500	12,500	11,458
	<u>43,000</u>	<u>43,000</u>	<u>39,666</u>

No other emoluments, pension contributions or life assurance contributions were paid by the Company to, or on behalf of, any Director. The Company does not have any share options in place.

### 2013/2014 remuneration

The remuneration levels for the forthcoming year for the Directors of Downing Structured Opportunities VCT 1 plc are expected to be at the current annual fee levels shown in the above table.

### Performance graph

The charts on the following page represent the Ordinary, 'A', 'B', 'C' and 'D' Share pools performances over the period since shares were first listed on the London Stock Exchange and compares the Total Return of the Company (Net Asset Value plus dividends) to a rebased Numis Smaller Companies Index including dividends reinvested. It has been rebased to 100 at the launch date of each respective pool.

The Numis Smaller Companies Index has been chosen as a comparison as it is a publicly available broad equity index which focuses on smaller companies and is therefore more relevant than most other publicly available indices.

By order of the Board

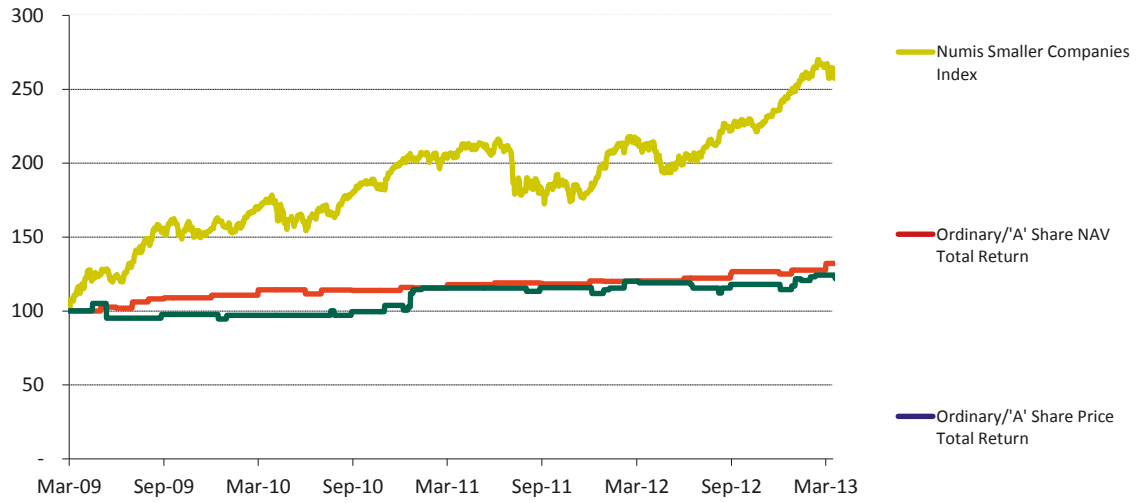


**Grant Whitehouse**  
Company Secretary  
10 Lower Grosvenor Place  
London SW1W 0EN

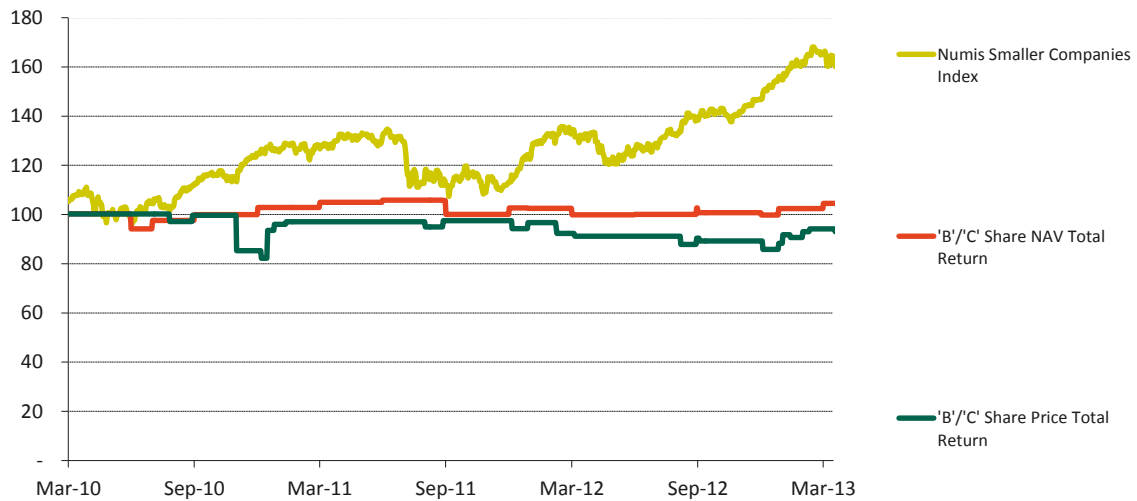
24 July 2013

**DIRECTORS' REMUNERATION REPORT (continued)**

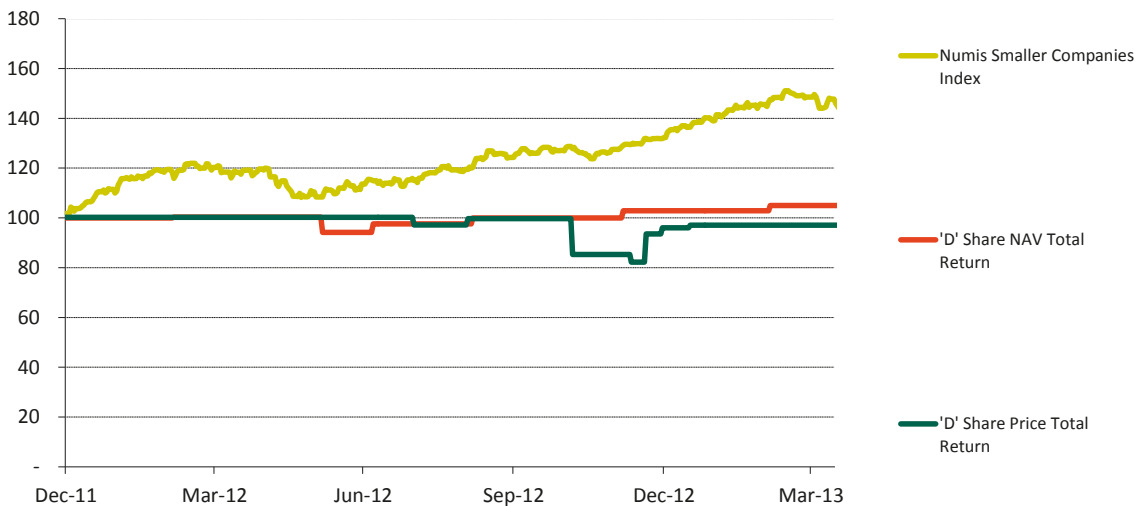
**Ordinary/'A' Share performance chart**



**'B'/'C' Share performance chart**



**'D' Share performance chart**



## CORPORATE GOVERNANCE

The Directors support the relevant principles of the UK Corporate Governance Code issued in June 2010, being the principles of good governance and the code of best practice, as set out in Section 1 of the UK Corporate Governance Code annexed to the Listing Rules of the Financial Conduct Authority.

### The Board

The Company has a Board comprising three non-executive Directors. The Chairman is Lord Flight. Biographical details of all Board members (including significant other commitments of the Chairman) are shown on page 2.

In accordance with Company policy, all of the Directors are offering themselves for re-election at the next AGM.

Full Board meetings take place quarterly and additional meetings are held as required to address specific issues, including considering recommendations from the Investment Manager, making all decisions concerning the acquisition or disposal of investments, and reviewing periodically the terms of engagement of all third party advisers (including the Investment and administration Manager). The Board has a formal schedule of matters specifically reserved for its decision.

The Board has also established procedures whereby Directors wishing to do so in the furtherance of their duties may take independent professional advice at the Company's expense.

All Directors have access to the advice and services of the Company Secretary. The Company Secretary provides the Board with full information on the Company's assets and liabilities and other relevant information requested by the Chairman, in advance of each Board meeting.

As the Company has a small Board of non-executive Directors, all three Directors sit on each Committee. The Chairman of each Committee is Lord Flight. The Audit Committee normally meets twice yearly, and the Remuneration and Nomination Committees meet as required. All Committees have defined terms of reference and duties.

The Board has authority to make market purchases of the Company's own shares. This authority for up to 14.9% of the Company's issued share capital was granted at the AGM on 25 September 2012. A resolution will be put to Shareholders to renew this authority at the forthcoming AGM.

The capital structure of the Company is disclosed on page 35.

### Audit Committee

The Audit Committee is responsible for reviewing the half yearly and annual accounts before they are presented to the Board, the terms of appointment of the Auditor, together with their remuneration, as well as a full review of the effectiveness of the Company's internal control and risk management systems.

Any non-audit services provided by the Auditor are reviewed and approved by the Committee prior to being undertaken, to ensure that auditor objectivity and independence is safeguarded.

The Audit Committee met once during the year. The Committee reviewed the internal financial controls and concluded that they remained appropriate. They also considered the need for an internal audit function and concluded that, due to the size of the Company, this would not be an appropriate function.

As part of its annual review procedures, the Committee has obtained sufficient assurance from their own evaluation, the audit feedback documentation and from correspondence and discussions with the engagement partner of BDO LLP.

As the Company has no staff, other than the Directors, there are no procedures in place in respect of C3.4 of the UK Corporate Governance Code relating to whistleblowing. The Audit Committee understands that the Investment and Administration Manager have whistleblowing procedures in place.

### Board and Committee meetings

The following table sets out the Directors' attendance at the Board and Committee meetings held during the year.

	<b>Board meetings attended (4 held)</b>	<b>Audit Committee meetings attended (1 held)</b>
Lord Flight	4	1
Robin Chamberlayne	4	1
Mark Mathias	4	1

No Nomination Committee meetings were held in the year.

### Remuneration Committee

The Committee meets as and when required to review the levels of Directors' remuneration. Details of the specific levels of remuneration to each Director are set out in the Directors' Remuneration Report on page 41, and this is subject to Shareholder approval.

## CORPORATE GOVERNANCE (continued)

### Nomination Committee

The Nomination Committee's primary function is to make recommendations to the Board on all new appointments and also to advise generally on issues relating to Board composition and balance. The Committee meets as and when appropriate.

### Relations with Shareholders

Shareholders have the opportunity to meet the Board at the AGM. The Board is also happy to respond to any written queries made by Shareholders during the course of the year, or to meet with major Shareholders if so requested.

In addition to the formal business of the AGM, representatives of the Investment Manager and the Board are available to answer any questions a Shareholder may have. Separate resolutions are proposed at the AGM on each substantially separate issue. The Administration Manager collates proxy votes and the results (together with the proxy forms) are forwarded to the Company Secretary immediately prior to the AGM. In order to comply with the UK Corporate Governance Code, proxy votes are announced at the AGM, following each vote on a show of hands, except in the event of a poll being called. The notice of the fourth AGM and proxy form can be found at the end of these financial statements.

The terms of reference of the Committees and the conditions of appointment of non-executive Directors are available to Shareholders on request.

### Financial reporting

The Directors' responsibilities for preparing the accounts are set out in the Report of the Directors on page 39, and a statement by the Auditor about their reporting responsibilities is set out in the Independent Auditor's report on page 46.

### Internal control

The Board has adopted an Internal Control Manual ("Manual") for which they are responsible, which has been compiled in order to comply with the UK Corporate Governance Code. The Manual is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, which it achieves by detailing the perceived risks and controls to mitigate them. The Board reviews the perceived risks in line with relevant guidance on an annual basis and implements additional controls as appropriate.

The Board reviews a Risk Register on an annual basis. The main aspects of internal control in relation to financial reporting by the Board were as follows:

- Review of quarterly reports from the Investment Manager on the portfolio of investments held, including additions and disposals;
- Quarterly reviews by the Board of the Company's investments, other assets and liabilities, revenue and expenditure and detailed review of unquoted investment valuations;
- Quarterly reviews by the Board of compliance with the venture capital trust regulations to retain status, including a review of half yearly reports from PwC;
- A separate review of the Annual Report and Half Yearly report by the Audit Committee prior to Board approval; and
- A review by the Board of all financial information prior to publication.

The Board is responsible for ensuring that the procedures to be followed by the advisers and themselves are in place, and they review the effectiveness of the Manual, based on the report from the Audit Committee, on an annual basis to ensure that the controls remain relevant and were in operation throughout the year.

Although the Board is ultimately responsible for safeguarding the assets of the Company, the Board has delegated, through written agreements, the day-to-day operation of the Company (including the Financial Reporting Process) to Downing LLP.

### Anti-bribery policy

The Company operates an anti-bribery policy to ensure that it meets its responsibilities arising from the Bribery Act 2010. This policy can be found on the website maintained by the Manager at [www.downing.co.uk](http://www.downing.co.uk).

### Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on pages 3 and 4, the Investment Manager's Report on pages 6, 17 and 28, and the Report of the Directors on page 35. The financial position of the Company, its cash flows, liquidity position, and borrowing facilities are shown in the Balance Sheet on page 50, Cash Flow statement on page 51 and the Report of the Directors on page 35. In addition, note 17 to the financial statements includes the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments, and its exposures to credit risk and liquidity risk.

## CORPORATE GOVERNANCE (continued)

### Going concern (continued)

The Company has considerable financial resources at the year end and holds a diversified portfolio of investments. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Directors confirm that they are satisfied that the Company has adequate resources to continue in business for the foreseeable future. For this reason they believe that the Company continues to be a going concern and that it is appropriate to apply the going concern basis in preparing the financial statements.

### Share capital

The company has five classes of share capital: Ordinary Shares, 'A' Shares, 'B' Shares, 'C' Shares, and 'D' Shares. The rights and obligations attached to those shares, including the power of the Company to buy back shares and details of any significant shareholdings, are set out on page 35 of the Report of the Directors.

### Compliance statement

The Listing Rules require the Board to report on compliance with the 52 UK Corporate Governance Code provisions throughout the accounting period. With the exception of the limited items outlined below, the Company has complied throughout the accounting year ended 31 March 2013 with the provisions set out in Section 1 of the UK Corporate Governance Code.

- a) New Directors do not receive a full, formal and tailored induction on joining the Board. Such matters are addressed on an individual basis as they arise. Also, the Company has no major Shareholders so Shareholders are not given the opportunity to meet any new non-executive Directors at a specific meeting other than the AGM. (B.4.1, B.4.2, E.1.1)
- b) Due to the size of the Board and the nature of the Company's business, a formal performance evaluation of the Board, its Committees, the individual Directors and the Chairman has not been undertaken. Specific performance issues are dealt with as they arise. Similarly, a senior independent director has not been appointed. (A.4.1, A.4.2, B.6.1, B.6.3, B.7.2)
- c) Non-executive Directors' contracts are on a three month rolling notice, following an initial three year fixed term, whereas the recommendation is for fixed term renewable contracts. In the Directors' opinion this does not make a substantive difference to the circumstances of the Company. (B.2.3)
- d) As the Company has had no staff, other than Directors, there are no procedures in place relating to whistleblowing. (C.3.4)



**Grant Whitehouse**  
Company Secretary  
10 Lower Grosvenor Place  
London SW1W 0EN

24 July 2013



## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DOWNING STRUCTURED OPPORTUNITIES VCT 1 PLC

We have audited the financial statements of Downing Structured Opportunities VCT 1 plc for the year ended 31 March 2013 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 the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's 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 Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### 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 March 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;

- the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Statement of Corporate Governance on pages 43 to 45 of the annual report with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters.

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on pages 44 and 45, in relation to going concern;
- the part of the corporate governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board of Directors' remuneration.



**Rhodri Whitlock (senior statutory auditor)**

For and on behalf of BDO LLP, statutory auditor  
London  
United Kingdom

24 July 2013

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

## INCOME STATEMENT

### for the year ended 31 March 2013

	Note	Year ended 31 March 2013			Year ended 31 March 2012		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income	2	1,704	-	1,704	620	-	620
Net gain/(loss) on investments	9	-	1,318	1,318	-	(340)	(340)
		1,704	1,318	3,022	620	(340)	280
Investment management fees	3	(258)	(258)	(516)	(219)	(219)	(438)
Other expenses	4	(375)	-	(375)	(385)	-	(385)
<b>Return/(loss) on ordinary activities before tax</b>		1,071	1,060	2,131	16	(559)	(543)
Tax on ordinary activities	6	(112)	-	(112)	-	-	-
<b>Return/(loss) attributable to equity shareholders</b>		959	1,060	2,019	16	(559)	(543)
<b>Basic and diluted return per share:</b>							
Ordinary Share	8	5.3p	5.9p	11.2p	1.4p	1.1p	2.5p
'A' Share	8	-	-	-	-	-	-
'B' Share	8	2.4p	2.7p	5.1p	(0.7p)	(3.3p)	(4.0p)
'C' Share	8	-	-	-	-	-	-
'D' Share	8	(0.8p)	(1.1p)	(1.9p)	0.2p	(0.1p)	0.1p

All Revenue and Capital items in the above statement derive from continuing operations. The total column within the Income Statement represents the profit and loss account of the Company. No operations were acquired or discontinued during the year.

A Statement of Total Recognised Gains and Losses has not been prepared as all gains and losses are recognised in the Income Statement noted above.

Other than revaluation movements arising on investments held at fair value through profit and loss, there were no differences between the loss/return as stated above and historical cost.

## RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Note	Year ended 31 March 2013			2012	
		Ordinary Share pool £'000	'B' Share pool £'000	'D' Share pool £'000	Total £'000	Total £'000
Opening Shareholders' funds		10,247	16,954	6,086	33,287	29,262
Proceeds from share issue		-	-	3,025	3,025	4,859
Share issue costs		-	-	(166)	(166)	(267)
Purchase of own shares		(10)	-	-	(10)	-
Unallotted shares		-	-	(1,491)	(1,491)	1,491
Dividends paid	7	(518)	(996)	(394)	(1,908)	(1,515)
Total return/(loss) for the year		1,158	1,004	(143)	2,019	(543)
Closing Shareholders' funds		10,877	16,962	6,917	34,756	33,287

The accompanying notes form an integral part of these financial statements.

**INCOME STATEMENT**  
for the year ended 31 March 2013

Split as:

**Ordinary Share pool**

	Year ended 31 March 2013			Year ended 31 March 2012		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income	827	-	827	367	-	367
Net gain on investments	-	689	689	-	191	191
	827	689	1,516	367	191	558
Investment management fees	(78)	(78)	(156)	(79)	(79)	(158)
Other expenses	(116)	-	(116)	(144)	-	(144)
<b>Return on ordinary activities before tax</b>	633	611	1,244	144	112	256
Tax on ordinary activities	(86)	-	(86)	-	-	-
<b>Return attributable to equity shareholders</b>	547	611	1,158	144	112	256

**'B' Share pool**

	Year ended 31 March 2013			Year ended 31 March 2012		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income	808	-	808	240	-	240
Net gain/(loss) on investments	-	658	658	-	(533)	(533)
	808	658	1,466	240	(533)	(293)
Investment management fees	(126)	(126)	(252)	(135)	(135)	(270)
Other expenses	(184)	-	(184)	(238)	-	(238)
<b>Return/(loss) on ordinary activities before tax</b>	498	532	1,030	(133)	(668)	(801)
Tax on ordinary activities	(26)	-	(26)	-	-	-
<b>Return/(loss) attributable to equity shareholders</b>	472	532	1,004	(133)	(668)	(801)

The accompanying notes form an integral part of these financial statements.

**INCOME STATEMENT**  
for the year ended 31 March 2013

'D' Share pool

	Year ended 31 March 2013			Year ended 31 March 2012		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income	69	-	69	13	-	13
Net (loss)/gain on investments	-	(29)	(29)	-	2	2
	69	(29)	40	13	2	15
Investment management fees	(54)	(54)	(108)	(5)	(5)	(10)
Other expenses	(75)	-	(75)	(3)	-	(3)
<b>(Loss)/return on ordinary activities before tax</b>	(60)	(83)	(143)	5	(3)	2
Tax on ordinary activities	-	-	-	-	-	-
<b>(Loss)/return attributable to equity shareholders</b>	(60)	(83)	(143)	5	(3)	2

The accompanying notes form an integral part of these financial statements.

**BALANCE SHEET**  
as at 31 March 2013

	2013				2012				
	Ordinary Share pool £'000	'B' Share pool £'000	'D' Share pool £'000	Total £'000	Ordinary Share pool £'000	'B' Share pool £'000	'D' Share pool £'000	Total £'000	
<b>Fixed assets</b>									
Investments	9	9,623	16,496	3,901	30,020	9,845	16,706	2,794	29,345
<b>Current assets</b>									
Debtors	10	134	100	1	235	64	10	644	718
Cash at bank and in hand	16	1,316	564	3,092	4,972	445	421	2,665	3,531
		<u>1,450</u>	<u>664</u>	<u>3,093</u>	<u>5,207</u>	<u>509</u>	<u>431</u>	<u>3,309</u>	<u>4,249</u>
<b>Creditors: amounts falling due within one year</b>	11	(196)	(198)	(77)	(471)	(107)	(182)	(18)	(307)
<b>Net current assets</b>		<u>1,254</u>	<u>466</u>	<u>3,016</u>	<u>4,736</u>	<u>402</u>	<u>249</u>	<u>3,291</u>	<u>3,942</u>
<b>Net assets</b>		<u>10,877</u>	<u>16,962</u>	<u>6,917</u>	<u>34,756</u>	<u>10,247</u>	<u>16,955</u>	<u>6,085</u>	<u>33,287</u>
<b>Capital and reserves</b>									
Called up Ordinary/'B'/'D' Share capital	12	10	20	8	38	10	20	5	35
Called up 'A'/'C' Share capital	12	16	30	-	46	16	30	-	46
Capital redemption reserve	13	5	-	-	5	5	-	-	5
Special reserve	13	5,812	15,924	-	21,736	5,818	16,441	-	22,259
Share premium account	13	2,794	-	7,446	10,240	2,794	-	4,587	7,381
Share capital to be issued	13	-	-	-	-	-	-	1,491	1,491
Revaluation reserve	13	772	536	(141)	1,167	482	62	2	546
Capital reserve – realised	13	1,149	345	(341)	1,153	1,091	618	(5)	1,704
Revenue reserve	13	319	107	(55)	371	31	(216)	5	(180)
<b>Total equity shareholders' funds</b>		<u>10,877</u>	<u>16,962</u>	<u>6,917</u>	<u>34,756</u>	<u>10,247</u>	<u>16,955</u>	<u>6,085</u>	<u>33,287</u>
<b>Basic and diluted net asset value per:</b>									
Ordinary Share/'B' Share/'D' Share	14	104.8p	84.9p	87.7p		98.7p	84.9p	94.5p	
'A' Share/'C' Share	14	0.1p	0.1p	-		0.1p	0.1p	-	

The financial statements on pages 47 to 66 were approved and authorised for issue by the Board of Directors on 24 July 2013 and were signed on its behalf by



**Lord Flight**  
**Chairman**  
**Company number: 6789187**

The accompanying notes form an integral part of these financial statements.

**CASH FLOW STATEMENT**  
for the year ended 31 March 2013

	Year ended 31 March 2013				Year ended 31 March 2012				
	Note	Ordinary Share pool £'000	'B' Share pool £'000	'D' Share pool £'000	Total £'000	Ordinary Share pool £'000	'B' Share pool £'000	'D' Share pool £'000	Total £'000
<b>Net cash inflow/(outflow) from operating activities</b>	<b>15</b>	488	271	(49)	710	100	(213)	14	(99)
<b>Capital expenditure</b>									
Purchase of investments	9	(237)	(1,989)	(3,189)	(5,415)	(3,478)	(10,153)	(2,792)	(16,423)
Proceeds from disposal of investments	9	1,148	2,857	2,051	6,056	3,297	9,110	-	12,407
Movements in deposit held for purchase of investments	10	-	-	640	640	500	1,876	(640)	1,736
<b>Net cash inflow/(outflow) from capital expenditure</b>		911	868	(498)	1,281	319	833	(3,432)	(2,280)
<b>Equity dividends paid</b>	<b>7</b>	(518)	(996)	(394)	(1,908)	(518)	(997)	-	(1,515)
<b>Net cash inflow/(outflow) before financing</b>		881	143	(941)	83	(99)	(377)	(3,418)	(3,894)
<b>Financing</b>									
Proceeds from 'D' Share issue		-	-	1,534	1,534	-	-	4,859	4,859
Share issue costs		-	-	(166)	(166)	-	-	(267)	(267)
Unallotted share capital		-	-	-	-	-	-	1,491	1,491
Purchase of own shares		(10)	-	-	(10)	-	-	-	-
Net cash inflow from financing		(10)	-	1,368	1,358	-	-	6,083	6,083
<b>Increase in cash</b>	<b>16</b>	871	143	427	1,441	(99)	(377)	2,665	2,189

The accompanying notes form an integral part of these financial statements.

## NOTES TO THE ACCOUNTS

### for the year ended 31 March 2013

#### 1. Accounting policies

##### Basis of accounting

The Company has prepared its financial statements under UK Generally Accepted Accounting Practice (“UK GAAP”) and in accordance with the Statement of Recommended Practice “Financial Statements of Investment Trust Companies and Venture Capital Trusts” revised January 2009 (“SORP”).

The financial statements are prepared under the historical cost convention except for certain financial instruments measured at fair value.

The Company implements new Financial Reporting Standards (“FRS”) issued by the Financial Reporting Council when required.

##### Presentation of Income Statement

In order to better reflect the activities of a Venture Capital Trust, and in accordance with the SORP, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been presented alongside the Income Statement. The revenue return is the measure the Directors believe appropriate in assessing the Company’s compliance with certain requirements set out in Part 6 of the Income Tax Act 2007.

##### Investments

All investments are designated as “fair value through profit or loss” assets due to investments being managed and performance evaluated on a fair value basis. A financial asset is designated within this category if it is both acquired and managed on a fair value basis, with a view to selling after a period of time, in accordance with the Company’s documented investment policy. The fair value of an investment upon acquisition is deemed to be cost. Thereafter investments are measured at fair value in accordance with the International Private Equity and Venture Capital Valuation Guidelines (“IPEV”) together with FRS 26.

Structured Product investments are measured using bid prices in accordance with the IPEV.

For unquoted investments, fair value is established by using the IPEV guidelines. The valuation methodologies for unquoted entities used by the IPEV to ascertain the fair value of an investment are as follows:

- Price of recent investment;
- Multiple;
- Net assets;
- Discounted cash flows or earnings (of underlying business);
- Discounted cash flows (from the investment); and
- Industry valuation benchmarks.

The methodology applied takes account of the nature, facts and circumstances of the individual investment and uses reasonable data, market inputs, assumptions and estimates in order to ascertain fair value.

Gains and losses arising from changes in fair value are included in the Income Statement for the year as a capital item and transaction costs on acquisition or disposal of the investment are expensed. Where an investee company has gone into receivership or liquidation, or administration (where there is little likelihood of recovery), the loss on the investment, although not physically disposed of, is treated as being realised.

It is not the Company’s policy to exercise significant influence over investee companies. Therefore, the results of these companies are not incorporated into the Income Statement except to the extent of any income accrued. This is in accordance with the SORP that does not require portfolio investments to be accounted for using the equity method of accounting.

##### Income

Dividend income from investments is recognised when the Shareholders’ rights to receive payment has been established, normally the ex-dividend date.

Interest income is accrued on a time apportionment basis, by reference to the principal sum outstanding and at the effective rate applicable and only where there is reasonable certainty of collection in the foreseeable future.

**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 31 March 2013**

**1. Accounting policies (continued)**

**Expenses**

All expenses are accounted for on an accruals basis. In respect of the analysis between revenue and capital items presented within the Income Statement, all expenses have been presented as revenue items except as follows:

- Expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment.
- 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. The Company has adopted a policy of charging 50% of the investment management fees to the revenue account and 50% to the capital account to reflect the Board's estimated split of investment returns which will be achieved by the company over the long term.

Expenses and liabilities not specific to a share class are generally allocated pro rata to the net assets.

**Taxation**

The tax effects on different items in the Income Statement are allocated between capital and revenue on the same basis as the particular item to which they relate, using the Company's effective rate of tax for the accounting period.

Due to the Company's status as a Venture Capital Trust, and the continued intention to meet the conditions required to comply with Part 6 of the Income Tax Act 2007, no provision for taxation is required in respect of any realised or unrealised appreciation of the Company's investments which arises.

Deferred taxation, which is not discounted, is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the accounts.

**Other debtors and other creditors**

Other debtors (including accrued income and loan notes other than those held as part of the investment portfolio as set out in note 9) and other creditors are included within the accounts at amortised cost.

**Issue costs**

Issue costs in relation to the shares issued for each share class have been deducted from the share premium account for the relevant share class.

**2. Income**

	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
<b>Income from investments</b>		
Loan stock interest	1,562	532
Dividend income	103	68
<b>Other income</b>		
Bank interest	39	20
	<u>1,704</u>	<u>620</u>

**3. Investment management fees**

The management fee, which is charged to the Company, is based on an annual amount of 1.50% of net assets. The Manager also provides administration services for a fee of £65,000 (plus RPI) per annum. Fees in relation to these services are shown within note 4.

	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Investment management fees	<u>516</u>	<u>438</u>



**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 31 March 2013**

**4. Other expenses**

	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Administration services	71	68
Trail commission	173	136
Directors' remuneration	43	40
Social security costs	4	2
Auditor's remuneration for audit	18	18
Auditor's remuneration for non-audit services (taxation)	6	2
Provision for loan stock interest (previously recognised)	-	78
Other	60	41
	<u>375</u>	<u>385</u>

The annual running costs of the Company are subject to a cap of 3.5% of net assets of the Company.

**5. Directors' remuneration**

Details of remuneration (excluding employer's NIC) are given in the audited part of the Directors' Remuneration Report on page 41.

The Company had no employees (other than Directors) during the year. Costs in respect of these are referred to in note 4 above. No other emoluments or pension contributions were paid by the Company to, or on behalf of, any Director.

**6. Tax on ordinary activities**

	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
<b>(a) Tax charge for the year</b>		
UK corporation tax at 24.0% (2012: 20.0%)	112	-
<b>Charge for the year</b>	<u>112</u>	<u>-</u>
<b>(b) Factors affecting tax charge for the year</b>		
Return/(loss) on ordinary activities before taxation	<u>2,131</u>	<u>(543)</u>
Tax charge calculated on return/(loss) on ordinary activities before taxation at the applicable rate of 24.0% (2012: 20.0%)	511	(109)
Effects of:		
Expenses disallowed for tax purposes	42	27
(Gains)/losses on investments	(316)	68
UK Dividends received	(25)	-
Losses utilised in the year	(93)	-
Losses available to carry forward	-	14
Marginal relief	(7)	-
<b>Current tax charge</b>	<u>112</u>	<u>-</u>

Excess management expenses, which are available to be carried forward and set off against future taxable income, amounted to £nil (2012: £386,000).

**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 31 March 2013**

**7. Dividends**

	2013			2012		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>Ordinary Shares</b>						
<b>Paid</b>						
2013 Second Interim – 15.0p	259	1,295	1,554	-	-	-
2013 Interim – 2.5p	259	-	259	-	-	-
2012 Final – 2.5p	-	259	259	-	-	-
2012 Interim – 2.5p	-	-	-	-	259	259
2011 Final – 2.5p	-	-	-	-	259	259
<b>Total</b>	<b>518</b>	<b>1,554</b>	<b>2,072</b>	<b>-</b>	<b>518</b>	<b>518</b>
<b>Proposed</b>						
2012 Final – 2.5p	-	-	-	-	259	259
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>259</b>	<b>259</b>
<b>'B' Shares</b>						
<b>Paid</b>						
2013 Interim – 2.5p	149	350	499	-	-	-
2012 Final – 2.5p	-	497	497	-	-	-
2012 Interim – 2.5p	-	-	-	-	498	498
2011 Final – 2.5p	-	-	-	-	499	499
<b>Total</b>	<b>149</b>	<b>847</b>	<b>996</b>	<b>-</b>	<b>997</b>	<b>997</b>
<b>Proposed</b>						
2013 Final – 2.5p	149	349	498	-	-	-
2012 Final – 2.5p	-	-	-	-	498	498
<b>Total</b>	<b>149</b>	<b>349</b>	<b>498</b>	<b>-</b>	<b>498</b>	<b>498</b>
<b>'D' Shares</b>						
<b>Paid</b>						
2013 Interim – 2.5p	-	197	197	-	-	-
2012 Final – 2.5p	-	197	197	-	-	-
<b>Total</b>	<b>-</b>	<b>394</b>	<b>394</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Proposed</b>						
2013 Final – 2.5p	-	197	197	-	-	-
2012 Final – 2.5p	-	-	-	-	189	189
<b>Total</b>	<b>-</b>	<b>197</b>	<b>197</b>	<b>-</b>	<b>189</b>	<b>189</b>

**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 31 March 2013**

**8. Basic and diluted return per share**

		Weighted average number of shares in issue	Revenue return/(loss) £'000	Capital gain/(loss) £'000
Return per share is calculated on the following:				
Year ended 31 March 2013	Ordinary Shares	10,366,195	547	611
	'A' Shares	15,552,030	-	-
	'B' Shares	19,936,370	472	532
	'C' Shares	29,931,291	-	-
	'D' Shares	7,749,013	(60)	(83)
Year ended 31 March 2012	Ordinary Shares	10,371,227	144	112
	'A' Shares	15,556,838	-	-
	'B' Shares	19,936,370	(133)	(668)
	'C' Shares	29,936,370	-	-
	'D' Shares	2,720,954	5	(3)

As the Company has not issued any convertible securities or share options, there is no dilutive effect on return per Ordinary Share, 'A' Share, 'B' Share, 'C' Share or 'D' Share. The return per share disclosed therefore represents both the basic and diluted return per Ordinary Share, 'A' Share, 'B' Share, 'C' Share or 'D' Share.

**9. Fixed assets – investments**

	Structured Products £'000	Unquoted investments £'000	Total £'000
Opening cost at 1 April 2012	7,801	20,998	28,799
Unrealised gains/(losses)/(impairments) at 1 April 2012	978	(432)	546
<b>Opening fair value at 1 April 2012</b>	<u>8,779</u>	<u>20,566</u>	<u>29,345</u>
<b>Movement in the year:</b>			
Purchased at cost	1,561	3,854	5,415
Disposals - proceeds	(4,322)	(1,734)	(6,056)
- realised gains/(losses) on disposals	202	(22)	180
Unrealised gains in the Income Statement	720	416	1,136
<b>Closing value at 31 March 2013</b>	<u>6,940</u>	<u>23,080</u>	<u>30,020</u>
Closing cost at 31 March 2013	5,755	23,096	28,851
Unrealised gains/(losses)/(impairments) at 31 March 2013	1,185	(16)	1,169
	<u>6,940</u>	<u>23,080</u>	<u>30,020</u>

No costs incidental to the acquisitions of investments were incurred during the year.

**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 31 March 2013**

**9. Fixed assets - investments (continued)**

The Company has categorised its financial instruments using the fair value hierarchy as follows:

- Level 1 Reflects financial instruments quoted in an active market;  
 Level 2 Reflects financial instruments that have prices that are observable either directly or indirectly; and  
 Level 3 Reflects financial instruments that are not based on observable market data (unquoted equity investments and loan note investments).

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>2013</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Structured Products	6,940	-	-	6,940	8,779	-	-	8,779
Unquoted loan notes	-	-	15,067	15,067	-	-	15,799	15,799
Unquoted equity	-	-	8,013	8,013	-	-	4,767	4,767
	<u>6,940</u>	<u>-</u>	<u>23,080</u>	<u>30,020</u>	<u>8,779</u>	<u>-</u>	<u>20,566</u>	<u>29,345</u>

Reconciliation of fair value for Level 3 financial instruments held at the year end:

	<b>Unquoted equity</b>	<b>Unquoted loan notes</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Balance at 31 March 2012	4,767	15,799	20,566
<i>Movements in the Income Statement:</i>			
Unrealised gains/(losses) in the income statement	612	(196)	416
Realised losses in the income statement	2	(24)	(22)
	<u>5,381</u>	<u>15,579</u>	<u>20,960</u>
Purchases at cost	1,601	2,253	3,854
Sales proceeds	(105)	(1,629)	(1,734)
Loan stock converted to shares	1,136	(1,136)	-
Balance at 31 March 2013	<u>8,013</u>	<u>15,067</u>	<u>23,080</u>

There is an element of judgment in the choice of assumptions for unquoted investments and it is possible that, if different assumptions were used, different valuations could have been attributed to certain of the VCT's investments.

FRS 29 requires disclosure to be made of the possible effect of changing one or more of the inputs to reasonable possible alternative valuation assumptions where this would result in a significant change in the fair value of the Level 3 investments. There is an element of judgment in the choice of assumptions for unquoted investments and it is possible that, if different assumptions were used, different valuations could have been attributed to some of the Company's investments.

The basis of valuation of the investments was unchanged during the year.

The Board and the Investment Manager believe that the valuations as at 31 March 2013 reflect the most appropriate assumptions at the date, giving due regard to all information available from each investee company. Valuations are subject to fluctuations in market conditions and the sensitivity of the Company to such changes is shown within note 17.

**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 31 March 2013**

**9. Fixed assets - investments (continued)**

The following summary shows investments made by the Company in which other funds managed by Downing have also invested. Amounts shown are original cost of investments.

	Company £'000	Other Downing Funds £'000	Equity held by Other Downing Funds %	Equity held by Other Funds %
Alpha Schools Holdings Limited	733	533	6.0	8.0
Antelope Pub Limited	750	525	15.0	-
Atlantic Dogstar Limited	585	-	-	24.0
Avon Solar Energy Limited	500	1,000	25.0	13.0
Bijou Wedding Venues Limited	815	-	-	20.0
Camandale Limited	1,000	1,483	14.1	10.6
Chapel Street Food and Beverage Limited	75	387	18.8	10.0
Chapel Street Hotel Limited	4	15	18.6	10.9
Chapel Street Services Limited	75	387	18.8	10.0
Cheers Dumbarton Limited	64	191	27.0	14.0
City Falkirk Limited	562	1,686	27.0	14.0
Commercial Street Hotel Limited	185	115	23.0	40.0
Domestic Solar Limited	1,800	900	10.0	20.0
East Dulwich Tavern Limited	459	-	-	24.0
Ecossol Limited	1,000	-	-	25.0
Fenkle Street LLP	212	346	-	-
Fresh Green Power Limited	200	400	6.2	6.2
Fubar Stirling Limited	357	1,072	27.0	14.0
Future Biogas (Reephram Road) Limited	1,476	1,572	12.6	18.8
Future Biogas (SF) Limited	909	1,161	13.6	21.1
Green Electricity Generation Limited	500	1,000	30.0	15.0
Green Energy Production UK Limited	100	200	6.2	6.2
Kidspac Adventures Holdings Limited	750	2,000	33.3	20.8
Kilmarnock Monkey Bar Limited	82	113	40.2	30.4
Liverpool Nurseries (Holdings) Limited	934	558	23.0	38.5
Lochrise Limited	17	51	27.0	14.0
Mosaic Spa and Health Clubs Limited	850	5,340	51.8	12.5
Progressive Energies Limited	340	1,720	39.6	10.2
Quadrat Catering Limited	1,427	887	11.7	20.4
Quadrat Spa Limited	1,589	988	11.5	20.0
Redmed Limited	999	529	11.3	17.6
Ridgeway Pub Company Limited	137	137	10.0	20.0
Slopingtactic Limited	379	379	16.5	17.0
The 3D Pub Company Limited	627	980	23.0	14.0
Tor Solar PV Limited	640	-	-	34.0
Vulcan Renewables Limited	560	1,452	33.1	11.2
Westcountry Solar Solutions Limited	500	1,000	25.0	12.6
Westow House Limited	405	-	-	24.0
West Tower Property Limited	500	-	-	25.0
	<u>23,097</u>	<u>29,107</u>		

Other Downing Funds comprise Downing Absolute Income VCT 1 plc, Downing Absolute Income VCT 2 plc, Downing Distribution VCT 1 plc, Downing Income VCT plc, Downing Income VCT 3 plc, Downing Income VCT 4 plc and Downing Planned Exit VCT 2011 plc which are managed under discretionary management agreements by Downing LLP ("Downing LLP funds"). Other Funds comprise Downing Planned Exit VCT 2 plc, Downing Planned Exit VCT 3 plc, Downing Planned Exit VCT 4 plc, Downing Planned Exit VCT 5 plc, Downing Planned Exit VCT 6 plc, Downing Planned Exit VCT 7 plc, Downing Planned Exit VCT 8 plc and Downing Planned Exit VCT 9 plc, which are self-managed funds where executives of Downing LLP are involved in the management.

**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 31 March 2013**

**10. Debtors**

	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Prepayments and accrued income	231	64
Other debtors	4	654
	<u>235</u>	<u>718</u>

Other debtors at 31 March 2013 includes £nil (2012: £640,000) held on a solicitor's account in respect of new investments which completed shortly after the year end.

**11. Creditors:** amounts falling due within one year

	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Corporation tax	112	-
Taxation and social security	1	-
Accruals and deferred income	358	307
	<u>471</u>	<u>307</u>

**12. Called up share capital**

	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
<b>Allotted, called up and fully-paid:</b>		
10,361,027 (2012: 10,371,227) Ordinary Shares	10	10
15,547,088 (2012: 15,556,838) 'A' Shares	16	16
19,936,370 (2012: 19,936,370) 'B' Shares	20	20
29,926,070 (2012: 29,936,370) 'C' Shares	30	30
7,887,527 (2012: 4,859,588) 'D' Shares	8	5
	<u>84</u>	<u>81</u>

The Company's capital is managed in accordance with its investment policy as shown in the Directors' report, in pursuit of its principal investment objectives as stated on page 2. There has been no significant change in the objectives, policies or processes for managing capital from the previous period.

The Company has the authority to buy back shares as described in the Directors' Report.

During the year, the Company repurchased 10,200 Ordinary Shares for an aggregate consideration of £10,000 being an average price of 98.0p per share which represented 0.1% of the Company's issued Ordinary Share capital and 9,750 'A' Shares for an aggregate consideration of £10 being an average price of 0.001p per share which represented 0.06% of the Company's issued 'A' Share capital. In addition, 10,300 'C' Shares were repurchased for an aggregate consideration of £10 being an average price of 0.001p per share and which represented 0.03% of the Company's issued 'C' Share capital. These shares were subsequently cancelled.

Between 2 April 2012 and 21 August 2012, a total of 3,027,939 'D' Shares were issued for £1 per share pursuant to the Offer for Subscription dated 31 August 2011. The aggregate consideration of the shares was £3,028,000 which excludes costs of £166,000.

Provided that the performance hurdle is met (i.e. Shareholders receive proceeds of at least £1 per share and a 7% compound return) distributions or returns of capital shall be made on the following basis between the holders of Ordinary Shares and 'A' Shares:

- 91% to Ordinary Shares and 9% to 'A' Shares until an amount equivalent to 100p per one Ordinary Share and one 'A' Share has been distributed; thereafter
- pro rata to the respective holdings of Ordinary Shares and 'A' Shares

**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 31 March 2013**

**12. Called up share capital (continued)**

Provided that the performance hurdle is met (i.e. Shareholders receive proceeds of at least £1 per share and a 7% compound return) distributions or returns of capital shall be made on the following basis between the holders of 'B' Shares and 'C' Shares:

- 91% to 'B' Shares and 9% to 'C' Shares until an amount equivalent to 100p per one 'B' Share and one 'C' Share has been distributed; thereafter
- pro rata to the respective holdings of 'B' Shares and 'C' Shares

If the distributions set out above would result in Shareholders receiving less than 100p per share or lower than a 7% compound return, then the return to members of the management team will be reduced until Shareholders receive at least 100p per share and a 7% compound return. The Management Team's share of the total proceeds will be subject to a cap of 1.25% of net assets per annum and will only be payable if the hurdle is achieved. If, in any accounting period of the Company, the performance incentive payable is less than the cap then the shortfall will be aggregated to the cap in respect of the following accounting period and so on until fully utilised.

The Company does not have any externally imposed capital requirements.

**13. Reserves**

	Capital redemption reserve £'000	Special reserve £'000	Share premium account £'000	Share capital to be issued £'000	Revaluation reserve £'000	Capital reserve realised £'000	Revenue reserve £'000
At 31 March 2012	5	22,259	7,381	1,491	546	1,704	(180)
Shares bought back	-	(10)	-	-	-	-	-
Issue of new shares	-	-	3,025	-	-	-	-
Share issue costs	-	-	(166)	-	-	-	-
Unallotted shares	-	-	-	(1,491)	-	-	-
Dividend paid	-	-	-	-	-	(1,500)	(408)
Gains on investments	-	-	-	-	1,136	180	-
Expenses capitalised	-	-	-	-	-	(259)	-
Transfer between reserves	-	(513)	-	-	(515)	1,028	-
Retained net revenue	-	-	-	-	-	-	959
At 31 March 2013	5	21,736	10,240	-	1,167	1,153	371

**Split as:**

**Ordinary Share pool**

	Capital redemption reserve £'000	Special reserve £'000	Share premium account £'000	Share capital to be issued £'000	Revaluation reserve £'000	Capital reserve realised £'000	Revenue reserve £'000
At 31 March 2012	5	5,818	2,794	-	482	1,091	31
Shares bought back	-	(10)	-	-	-	-	-
Dividend paid	-	-	-	-	-	(259)	(259)
Gains on investments	-	-	-	-	651	38	-
Expenses capitalised	-	-	-	-	-	(78)	-
Transfer between reserves	-	4	-	-	(361)	357	-
Retained net revenue	-	-	-	-	-	-	547
At 31 March 2013	5	5,812	2,794	-	772	1,149	319

**NOTES TO THE ACCOUNTS (continued)**  
for the year ended 31 March 2013

**13. Reserves (continued)**

**'B' Share pool**

	Capital redemption reserve £'000	Special reserve £'000	Share premium account £'000	Share capital to be issued £'000	Revaluation reserve £'000	Capital reserve realised £'000	Revenue reserve £'000
At 31 March 2012	-	16,441	-	-	62	618	(216)
Dividend paid	-	-	-	-	-	(847)	(149)
Gains on investments	-	-	-	-	622	36	-
Expenses capitalised	-	-	-	-	-	(127)	-
Transfer between reserves	-	(517)	-	-	(148)	665	-
Retained net revenue	-	-	-	-	-	-	472
At 31 March 2013	-	15,924	-	-	536	345	107

**'D' Share pool**

	Capital redemption reserve £'000	Special reserve £'000	Share premium account £'000	Share capital to be issued £'000	Revaluation reserve £'000	Capital reserve realised £'000	Revenue reserve £'000
At 31 March 2012	-	-	4,587	1,491	2	(5)	5
Dividends paid	-	-	-	-	-	(394)	-
Issue of new shares	-	-	3,025	-	-	-	-
Share issue costs	-	-	(166)	-	-	-	-
Unallotted shares	-	-	-	(1,491)	-	-	-
Gains on investments	-	-	-	-	(137)	106	-
Expenses capitalised	-	-	-	-	-	(54)	-
Transfer between reserves	-	-	-	-	(6)	6	-
Retained net revenue	-	-	-	-	-	-	(60)
At 31 March 2013	-	-	7,446	-	(141)	(341)	(55)

The Special reserve is available to the Company to enable the purchase of its own shares in the market without affecting its ability to pay capital distributions. The Special reserve, Capital reserve – realised and Revenue reserve are all distributable reserves. The distributable reserve is reduced by losses of £1,558,000 (2012: £596,000) which are included in the Revaluation reserve.

**14. Basic and diluted net asset value per share**

	Shares in issue		2013 Net asset value		2012 Net asset value	
	2013	2012	Pence per share	£'000	Pence per share	£'000
Ordinary Shares	10,361,027	10,371,227	104.8	10,862	98.7	10,232
'A' Shares	15,547,088	15,556,838	0.1	15	0.1	15
'B' Shares	19,936,370	19,936,370	84.9	16,932	84.9	16,925
'C' Shares	29,926,070	29,936,370	0.1	30	0.1	30
'D' Shares	7,887,527	4,859,588	87.7	6,917	94.5	4,594
Share capital to be issued				-		1,491
Net assets per Balance Sheet				34,756		33,287



**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 31 March 2013**

**14. Basic and diluted net asset value per share (continued)**

The Directors allocate the assets and liabilities of the Company between the Ordinary Shares, 'A' Shares, 'B' Shares, 'C' Shares and 'D' Shares such that each share class has sufficient net assets to represent its dividend and return of capital rights as described in note 12.

As the Company has not issued any convertible shares or share options, there is no dilutive net asset value per Ordinary Share, per 'A' Share, per 'B' Share, per 'C' Share or per 'D' Share. The net asset value per share disclosed therefore represents both the basic and diluted net asset value per Ordinary Share, per 'A' Share, per 'B' Share, per 'C' Share and per 'D' Share.

**15. Reconciliation of return on ordinary activities before taxation to net cash flow from operating activities**

	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Return/(loss) on ordinary activities before taxation	2,131	(543)
(Gains)/losses on investments	(1,316)	340
(Increase)/decrease in debtors	(159)	113
Increase/(decrease) in creditors	54	(9)
Net cash inflow/(outflow) from operating activities and returns on investments	<u>710</u>	<u>(99)</u>

**16. Analysis of changes in cash at bank during the year**

	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Beginning of year	3,531	1,342
Net cash inflow	<u>1,441</u>	<u>2,189</u>
End of year	<u>4,972</u>	<u>3,531</u>

**17. Financial instruments**

The Company's financial instruments comprise investments held at fair value through the profit and loss account, being equity and loan stock investments in unquoted companies, Structured Products, loans and receivables being cash deposits and short term debtors and financial liabilities being creditors arising from its operations. The main purpose of these financial instruments is to generate cashflow and revenue and capital appreciation for the Company's operations. The Company has no gearing or other financial liabilities apart from short-term creditors and does not use any derivatives.

The fair value of investments is determined using the detailed accounting policy as shown in note 1. The composition of the investments is set out in note 9.

Loans and receivables and other financial liabilities, as set out in the balance sheet, are stated at amortised cost which the Directors consider is equivalent to fair value.

The Company's investment activities expose the Company to a number of risks associated with financial instruments and the sectors in which the Company invests. The principal financial risks arising from the Company's operations are:

- Investment risks,
- Credit risk; and
- Liquidity risk.

The Board regularly reviews these risks and the policies in place for managing them. There have been no significant changes to the nature of the risks that the Company is exposed to over the year and there have also been no significant changes to the policies for managing those risks during the year.

**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 31 March 2013**

**17. Financial instruments (continued)**

The risk management policies used by the Company in respect of the principal financial risks and a review of the financial instruments held at the year end are provided below:

**Investment risks**

As a VCT, the Company is exposed to investment risks in the form of potential losses and gains that may arise on the investments it holds in accordance with its investment policy. The management of these market risks is a fundamental part of investment activities undertaken by the Investment Manager and overseen by the Board. The Manager monitors investments through regular contact with management of investee companies, regular review of management accounts and other financial information and attendance at investee company board meetings. This enables the Manager to manage the investment risk in respect of individual investments. Investment risk is also mitigated by holding a diversified portfolio spread across various business sectors and asset classes.

The key market risks to which the Company is exposed are:

- Investment price risk; and
- Interest rate risk.

**Investment price risk**

Investment price risk arises from uncertainty about the future prices and valuations of financial instruments held in accordance with the Company's investment objectives. It represents the potential loss that the Company might suffer through market price movements in respect of Structured Products and also changes in the fair value of unquoted investments that it holds.

At 31 March 2013, the Structured Product portfolio was valued at £6,940,000.

The fair values of Structured Products are influenced primarily by changes in the FTSE 100 Index. The Company's sensitivity to fluctuations in the FTSE 100 Index is summarised below.

<b>As at 31 March 2013</b>	<b>Risk exposure at 31 March 2013 £'000</b>		<b>Risk exposure at 31 March 2012 £'000</b>	
Structured Products	<u>6,940</u>		<u>8,779</u>	
FTSE 100 at 31 March 2013	<u>5,605</u>		<u>5,768</u>	
<b>Movement in FTSE 100 Index</b>	<b>Estimated Impact on NAV £'000</b>	<b>Estimated Impact on NAV pence</b>	<b>Estimated Impact on NAV £'000</b>	<b>Estimated Impact on NAV pence</b>
<b>Ordinary Shares</b>				
20% increase to 6,726 (2012: 6,922)	<u>1</u>	<u>0.0p</u>	<u>209</u>	<u>2.0p</u>
20% decrease to 4,484 (2012: 4,614)	<u>(1)</u>	<u>(0.0p)</u>	<u>(209)</u>	<u>(2.0p)</u>
<b>'B' Shares</b>				
20% increase to 6,726 (2012: 6,922)	<u>92</u>	<u>0.5p</u>	<u>644</u>	<u>3.8p</u>
20% decrease to 4,484 (2012: 4,614)	<u>(92)</u>	<u>(0.5p)</u>	<u>(644)</u>	<u>(3.8p)</u>
<b>'D' Shares</b>				
20% increase to 6,726 (2012: 6,922)	<u>7</u>	<u>0.1p</u>	<u>180</u>	<u>3.9p</u>
20% decrease to 4,484 (2012: 4,614)	<u>(7)</u>	<u>(0.1p)</u>	<u>(180)</u>	<u>(3.9p)</u>

**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 31 March 2013**

**17. Financial instruments (continued)**

**Investment price risk (continued)**

At 31 March 2013, the unquoted portfolio was valued at £23,080,000. (2012: £20,566,000).

As many of the Company's unquoted investments are classified as 'asset backed', a fall in share prices generally would have a lesser impact on the valuation of the unlisted portfolio. A 10% movement in the valuations of all of the unquoted investments held by the Company would have an effect as follows:

**10% movement in unquoted investment valuations**

Unquoted investments	2013		2012	
	Impact on net assets £'000	Impact on NAV per share pence	Impact on net assets £'000	Impact on NAV per share pence
Share pool				
Ordinary Shares	901	8.7p	831	8.1p
'B' Shares	1,182	6.0p	1,126	6.7p
'D' Shares	225	2.9p	100	2.2p

The sensitivity analysis for unquoted valuations above assumes that each of the sub categories of financial instruments (ordinary shares and loan stocks) held by the Company produces an overall movement of 10%. Shareholders should note that equal correlation between these sub categories is unlikely to be the case in reality, particularly in the case of loan stock instruments. Where share prices are falling, the equity instrument could fall in value before the loan stock instrument. It is not considered practical to assess the sensitivity of the loan stock instruments to market price risk in isolation.

**Interest rate risk**

The Company accepts exposure to interest rate risk on floating-rate financial assets through the effect of changes in prevailing interest rates. The Company receives interest on its cash deposits at a rate agreed with its bankers. Investments in loan stock attract interest predominately at fixed rates. A summary of the interest rate profile of the Company's investments is shown below.

There are three categories in respect of interest which are attributable to the financial instruments held by the Company as follows:

- "Fixed rate" assets represent investments with predetermined yield targets and comprise certain loan note investments and preference shares.
- "Floating rate" assets predominantly bear interest at rates linked to Bank of England base rate or LIBOR and comprise cash at bank and liquidity fund investments and certain loan note investments.
- "No interest rate" assets do not attract interest and comprise equity investments, certain loan note investments, Structured Products, loans and receivables (excluding cash at bank) and other financial liabilities.

	Average interest rate	Average period until maturity	2013 £'000	2012 £'000
Fixed rate	10.5%	1,547 days	15,067	15,799
Floating rate	0.5%		4,972	3,531
No interest rate			14,717	13,957
			<u>34,756</u>	<u>33,287</u>

The Company monitors the level of income received from fixed and floating rate assets and, if appropriate, may make adjustments to the allocation between the categories, in particular, if this should be required to ensure compliance with the VCT regulations.

It is estimated that an increase of 1% in interest rates would have increased total return before taxation for the year by £48,000. As the Bank of England base rate stood at 0.5% per annum throughout the year, it is not believed that a reduction from this level is likely.

**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 31 March 2013**

**17. Financial instruments (continued)**

***Credit risk***

Credit risk is the risk that a counterparty to a financial instrument is unable to discharge a commitment to the Company made under that instrument. The Company is exposed to credit risk through its holdings of loan stock in investee companies, cash deposits, debtors and Structured Products. Credit risk relating to loan stock investee companies is considered to be part of market risk.

The Company's financial assets that are exposed to credit risk are summarised as follows:

	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Investments in loan stocks	15,067	15,799
Investments in Structured Products	6,940	8,779
Cash and cash equivalents	4,972	3,531
Interest and other receivables	235	60
	<u>27,214</u>	<u>28,169</u>

The Manager manages credit risk in respect of loan stock with a similar approach as described under Investment risks above. Investments in Structured Products are managed so as to limit exposure to any one counterparty and taking into account the credit rating of the counterparty. Similarly, the management of credit risk associated interest, dividends and other receivables is covered within the investment management procedures.

Cash is mainly held by Bank of Scotland plc and Royal Bank of Scotland plc, both of which are A-rated financial institutions and both also ultimately part-owned by the UK Government. Consequently, the Directors consider that the credit risk associated with cash deposits is low.

There have been no changes in fair value during the year that are directly attributable to changes in credit risk.

***Liquidity risk***

Liquidity risk is the risk that the Company encounters difficulties in meeting obligations associated with its financial liabilities. Liquidity risk may also arise from either the inability to sell financial instruments when required at their fair values or from the inability to generate cash inflows as required.

As the Company has a relatively low level of creditors, being £471,000 (2012: £307,000), and has no borrowings, the Board believes that the Company's exposure to liquidity risk is low. Also, some quoted investments held by the Company are considered to be readily realisable. The Company always holds sufficient levels of funds as cash and readily realisable investments in order to meet expenses and other cash outflows as they arise. For these reasons, the Board believes that the Company's exposure to liquidity risk is minimal.

The Company's liquidity risk is managed by the investment manager in line with guidance agreed with the Board and is reviewed by the Board at regular intervals.

Although the Company's investments are not held to meet the Company's liquidity requirements, the table below shows an analysis of the assets, highlighting the length of time that it could take the Company to realise its assets if it were required to do so.

The carrying value of loan stock investments held and at fair value through the profit and loss account at 31 March 2013, as analysed by expected maturity date, is as follows:

<b>As at 31 March 2013</b>	<b>Not later than 1 year £'000</b>	<b>Between 1 and 2 years £'000</b>	<b>Between 2 and 3 years £'000</b>	<b>Between 3 and 5 years £'000</b>	<b>Total £'000</b>
Fully performing loan stock	-	1,934	3,804	3,588	9,326
Past due loan stock	483	554	380	4,324	5,741
	<u>483</u>	<u>2,488</u>	<u>4,184</u>	<u>7,912</u>	<u>15,067</u>

**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 31 March 2013**

**17. Financial instruments (continued)**

*Liquidity risk (continued)*

As at 31 March 2012	Not later than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 3 years £'000	Between 3 and 5 years £'000	Total £'000
Fully performing loan stock	2,868	32	1,403	6,874	11,177
Past due loan stock	439	-	782	3,401	4,622
	3,307	32	2,185	10,275	15,799

Of the loan stock classified as “past due” above, £5,741,000 relates to the principal of loan notes where, although the principal remains within term, the investee company is not fully servicing the interest obligations under the loan note and is thus in arrears. As at the balance sheet date, the extent to which the interest giving rise to the classification of the loan notes as past due falls within the banding of one to two years past due. Notwithstanding the arrears of interest, the Directors do not consider that the loan note itself has been impaired or the maturity of the principal has altered.

Of the loan stock classified as “past due” above, £419,000 relates to the principal of loan notes where the principal has passed its maturity date. As at the balance sheet date, the extent to which the principle is past its maturity date giving rise to the classification of the loan notes as past due falls within the banding of nil to six months past due. Notwithstanding that the principal has passed its maturity date, the Directors do not consider that the loan note itself has been impaired.

**18. Capital management**

The Company’s objectives when managing capital are to safeguard the Company’s ability to continue as a going concern, so that it can continue to provide returns for Shareholders and to provide an adequate return to the shareholders by allocating its capital to assets commensurately with the level of risk.

By its nature, the Company has an amount of capital, at least 70% (as measured under the tax legislation) of which is and must be, and remain, invested in relatively high risk asset class of small UK companies within three years of that capital being subscribed. The Company accordingly has limited scope to manage its capital structure in the light of changes in economic conditions and the risk characteristics of the underlying assets. Subject to this overall constraint upon changing the capital structure, the Company may adjust the amount of dividends paid to Shareholders, return capital to Shareholders, issue new shares, or sell assets if so required to maintain a level of liquidity to remain a going concern.

Although, as the Investment Policy implies, the Board would consider levels of gearing, there are no current plans to do so. It regards the net assets of the Company as the Company’s capital, as the level of liabilities is small and the management of them is not directly related to managing the return to Shareholders. There has been no change in this approach from the previous period.

**19. Contingencies, guarantees and financial commitments**

At 31 March 2013, the Company had no contingencies, guarantees or financial commitments.

**20. Controlling party and related party transactions**

In the opinion of the Directors, there is no immediate or ultimate controlling party.

## NOTICE OF THE FOURTH ANNUAL GENERAL MEETING OF DOWNING STRUCTURED OPPORTUNITIES VCT 1 PLC

NOTICE IS HEREBY GIVEN that the fourth Annual General Meeting of Downing Structured Opportunities VCT 1 plc will be held at 10 Lower Grosvenor Place, London SW1W 0EN at 10:30 a.m. on 5 September 2013 for the transaction of the following business:

As **Ordinary Business**, to consider and, if thought fit, pass the following resolutions which will be proposed as **Ordinary Resolutions**:

1. To receive and adopt the Report of the Directors and Accounts of the Company for the year ended 31 March 2013 together with the report of the Auditor thereon.
2. To approve the Directors' Remuneration Report.
3. To approve the payment of final dividends of 2.5p per 'B' Share and 2.5p per 'D' Share.
4. To appoint BDO LLP as Auditor of the Company to hold office until the conclusion of the next Annual General Meeting at which accounts of the Company are presented and to authorise the Directors to determine their remuneration.
5. To re-elect as Director, Lord Flight, who retires and, being eligible, offers himself for re-election.
6. To re-elect as Director, Robin Chamberlayne, who retires and, being eligible, offers himself for re-election.
7. To re-elect as Director, Mark Mathias, who retires and, being eligible, offers himself for re-election.

As **Special Business**, to consider and, if thought fit, pass the following **Special Resolution**:

8. That, the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 693(4) of the Companies Act 2006) of Ordinary Shares of 0.1p each ("Ordinary Shares"), 'A' Shares of 0.1p each ("A' Shares"), 'B' Shares of 0.1p each ("B' Shares"), 'C' Shares of 0.1p each ("C' Shares") and 'D' Shares of 0.1p each ("D' Shares") in the capital of the Company provided that:
  - (i) the maximum number of Ordinary Shares hereby authorised to be purchased is 1,543,793 representing approximately 14.9% of the issued Ordinary Share capital, 2,316,516 representing approximately 14.9% of the issued 'A' Share capital, 2,970,519 representing approximately 14.9% of the issued 'B' Share capital, 4,458,984 representing approximately 14.9% of the issued 'C' Share capital and 1,175,242 representing approximately 14.9% of the issued 'D' Share capital of the Company from time to time;
  - (ii) the minimum price which may be paid for an Ordinary Share, 'A' Share, 'B' Share, 'C' Share or 'D' Share is 0.1p, exclusive of all expenses;
  - (iii) the maximum price which may be paid for an Ordinary Share, 'A' Share, 'B' Share, 'C' Share or 'D' Share is an amount, exclusive of all expenses, equal to 105% of the average of the middle market quotations of the relevant share as derived from the Daily Official List of the London Stock Exchange, for each of the five business days immediately preceding the day on which the share is contracted to be purchased; and
  - (iv) the Company may validly make a contract to purchase its own Ordinary Shares, 'A' Shares, 'B' Shares, 'C' Shares or 'D' Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may validly make a purchase of Ordinary Shares, 'A' Shares, 'B' Shares, 'C' Shares or 'D' Shares in pursuance of any such contract;

and this power, unless previously varied, revoked or renewed, shall come to an end at the conclusion of the Annual General Meeting of the Company next following the passing of this resolution or on the expiry of 15 months from the passing of the resolution, whichever is the earlier.

By order of the Board



**Grant Whitehouse**

Company Secretary

Registered office:

10 Lower Grosvenor Place

London SW1W 0EN

24 July 2013

## Notes

- (a) Any member of the Company entitled to attend and vote at the Annual General Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the Annual General Meeting in order to represent his appointor. A member entitled to attend and vote at the Annual General Meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person. If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in these Notes. Please read Note (h) below. Under section 319A of the Act, the Company must answer any question a member asks relating to the business being dealt with at the Annual General Meeting unless:
- answering the question would interfere unduly with the preparation for the Annual General Meeting or involve the disclosure of confidential information;
  - the answer has already been given on a website in the form of an answer to a question; or
  - it is undesirable in the interests of the Company or the good order of the Annual General Meeting that the question be answered.
- (b) To be valid, a Form of Proxy and the power of attorney or other written authority, if any, under which it is signed or an office or notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority, must be delivered to Downing LLP, 10 Lower Grosvenor Place, London SW1W 0EN or electronically at proxy@downing.co.uk, in each case not less than 48 hours (excluding weekends and public holidays) before the time appointed for holding the Annual General Meeting or adjourned meeting at which the person named in the Form of Proxy proposes to vote. In the case of a poll taken more than 48 hours (excluding weekends and public holidays) after it is demanded, the document(s) must be delivered as aforesaid not less than 24 hours (excluding weekends and public holidays) before the time appointed for taking the poll, or where the poll is taken not more than 48 hours (excluding weekends and public holidays) after it was demanded, be delivered at the meeting at which the demand is made.
- (c) In order to revoke a proxy instruction a member will need to inform the Company using one of the following methods:
- by sending a signed hard copy notice clearly stating the intention to revoke the proxy appointment to Downing LLP, 10 Lower Grosvenor Place, London SW1W 0EN. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.
  - by sending an e-mail to proxy@downing.co.uk.
- In either case, the revocation notice must be received by Downing LLP before the Annual General Meeting or the holding of a poll subsequently thereto. If a member attempts to revoke his or her proxy appointment but the revocation is received after the time specified then, subject to Note (d) directly below, the proxy appointment will remain valid.
- (d) Completion and return of a Form of Proxy will not preclude a member of the Company from attending and voting in person. If a member appoints a proxy and that member attends the Annual General Meeting in person, the proxy appointment will automatically be terminated.
- (e) Copies of the Directors' Letters of Appointment and the Register of Directors' interests in the Shares of the Company, will be available for inspection at the registered office of the Company during usual business hours on any weekday (excluding weekends and public holidays) from the date of this notice, until the end of the Annual General Meeting for at least 15 minutes prior to and during the meeting.
- (f) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those holders of the Company's shares registered on the Register of Members of the Company as at 10:30 a.m. on 5 September 2013 or, in the event that the Annual General Meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the said Annual General Meeting in respect of such shares registered in their name at the relevant time. Changes to entries on the Register of Members after 10:30 a.m. on 5 September 2013 or, in the event that the Annual General Meeting is adjourned, on the Register of Members less than 48 hours before the time of any adjourned meeting, shall be disregarded in determining the right of any person to attend and vote at the Annual General Meeting.
- (g) As at 9 a.m. on 24 July 2013, the Company's issued share capital comprised 10,361,027 Ordinary Shares, 15,547,088 'A' Shares, 19,936,370 'B' Shares, 29,926,070 'C' Shares, and 7,887,527 'D' Shares and the total number of voting rights in the Company was 38,184,924. The website referred to above will include information on the number of shares and voting rights.

**Notes (continued)**

- (h) If you are a person who has been nominated under section 146 of the Act to enjoy information rights (“Nominated Person”):
- You may have a right under an agreement between you and the member of the Company who has nominated you to have information rights (“Relevant Member”) to be appointed or to have someone else appointed as a proxy for the Annual General Meeting;
  - If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights; and
  - Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.
- (i) A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.
- (j) A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, the proxy will vote or abstain from voting at his or her discretion. The proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Annual General Meeting.
- (k) Except as provided above, members who have general queries about the Annual General Meeting should write to the Chairman at the registered office set out above.
- (l) Members may not use any electronic address provided either in this notice of Annual General Meeting, or any related documents (including the Chairman’s letter and Form of Proxy), to communicate with the Company for any purposes other than those expressly stated.



**FORM OF PROXY**

**DOWNING STRUCTURED OPPORTUNITIES VCT 1 PLC**

For use at the Annual General Meeting of the above-named Company to be held on 5 September 2013 at 10 Lower Grosvenor Place, London SW1W 0EN at 10:30 a.m.

I/We\* .....(in BLOCK CAPITALS please)

of.....

being the holder(s)\* of Ordinary Shares of 0.1p each/'B' Shares of 0.1p each/'D' Shares of 0.1p each\* in the capital of the above-named Company, hereby appoint the Chairman of the Meeting (see note 1)

or.....

of.....

as my/our\* proxy to attend for me/us\* on my/our\* behalf at the Annual General Meeting of the Company to be held at 10 Lower Grosvenor Place, London SW1W 0EN on 5 September 2013 or at any adjournment thereof.

I/We\* desire to vote on the resolutions as indicated in the appropriate column below. Please indicate with an "X" how you wish your vote to be cast.

Details of the resolutions are set out in the Notice of the Annual General Meeting.

<b>ORDINARY BUSINESS</b>	<b>FOR</b>	<b>AGAINST</b>	<b>WITHHELD</b>
1. To receive and adopt the Directors' report and accounts.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. To approve the Directors' Remuneration Report.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. To approve the payment of final dividends of 2.5p per 'B' Share and per 'D' Share.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. To appoint the Auditor and authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect Lord Flight as a Director.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. To re-elect Robin Chamberlayne as a Director.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. To re-elect Mark Mathias as a Director.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>SPECIAL BUSINESS</b>			
8. To authorise the Company to make market purchases of its shares.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Signature..... Date.....2013

**If you are unable to attend the AGM and wish to put any comments to the Board, please use the box below.**

\* Delete as appropriate



**PLEASE RETURN TO DOWNING LLP IN THE PRE-PAID ENVELOPE PROVIDED.**

## NOTES AND INSTRUCTIONS:

1. Any member of the Company entitled to attend and vote at the Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the Meeting in order to represent his appointor. A member entitled to attend and vote at the meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person.
2. Delete "the Chairman of the meeting" if it is desired to appoint any other person and insert his or her name and address. If no name is inserted, the proxy will be deemed to have been given in favour of the Chairman of the meeting. If this Form of Proxy is returned without stating how the proxy shall vote on any particular matter the proxy will exercise his discretion as to whether, and if so how, he votes.
3. Any alterations to the Form of Proxy should be initialled.
4. To be valid, this Form of Proxy and the power of attorney or other written authority, if any, under which it is signed or an office or notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority, must be delivered to Downing LLP, 10 Lower Grosvenor Place, London SW1W 0EN not less than 48 hours (excluding weekends and public holidays) before the time appointed for holding the Meeting or adjourned meeting at which the person named in this Form of Proxy proposes to vote. In the case of a poll taken more than 48 hours (excluding weekends and public holidays) after it is demanded, the document(s) must be delivered as aforesaid not less than 24 hours (excluding weekends and public holidays) before the time appointed for taking the poll, or where the poll is taken not more than 48 hours (excluding weekends and public holidays) after it was demanded, and be delivered at the meeting at which the demand is made.
5. In the case of a corporation, this form must be under its common seal or under the hand of some officer or attorney duly authorised on that behalf.
6. In the case of joint holders, the vote of the senior holder tendering a vote will be accepted to the exclusion of the votes of the other joint holders. Seniority depends on the order in which the names stand in the register of members.
7. The completion and return of this Form of Proxy will not preclude you from attending and voting at the Annual General Meeting should you subsequently decide to do so. If a member appoints a proxy and that member attends the Annual General Meeting in person, the proxy appointment will automatically be terminated.
8. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, the proxy will vote or abstain from voting at his or her discretion. The proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Annual General Meeting.





10 Lower Grosvenor Place  
London SW1W 0EN

**Tel:** 020 7416 7780

**Email:** [vct@downing.co.uk](mailto:vct@downing.co.uk)

**Web:** [www.downing.co.uk](http://www.downing.co.uk)

Downing LLP is authorised and regulated by the Financial Conduct Authority