



downing distribution  
VCT 1 plc

(FORMERLY THE AIM DISTRIBUTION TRUST PLC)

# Report & Accounts

for the year ended  
31 March 2010

## SHAREHOLDER INFORMATION

### Share Prices

The Company's share price can be found on various financial websites. A link to the share price is also available on Downing's website ([www.downing.co.uk](http://www.downing.co.uk)).

	<b>Ordinary Shares</b>
TIDM/EPIC code	"DDV1"
Latest share price (20 July 2010):	79.5 per share

### Financial Calendar

23 September 2010	Annual General Meeting ("AGM")
30 September 2010	Interim dividend
November 2010	Announcement of half year results

### Dividends

Dividends are 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 (form can be downloaded from [www.capitaregistrars.com](http://www.capitaregistrars.com)). Queries relating to dividends and requests for mandate forms should be directed to the Company's registrar, Capita Registrars, by calling 0871 664 0300 (calls cost 10p per minute plus network extras), or by writing to them at Northern House, Woodsome Park, Fenay Bridge, Huddersfield, West Yorkshire, HD8 0GA.

### Selling Shares

If you wish to sell your shares, either you or your adviser should contact Downing Management Services Limited on **020 7416 7780**.

Shareholders are advised to seek advice from their tax adviser, before selling shares, particularly if they deferred the payment of capital gains tax in respect of shares acquired prior to 6 April 2004 or purchased shares within the last five years.

### Unsolicited calls to Shareholders

We are aware of cases of shareholders having received unsolicited phone calls, e-mails or correspondence concerning investment matters. Please note that it is very unlikely that either the Company, Downing Management Services Limited or the Company Registrar, Capita Registrars, would make unsolicited telephone calls, or send e-mails, to Shareholders and that any such calls would relate only to official documentation already in circulation to Shareholders and never in respect of investment "advice". Furthermore, please be assured that your details have not been released to any third party by either the Company, Downing Management Services Limited or the Company Registrar, Capita Registrars. If you receive either an unexpected phone call or correspondence about which you have concerns, please contact Grant Whitehouse, the Company Secretary, on **020 7416 7780**.

### 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.

### Other Information for Shareholders

Up to date Company information (including financial statements, share price 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 Distribution 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".

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## COMPANY INFORMATION

### Directors

Christopher Powell (Chairman)  
Sir Aubrey Brocklebank  
Michael Cunningham  
Stuart Goldsmith  
Roger Jeynes  
all of  
Kings Scholars House  
230 Vauxhall Bridge Road  
London SW1V 1AU

### Secretary and registered office

Grant Whitehouse  
Kings Scholars House  
230 Vauxhall Bridge Road  
London SW1V 1AU  
Tel No: 020 7416 7780

### Investment and Administration Manager

Downing Corporate Finance Limited  
Kings Scholars House  
230 Vauxhall Bridge Road  
London SW1V 1AU  
Tel: 020 7416 7780  
[www.downing.co.uk](http://www.downing.co.uk)

### Auditor

Baker Tilly UK Audit LLP  
Chartered Accountants  
2 Bloomsbury Street  
London WC1B 3ST

### VCT status advisers

PricewaterhouseCoopers LLP  
1 Embankment Place  
London WC2N 6RH

### Registrar

Capita Registrars Limited  
Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield  
West Yorkshire HD8 0GA  
Tel No: 0871 664 0300  
(calls cost 10p per minute plus network extras  
lines open Mon-Fri from 8am to 4.30pm)  
[www.capitaregistrars.com](http://www.capitaregistrars.com)

### Principal Banker

Bank of Scotland  
West End Office  
St James's Gate  
14-16 Cockspur Street  
London SW1Y 5BL

## FINANCIAL HIGHLIGHTS

	2010 Pence	2009 pence
Net asset value (per share)	37.00	33.60
Cumulative distributions paid since launch	57.55	55.80
Total return (net asset value plus cumulative distributions paid)	94.55	89.40
Interim distribution paid (per share)	1.75	-

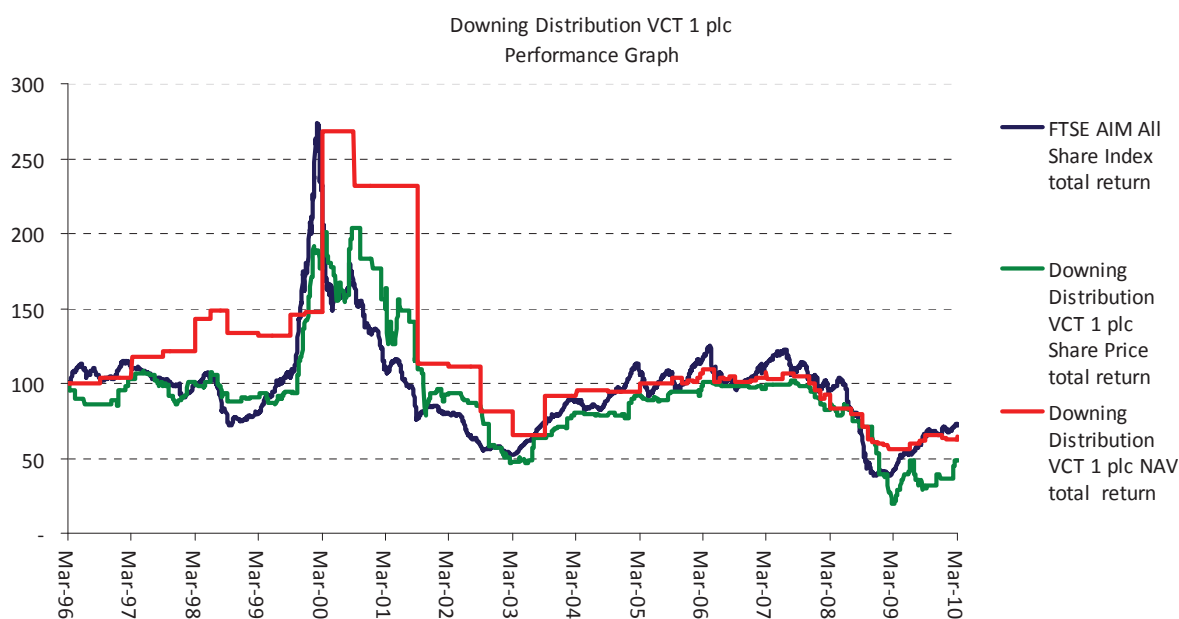
## DIVIDEND HISTORY

(paid by The AIM Distribution Trust plc)

Year end (including interim dividends)	Pence per share	Year end (including interim dividends)	Pence per share
1997	4.50	2004	-
1998	4.50	2005	2.00
1999	4.50	2006	2.00
2000	23.20	2007	2.00
2001	10.75	2008	2.00
2002	0.35	2010	1.75
2003	-		
<b>Cumulative dividends to date</b>			<b>57.55</b>

## PERFORMANCE GRAPH

The chart below represents the Company's performance over the reporting periods since incorporation and compares the Net Asset Value ("NAV") Total Return of the Company (NAV plus cumulative dividends paid to date) and the Company's Share Price Total Return (share price plus cumulative dividends paid to date) against the FTSE AIM All Share Index Total Return ("AIM Index"). All series are rebased to 100 at the Company's launch date. Although it is not an ideal standard against which to assess the Company's performance, the FTSE AIM All Share Index has been chosen as it is the most appropriate of the publicly available indices.



## INVESTMENT OBJECTIVES

The Company's principal investment objectives are:

- predominantly to invest in a diversified portfolio of VCT-qualifying growth investments and income producing investments; and
- to maintain VCT status so that the Company and its Shareholders may benefit from the tax reliefs and exemptions available under the VCT legislation.

The detailed investment policy adopted to achieve the investment objectives is set out in the Report of the Directors on page 17.

## DIRECTORS

**Christopher Powell** (Chairman) is chairman of Pennant International Group plc and Forest Support Services plc, both AIM companies. He is also a non-executive director of The Great British Card Company plc and Severn Glocon Group plc. He has spent 20 years in the accounting profession, first with Touche Ross and then with Hazlewoods, an independent firm within the Moores Rowland International Group.

**Sir Aubrey Brocklebank** worked for Guinness Mahon, after qualifying as a chartered accountant, from 1981 to 1986, initially in its corporate finance department before helping to establish a specialist development capital department. From 1986 to 1990 he was a director of Venture Founders Limited, managing a £12 million venture capital fund and subsequently managed the Avon Enterprise Fund Limited. He is chairman of Hargreave Hale AIM VCT plc, Hargreave Hale AIM VCT 2 plc, and the Puma VCTs as well as being a non-executive director of several other companies including Octopus Second AIM VCT plc.

**Michael Cunningham** has been an investment director of Rathbones. He joined Neilson Hornby Crichton & Co in 1976, becoming a partner in 1981. In 1986, he became a director of Neilson Cobbold Limited, formerly Neilson Milnes Limited, which is now part of Rathbone Brothers Plc. He has worked in the investment management business for over 20 years and, within Rathbones, has had responsibility for VCTs and Rathbones' EIS Portfolios and the IHT Service, which raised over £100 million in total. Michael sits on the boards of several portfolio companies of the Downing Distribution VCTs and is also on the board of Downing Distribution VCT 2 plc.

**Stuart Goldsmith** is chairman of Ketton Securities Limited, a firm that advises a range of companies on corporate strategy, mergers and acquisitions, which he founded in 1989. Previously he was chairman or chief executive of two groups of financial services companies. He has been a non-executive director of a number of companies.

**Roger Jeynes** has extensive experience of the technology and investment sectors. His early career included a number of senior technical, marketing and general management roles for IBM, EMC and Pyramid Technology in the UK, Italy and the USA. From 1997 to 2006 he was Chief Operating Officer of Interregnum plc, the AIM-listed technology merchant bank. He is currently chairman of Zoo Digital Group plc (AIM: ZOO.L), a director of Charborough Capital Limited, mxData Limited and Keycom plc, and Professor of Management Practice in the Ashcroft International Business School of Anglia Ruskin University.

All the Directors are non-executive and, with the exception of Michael Cunningham, are independent of the Investment Manager.

## CHAIRMAN'S STATEMENT

### Introduction

The Company recently completed its merger with Pennine AIM VCT 5 plc and Pennine AIM VCT 6 plc, changed its name from The AIM Distribution Trust plc to Downing Distribution VCT 1 plc, underwent a share consolidation and also changed its investment manager.

As the merger and share consolidation did not take place until 1 April 2010, the audited accounts presented in this annual report show the Company's position before the merger. The Board has included an unaudited balance sheet and investment portfolio as at 30 June 2010, which provides existing Shareholders and investors that became Shareholders as a result of the mergers an up to date picture of the Company following the developments which have taken place.

### Change of name

On 25 March 2010, the Company changed its name from The AIM Distribution Trust plc to Downing Distribution VCT 1 plc ("DDV1").

### Directorate

Following completion of the merger, Michael Cunningham joined the Board as a non-executive director. Michael has worked closely with the Board since 2003 as a result of his role at Rathbones, where he headed the VCT management team. Following the changes which have accompanied the merger, Michael will continue to take an active role within some of the investee companies as well as enhancing the Board with his experience within the VCT sector.

There has been one further Board change accompanying the merger where I have taken over from Sir Aubrey Brocklebank as the chairman of the Company. I, along with the rest of the Board, would like to thank Aubrey for the valuable contribution he has made in chairing the company for the past ten years and look forward to continuing to work with him in his ongoing role as non-executive director.

### Net Asset Value

The net asset value ("NAV") per Original Ordinary Share at 31 March 2010 stood at 37.0p, an increase of 5.1p (or 15.3%) over the year, after accounting for the 1.75p dividend paid in the year. (Shareholders should note that the Company's shares underwent a consolidation on 1 April 2010.)

### Merger

The merger with Pennine AIM VCT 5 plc ("P5") and Pennine AIM VCT 6 plc ("P6") was completed on 1 April 2010 by means of two Schemes of Arrangement ("the Schemes"). On that date all the assets and liabilities from P5 and P6 were transferred to the Company and consideration shares were issued to shareholders of P5 and P6.

A balance sheet and portfolio of the merged entity as at 30 June 2010 is shown on pages 6 and 7.

### Share consolidation

Immediately prior to the Schemes, the Company had 13,140,436 Ordinary Shares of 25p each in issue.

Upon completion of the Schemes, the Company's Original Ordinary Shares of 25p each shares were consolidated into 21,862,198 New Ordinary Shares of 1p each.

The following is a summary of the number of shares received by each original group of shareholders as a result of the merger and share consolidation:

	<b>No. new ordinary shares of 1p each issued per share originally held</b>
DDV1	0.34955038
P5	0.30448703
P6	0.40564181

### Share buybacks

As part of the merger documentation, the Company has indicated that it will recommence share buybacks and intends to buy in shares at between a 10% and 15% discount to NAV.

The Board will monitor the market in the Company's shares and may make adjustments to the policy as appropriate. Such purchases will be subject to VCT regulations, company law, liquidity considerations and the Listing Rules.

## CHAIRMAN'S STATEMENT (continued)

### Venture capital investments (AIM and unquoted)

During the year, the Company made £875,000 of new and follow-on venture capital investments.

At 31 March 2010, this portfolio comprised 28 investments which were valued at £3.6 million. The portfolio generated net unrealised gains of £503,000 and net realised gains of £83,000 over the year.

Details of the Company's venture capital investments, including additions, disposals and performance, are set out within the Investment Manager's report and Review of Investments on pages 8 to 15.

Since the merger, the Company's venture capital portfolio has expanded substantially. Full details of the portfolio as at 30 June 2010 are set out on Page 7.

### Listed fixed income and other investments

The Company holds a non-qualifying portfolio which includes one fixed income security and two hedge fund investments. This portfolio had a value of £730,000 at the year end and showed an unrealised gain of £187,000 and realised gains of £19,000.

### Results and dividends

The total return on ordinary activities for the year to 31 March 2010 was as follows:

	Revenue £'000	Capital £'000	Total £'000
Ordinary Shares	(64)	741	677

The Company paid an interim dividend of 1.75p per share on 23 December 2009 to Shareholders on the register at 11 December 2009.

As stated in the merger documentation, the Company intends to pay annual tax-free dividends of 5p per New Ordinary Share. In line with this intention, the Board is proposing to pay an interim dividend of 2.5p per share for the year to 31 March 2011, on 30 September 2010 to Shareholders on the register at 27 August 2010.

### Annual General Meeting

The next AGM of the Company will be held at 10 Lower Grosvenor Place, London, SW1W 0EN at 11 am on 23 September 2010. Notice of the meeting is at the end of this document.

Three items of special business are proposed: one ordinary and one special resolution in relation to the allotment of shares; and a special resolution to renew the authority to allow the Company to make market purchases of the Company's shares.

### Outlook

With the merger successfully completed, the Company is now implementing the strategy and other changes which were set out in the merger documentation. The Company expects to make a gradual reduction of its exposure to AIM-quoted investments, although this will only be done as suitable opportunities arise. New unquoted investments will be sought which produce a steady income for the Company, however, the Company will still consider attractive new AIM-quoted opportunities that may arise.

The performance of the Company, Pennine AIM VCT 5 and Pennine AIM VCT 6 over the last 2-3 years, being heavily influenced by the general performance of the AIM market, has been disappointing for Shareholders and the Directors alike. The Company's revised investment policy seeks to address some of the difficulties that the companies have faced in the past. The Board believes that a realistic target is to improve the yield on the investment portfolio which, along with steady capital growth, will fund the Company's targeted annual dividends.



**Christopher Powell**  
Chairman

19 July 2010



## UNAUDITED BALANCE SHEET (POST MERGER)

as at 30 June 2010

The following is the unaudited balance sheet of the Company at 30 June 2010, following the merger of The AIM Distribution Trust plc, Pennine AIM VCT 5 plc and Pennine AIM VCT 6 plc and the subsequent share consolidation.

	<b>30 June 2010 £'000</b>
<b>Fixed assets</b>	
Investments	<u>20,361</u>
<b>Current assets</b>	
Debtors	230
Cash at bank and in hand	<u>863</u>
	1,093
<b>Creditors:</b> amounts falling due within one year	<u>(341)</u>
<b>Net current assets</b>	<u>752</u>
<b>Net assets</b>	<u><u>21,113</u></u>
<b>Capital and reserves</b>	
Called up share capital	219
Reserves	20,894
<b>Total equity Shareholders' funds</b>	<u><u>21,113</u></u>
<b>Basic and diluted net asset value per Share</b>	<u><u>96.5p</u></u>
<b>New Ordinary Shares of 1p each in issue at 30 June 2010</b>	21,869,287

## UNAUDITED PORTFOLIO OF INVESTMENTS (POST MERGER)

as at 30 June 2010

	Cost £'000	Valuation £'000	% of portfolio by value	Originally held by:		
				DDV1	P5	P6
<b>Venture capital investments (by value)</b>						
Cadbury House Holdings Limited *	2,518	2,546	12.0%	•	•	•
Doubletake Studios Limited *	2,204	2,454	11.6%	•	•	•
Hoole Hall Country Club Holdings Limited *	2,100	2,100	9.9%		•	•
Ludorum plc	1,967	1,747	8.2%	•		
Hoole Hall Spa and Leisure Limited *	1,020	1,020	4.8%	•		•
First Care Limited *	879	879	4.1%		•	•
Animalcare Group plc	914	762	3.6%			•
Craneware plc	690	713	3.4%		•	•
ANS Group plc **	201	483	2.3%	•		
IDOX plc	487	466	2.2%		•	•
Tristel plc	467	445	2.1%	•		•
IS Pharma plc	392	434	2.0%			•
Keycom plc **	815	418	2.0%	•		•
Boomerang plus plc	490	381	1.8%		•	•
Tramps Nightclub Limited * <sup>1</sup>	333	333	1.6%			
Telephonetics plc	311	332	1.6%		•	•
Aminghurst Limited * <sup>1</sup>	300	300	1.4%			
Servoca plc	477	293	1.4%		•	•
Brulines Holdings plc	333	291	1.4%		•	•
Plastics Capital Group plc	238	256	1.2%		•	•
Printing.com plc	179	247	1.2%	•		
Spice plc ***	273	229	1.1%	•	•	
Mears Group plc ***	204	182	0.9%	•		
Real Time Logistic Solutions Limited *	180	180	0.9%		•	
Future Biogas (Spring Farm) Limited * <sup>1</sup>	175	175	0.8%			
West Tower Holdings Limited *	167	167	0.8%			•
Universe Group plc	152	152	0.7%		•	•
Atlantic Global plc	310	136	0.6%	•		
Travelzest plc	96	132	0.6%		•	•
Hasgrove plc	146	132	0.6%			•
Zamano plc	374	130	0.6%		•	•
Blanc Brasseries plc	125	125	0.6%			•
Connaught plc ***	25	115	0.5%	•		
Neutrahealth plc	240	115	0.5%	•	•	
Autoclenz Holdings plc	136	110	0.5%		•	
The Kellan Group plc	109	101	0.5%		•	•
Deltex Medical Group plc	233	93	0.4%	•		
DODS Group plc (formerly Huveaux plc)	284	93	0.4%	•		
Richoux Holdings plc	307	92	0.4%	•	•	
The Thames Club Limited *	175	88	0.4%			•
Netservices plc	87	71	0.3%		•	•
Sheildtech plc	120	60	0.3%		•	
Straight plc	72	55	0.3%	•		
Business Control Solutions plc *	52	52	0.3%		•	
Financial News Publishing Limited *	50	50	0.2%	•		
Aortech International plc	569	35	0.2%	•		
Belgravium Technologies plc	48	32	0.2%		•	
Quadnetics Group plc	34	18	0.1%	•		
Sports Media Group plc	14	8	-		•	•
Media Square plc	119	6	-	•		
@ UK plc	7	5	-			
Camaxys plc *	223	-	-	•		
Chariot (UK) Limited *	125	-	-	•	•	
Top Ten Holdings plc	399	-	-	•		
	<b>22,945</b>	<b>19,839</b>	<b>93.5%</b>			
<b>Other investments</b>						
Ulster Bank (IRE) 11.75% Subord	558	350	1.6%	•		
Goldman Sachs Dynamic Opp. LD	207	172	0.8%	•		
	<b>765</b>	<b>522</b>	<b>2.4%</b>			
<b>Total investments</b>	<b>23,710</b>	<b>20,361</b>	<b>95.9%</b>			
<b>Cash at bank and in hand</b>		<b>863</b>	<b>4.1%</b>			
		<b>21,224</b>	<b>100.0%</b>			

All venture capital investments are listed on AIM unless otherwise stated

\* Unlisted

\*\* Quoted on the PLUS market

\*\*\* Quoted on London Stock Exchange full list

<sup>1</sup> Investment purchased since 1 April 2010

## INVESTMENT MANAGER'S REPORT

We present an overview of the investment management activities for the year ended 31 March 2010, our first since appointment as Investment Manager. During the year, the portfolio was managed by Rathbones Investment Management Limited ("Rathbones"), with Downing Corporate Finance Limited ("Downing") taking over the management of the portfolio on 1 April 2010. Key members of the team from Rathbones have moved to Downing which provides a high degree of continuity in managing the existing portfolio companies. The move to Downing also provides the Company with additional resources which allow the Company to pursue its revised investment policy.

The recovery in equity markets began shortly before the start of your Company's financial year. Investors began to believe that the quantitative easing and other Government led economic stimulus packages would enable the avoidance of an economic depression. Instead this would be a cyclical recession, albeit severe, from which economic recovery would come. Even though economic recovery remains fragile, the improvement in corporate credit markets has helped to stabilise company balance sheets, but bank lending to the smaller company market remains constrained. Indebtedness generally remains a cause for concern, with European Government debt and the weakening Euro being the latest worry which has undermined investor confidence and seen weakening equity markets throughout May.

Over this reporting period, the FTSE 100 Share Index showed a rise of 44.7% whilst the AIM Index rose 70.4% having fallen 57% in the previous year. The recovery in AIM was led by the resource sector which accounts for around 30% of the index (this is an area not generally open for qualifying VCT investment). Whilst your Company benefited from not holding resource stocks when AIM fell heavily in 2008, this year has seen the inverse.

### New investment

The amount of new money raised on AIM in 2009 was the lowest for seven years with a dearth of qualifying quality issues. As a result your Company made only one new and one follow on AIM investment. With your Company comfortably above the HM Revenue and Customs requirements for the amount held in qualifying investments, this enabled us to remain selective with new investment. Page 11 shows additional investments of £875,000, although £523,000 of this was

successful restructuring of two existing investments.

There is no doubt that the credit shortage has had a material impact on small companies with banks demanding substantially higher rates of interest and arrangement fees. This has provided selective opportunities, one such being your Company's further investment into **Ludorum**. As part of a £1.5 million secured loan stock with a 9% coupon, your Company invested £200,000. This loan replaced previous bank finance and provided working capital to assist with the costs of the production of the second 52 episodes of Chuggington, the children's animated pre-school television series. An equity investment into the infection control company **Tristel** of £80,000 was part of a £2 million fundraise to repay bank debt and accelerate the registration programmes in China and Russia.

An additional £20,000 was invested into **Hoole Hall Spa and Leisure**, an unquoted company, to enable the completion of the spa which opened last autumn and has attracted strong initial membership. **Cadbury House**, also unquoted, has traded to budget with an increase in profits, this enabled a re-financing of the bank debt. Your Company's investment has remained unchanged.

**Financial News Publishing**, an unquoted company, was bought out of administration. Your Company assisted with the purchase by investing £50,000 by way of a mixture of equity and loan notes as part of an overall funding package of £525,000. The company publishes subscription based newsletters and organises conferences on specialist areas in the financial sector.

### Portfolio Performance

At 31 March 2010, the top ten holdings by value account for 60.4% of the portfolio. The makeup is: two Full List companies, four AIM, one PLUS Markets and three unquoted companies. Most of the portfolio's investments show share price appreciation with some material recoveries from the depressed prices of a year ago.

**Doubletake Studios**, an unquoted company, contributed the largest gain, with a doubling of its valuation based on strong profit growth assisted by an increase in photographic studio capacity. Strong viewing figures for Chuggington and positive initial branded goods sales saw **Ludorum** record a 42% rise in its share price.

## INVESTMENT MANAGER'S REPORT (continued)

As mentioned, some share prices recovered from depressed levels. **Printing.com** doubled its value as discounting and promotional activity helped offset a tough environment, resulting in an increasingly resilient trading performance given the economic backdrop.

The sale of their education business contributed to a re-valuation in **Huveaux**, whilst shares in **Straight** partially recovered from previous profit warnings. The management remains positive about the prospects for their recycling product sales to, amongst others, local authorities, despite the fears of a slowdown in spending.

**Connaught**, historically one of the portfolio's star performers and an investment from which considerable profits have been realised over the years, issued a profits warning in late June, citing lower contract volumes in its Social Housing Division. The resignation of both the Chief Executive and Finance Director alongside uncertainty as to profits forecasts has led to a sharp decline in the share price since your Company's financial year end. **Spice** has had a difficult year, losing over 45% of its value. After several profit warnings due to poor trading in their gas and facilities businesses there was a change in chief executive together with a change in strategy. Having been highly acquisitive, the company is divesting of some businesses, including telecoms and reducing debt. **Spice** should be well placed to benefit from the heavy capital investment being undertaken by the water and electric utility companies.

### Disposals

**Supporta**, the domiciliary care business was acquired for shares by **Mears**, a leading social housing repairs and maintenance provider listed on the Main Market of the London Stock Exchange. **The Medical House** was also taken over for cash but disappointedly at half our original book cost. **Waterline**, having previously removed its quote from AIM (de-listed) was sold to private equity for cash, whilst both **Cellcast Group** and **The Real Good Food Company** were disposed of having been poor investments. Rare liquidity allowed us to realise some profits out of the largest holding, **ANS Group**. Since the year end **Glisten** has been acquired by the Finnish company Raiso for cash proceeds of £50,260. A schedule of disposals during the year is shown on page 11.

### Bonds and other investments

A recovery in the corporate bond market saw a considerable improvement in the value of the **Ulster Bank Bond** (part of Royal Bank of Scotland). Although the bond has risen in capital value by a further 15% since your company's year end, they still offer an attractive yield of 11.3%. The two hedge funds, **Bluecrest Allblue** and **Goldman Sachs Dynamic Opportunities**, both show exceptionally strong performances – not something we would expect to be repeated to the same degree this year.

### Investment strategy

Since your Company's year end the Scheme of Arrangements with Pennine AIM VCT 5 plc and Pennine AIM VCT 6 plc has completed and a wider investment policy adopted. Over time it is expected there will be a greater level of unquoted investments in the portfolio, particularly investments into yielding loan notes and where possible with a charge over assets, this should increase the overall income produced by the Company and help support future dividend distributions. This strategy of partially moving away from a dependence on AIM should also provide a reduced volatility in the performance of the fund.

### Outlook

The easy part of the equity market recovery looks to be behind us at last. Last year was a period when share prices rose relatively indiscriminately from an oversold position. An element of investor fear has returned with uncertainty about the strength, sustainability and speed of economic recovery. This has made investors more prudent and, as a consequence, show a greater degree of discrimination in stock selection. This should favour companies with sound fundamentals, particularly those not over geared, but with strong management and able to grow profits in a low growth economic environment.

The new wider investment policy will be implemented against this cautious investment outlook. This is expected over time to allow for a more predictable level of dividends to be paid to Shareholders with capital growth achieved as and when expectations of more soundly based economic growth is anticipated.

### Downing Corporate Finance Limited

19 July 2010

## REVIEW OF INVESTMENTS AT 31 MARCH 2010

### Portfolio of investments

The following investments, all of which are incorporated in England and Wales, were held at 31 March 2010:

	Cost £'000	Valuation £'000	Valuation movement in year £'000	% of portfolio by value	Investments by other funds <sup>1</sup>			
					PA	P2	P5	P6
<b>Top ten venture capital investments (by value)</b>								
ANS Group plc **	201	515	56	10.9%				
Doubletake Studios Limited *	250	500	250	10.5%			•	•
Ludorum plc	240	354	105	7.5%				
Cadbury House Holdings Limited *	319	346	27	7.3%	•	•	•	•
Connaught plc ***	27	271	(60)	5.7%	•			
Printing.com plc	179	233	78	4.9%				
Atlantic Global plc	310	211	(37)	4.4%				
Mears Group plc ***	204	208	4	4.4%	•	•		
Hoole Hall Spa and Leisure Limited *	120	120	-	2.5%	•	•		•
Deltex Medical Group plc	233	107	23	2.3%				
	<u>2,083</u>	<u>2,865</u>	<u>446</u>	<u>60.4%</u>				
<b>Other venture capital investments</b>								
Spice plc ***	256	107	(94)	2.2%	•	•	•	
Huveaux plc	284	102	61	2.1%	•	•		
Tristel plc	80	94	14	2.0%	•	•		•
Keycom plc **	408	81	12	1.7%	•	•		•
Neutrahealth plc	173	78	29	1.7%	•	•	•	
Straight plc	72	54	29	1.1%	•	•		
Financial News Publishing Limited *	50	50	-	1.1%	•	•		
Glisten plc	84	49	24	1.0%		•		
Richoux Group plc	250	35	-	0.7%			•	
Aortech International plc	569	28	3	0.6%				
Quadnetics Group plc	34	20	7	0.4%	•	•		
1 <sup>st</sup> Dental Laboratories plc	200	16	(10)	0.4%	•	•		
Media Square plc	118	8	5	0.2%	•	•		
Camaxys plc *	223	-	-	-				
Chariot (UK) Limited *	125	-	-	-	•	•	•	
Clerkenwell Ventures plc	18	-	(9)	-	•	•	•	•
Coffee Republic plc	713	-	(13)	-				
Top Ten Holdings plc	399	-	(1)	-				
	<u>4,056</u>	<u>722</u>	<u>57</u>	<u>15.2%</u>				
<b>Bonds</b>								
Ulster Bank (IRE) 11.75% Subord	558	317	72	6.7%				
<b>Other investments</b>								
Bluecrest Allblue Fund LD	144	227	59	4.8%				
Goldman Sachs Dynamic Opp. LD	207	186	56	3.9%				
	<u>351</u>	<u>413</u>	<u>115</u>	<u>8.7%</u>				
<b>Total investments</b>	<u><u>7,048</u></u>	<u><u>4,317</u></u>	<u><u>690</u></u>	<u><u>91.0%</u></u>				
<b>Cash at bank and in hand</b>		<u><u>425</u></u>		<u><u>9.0%</u></u>				
		<u><u>4,742</u></u>		<u><u>100.0%</u></u>				

All venture capital investments are listed on AIM unless otherwise stated

\* Unlisted                      \*\* Quoted on the PLUS market                      \*\*\* Quoted on London Stock Exchange full list

<sup>1</sup> Investments made by other funds also managed by Rathbone Investment Management Limited as at 31 March 2010.

PA Pennine AIM VCT plc (now renamed Downing Distribution VCT 2 plc)  
P5 Pennine AIM VCT 5 plc    P6 Pennine AIM VCT 6 plc  
P2 Pennine Downing AIM VCT 2 plc

## REVIEW OF INVESTMENTS (continued)

### Investment Movements for the year ended 31 March 2010

#### ADDITIONS

	Total £'000
<b>New investment</b>	
Tristel plc	80
<b>Follow on Investments</b>	
Ludorum plc	201
Sundry investments	1
	<u>202</u>
<b>Unlisted investments</b>	
Financial News Publishing Limited	50
Hoole Hall Spa and Leisure Limited	20
	<u>70</u>
<b>Restructuring</b>	
Cadbury House Holdings Limited	319
Mears Group plc	204
	<u>523</u>
Total additions	<u><u>875</u></u>

#### DISPOSALS

	Cost £'000	MV at 01/04/09* £'000	Proceeds £'000	Profit/ (loss) vs cost £'000	Realised gain/(loss) £'000
<b>Ordinary Share Pool</b>					
<i>Restructuring</i>					
Cadbury House Limited	319	319	319	-	-
Supporta plc	250	99	204	(46)	105
<i>Disposals</i>					
ANS Group plc	51	114	127	76	13
Cellcast Group plc	194	2	6	(188)	4
Connaught plc	3	31	38	35	7
Ludorum plc	1	1	2	1	1
The Medical House plc	223	58	112	(111)	54
The Real Good Food Company plc	90	2	4	(86)	2
Waterline plc	243	5	65	(178)	60
<i>Liquidation/dissolutions and administrations</i>					
Aero Inventory plc – in administration	115	70	-	(115)	(70)
AT Communications plc – in administration	178	57	-	(178)	(57)
Dipford Group plc – dissolved	136	-	-	(136)	-
Hill Station plc – in administration	664	-	-	(664)	-
Micap plc – in administration	299	-	-	(299)	-
Real Affinity plc – dissolved	175	-	-	(175)	-
Sanastro Limited – in liquidation	200	36	-	(200)	(36)
<i>Other investments</i>					
Barclays Bank plc GAM Diversity Tracker	435	372	372	(63)	-
Bluecrest Allblue Fund LD	52	60	79	27	19
	<u>3,628</u>	<u>1,226</u>	<u>1,328</u>	<u>(2,300)</u>	<u>102</u>

\* Adjusted for purchases in the year

## REVIEW OF INVESTMENTS (continued)

Further details of the top ten investments at 31 March 2010 (across the two portfolios) are as follows:

### ANS Group plc



Cost:		£201,000	Valuation at 31/03/10:	£515,000
Investment comprises:			Valuation at 31/03/09:	£573,000
Equity shares:		£201,000	Valuation method:	Bid price
Audited accounts:	31/03/09	31/03/08	Dividend income:	£16,000
Turnover:	£12 m	£10 m		
Profit before tax:	£1.4 m	£1.4 m	Proportion of capital held:	3.3%
Net assets:	£2.8 m	£2.2 m		

ANS Group is a technology solutions specialist in the provision of hardware, software and managed services. As one of only a few companies to hold top-level partnerships with VMware, Cisco and NetApp, ANS Group continues to deliver its new 'Infrastructure 3.0' offering which is set to transform the future of IT networks, using next generation technology to streamline and unify the infrastructure. In April 2010 the company won a major contract to engage with Tameside Hospital NHS Foundation Trust to implement its state-of-the-art converged IT infrastructure at its hospital site.

[www.ansgroup.co.uk](http://www.ansgroup.co.uk)

### Doubletake Studios Limited



Cost:		£250,000	Valuation at 31/03/10:	£500,000
Investment comprises:			Valuation at 31/03/09:	£225,000
Equity shares:		£25,000	Valuation method:	Earnings multiple
70% convertible loan note:		£225,000	Valuation method:	Earnings multiple
Audited accounts:	31/12/08	31/12/07	Dividend income:	£Nil
Turnover:	£10 m	£5.6 m	Loan note income:	£16,000
Profit before tax:	£0.6 m	£0.1 m	Proportion of capital held:	1.2%
Net assets/ (liabilities):	£1.5 m	(£0.7 m)	Diluted equity:	15.7%

DoubleTake is a leading photographic business, offering luxury photo shoot experiences. The company has photography studios in Manchester, Southampton and London (based in Farringdon, Pimlico and Clerkenwell). The newest addition is a 10 studio complex which opened in Birmingham in 2010. The 2013 convertible loan note is into ordinary shares at the rate of one ordinary share for each 3.5p of loan note held.

[www.doubletake-uk.com](http://www.doubletake-uk.com)

### Ludorum plc



Cost:		£240,000	Valuation at 31/03/10:	£354,000
Investment comprises:			Valuation at 31/03/09:	£50,000
Equity shares:		£40,000	Valuation method:	Bid price
9% Loan notes:		£200,000	Valuation method:	Price of recent Investment
Audited accounts:	31/12/09	31/12/08	Dividend income:	£Nil
Turnover:	£2.1 m	£0.2 m	Loan note interest:	£1,000
Loss before tax:	(£1.7 m)	(£2.4 m)	Proportion of capital held:	0.4%
Net liabilities:	(£2.4 m)	(£0.1m)	Diluted equity:	0.4%

Ludorum is a group that aims to purchase and manage intellectual property rights in the media sector. The company owns Chuggington, a children's television series about animated trains, and is the global distributor to the iconic D C Thomson & Co. Ltd property Marvo the Wonder Chicken and Dennis & Gnasher. Chuggington has now been licensed for broadcast in over 175 countries and has over 125 consumer products and home entertainment licence agreements. In February 2009 Ludorum signed an agreement to produce a further 52 episodes of Chuggington which have been pre-sold to the BBC, Super RTL (Germany), TF1 (France) and ABC (Australia).

[www.ludorumplc.com](http://www.ludorumplc.com)

## REVIEW OF INVESTMENTS (continued)

### Cadbury House Holdings Ltd



[www.cadburyhotelbristol.com](http://www.cadburyhotelbristol.com)

Cost:	£319,000	Valuation at 31/03/10:	£346,000
Investment comprises:		Valuation at 31/03/09:	Not held
Equity shares:	£89,000	Valuation method:	Disc. Cashflow
Convertible loan note:	£230,000	Valuation method:	Disc. Cashflow
Audited accounts:	No accounts yet published	Dividend income:	£Nil
Turnover:	N/A	Loan note income:	£Nil
Profit before tax:	N/A	Proportion of capital held:	0.5%
Net assets:	N/A	Diluted equity:	5.2%

Cadbury House offers four star accommodation, conference & banqueting facilities, a wedding venue and an award winning health club and spa. Cadbury House is located close to the M5 motorway, Bristol International Airport and Bristol city centre. The 2013 loan note has a zero rate coupon and is convertible at any time into ordinary shares at the rate of one ordinary share for each £1 of loan note held.

### Connaught plc



[www.connaught.plc.uk](http://www.connaught.plc.uk)

Cost:	£27,000	Valuation at 31/03/10:	£271,000	
Investment comprises:		Valuation at 31/03/09:	£362,000	
Equity shares:	£27,000	Valuation method:	Bid price	
Audited accounts:	31/08/09	31/08/08	Dividend income:	£7,000
Turnover:	£660 m	£553 m	Proportion of capital held:	0.1%
Profit before tax:	£27 m	£22 m		
Net assets:	£167 m	£127 m		

Connaught is an integrated service provider operating in the social housing, environmental, public sector and compliance markets. In July, the Board revised expectations for revenue and earnings for the current and next financial year to reflect caution over delays and reductions affecting certain capital projects within the Social Housing division. The current order book stands at £2.6 billion with a bid pipeline at £5.3 billion.

### Printing.com plc



[www.printing.com](http://www.printing.com)

Cost:	£179,000	Valuation at 31/03/10:	£233,000	
Investment comprises:		Valuation at 31/03/09:	£155,000	
Equity shares:	£179,000	Valuation method:	Bid price	
Audited accounts:	31/03/09	31/03/08	Dividend income:	£36,000
Turnover:	£14 m	£13 m	Proportion of capital held:	1.6%
Profit before tax:	£2.1 m	£2.4 m		
Net assets:	£7.1 m	£7.1 m		

Printing.com is a printing company that utilises the franchise and online model. Trading conditions have remained challenging over the period to 31 March 2010. They have 288 stores including operations in the UK and Ireland; they have master licence agreements in New Zealand and France, and the US partners are currently trying to establish a presence within North Florida and the State of Georgia.

### Atlantic Global plc



[www.atlantic-global.co.uk](http://www.atlantic-global.co.uk)

Cost:	£310,000	Valuation at 31/03/10:	£211,000	
Investment comprises:		Valuation at 31/03/09:	£248,000	
Equity shares:	£310,000	Valuation method:	Bid price	
Audited accounts:	31/12/09	31/12/08	Dividend income:	£5,000
Turnover:	£1.4 m	£2.2 m	Proportion of capital held:	5.5%
(Loss)/profit before tax:	(£0.1 m)	£0.3 m		
Net assets:	£4.9 m	£5.2 m		

Atlantic Global is a specialist provider of integrated business and resource management applications which range from simple timesheet and expense planning up to project portfolio management. Their client base includes Aviva, Pfizer, Barclays Bank, Virgin, Capita and GlaxoSmithKline.



## REVIEW OF INVESTMENTS (continued)

### Mears Group plc



Cost:		£204,000	Valuation at 31/03/10:	£208,000
Investment comprises:			Valuation at 31/03/09:	Not held
Equity shares:		£204,000	Valuation method:	Bid price
Audited accounts:	31/12/09	31/12/08	Dividend income:	£Nil
Turnover:	£470 m	£420 m		
Profit before tax:	£18 m	£16 m	Proportion of capital held:	0.1%
Net assets:	£106 m	£96 m		

[www.mearsgroup.co.uk](http://www.mearsgroup.co.uk)

Mears is a leading social housing repairs and maintenance service provider to Local Authorities and Registered Social Housing Landlords in the UK. In February 2010 they acquired Supporta and now have a leading position in the UK Local Authorities' outsourced domiciliary care market, providing personal care services to people in their own homes. Since the year ended 31 December 2009 the company has announced contract wins of over £500 million in Social Housing, a bid pipeline in excess of £3 billion and an order book of £2.5 billion.

### Hoole Hall Spa & Leisure Limited



Cost:		£120,000	Valuation at 31/03/10:	£120,000
Investment comprises:			Valuation at 31/03/09:	£100,000
Equity shares:		£26,000	Valuation method:	Price of recent Investment
Convertible loan note:		£94,000		
Abbreviated audited accounts:	First year: 30/11/08		Dividend income:	£Nil
Turnover:	Unpublished information		Loan note interest:	£Nil
Profit before tax:	Unpublished information		Proportion of capital held:	0.9%
Net assets:	£2.3 m		Diluted equity:	2.8%

[www.hoolehall.com](http://www.hoolehall.com)

The Spa opened on 2 November 2009. The 25,000 sq ft investment on three levels built within the grounds of the Doubletree by Hilton, Chester, consists of 11 treatment rooms, sauna, steam room, two pools, fitness suite, studio, a bar and a restaurant. The loan note is convertible into 'A' ordinary shares at the rate of one share per £1 loan note held either on sale, flotation or after a period of five years.

### Deltex Medical Group plc



Cost:		£233,000	Valuation at 31/03/10:	£107,000
Investment comprises:			Valuation at 31/03/09:	£84,000
Equity shares:		£233,000	Valuation method:	Bid price
Audited accounts:	31/12/09	31/12/08	Dividend income:	£Nil
Turnover:	£5.6 m	£5.2 m		
Loss before tax:	(£2.0 m)	(£2.6 m)	Proportion of capital held:	0.7%
Net assets:	£1.8 m	£1.0 m		

[www.deltexmedical.com](http://www.deltexmedical.com)

Deltex Medical engages in the manufacture and marketing of cardiac flow monitoring devices. Its products include the CardioQ monitor which is used on patients undergoing surgery and on critically ill patients to identify and monitor the heart's performance in intensive care. The performance of the system has been validated through independently conducted, randomised controlled clinical trials and is being translated into routine clinical practice in leading hospitals around the world. The company now has over 2,000 of their CardioQ-ODM machines in hospitals worldwide, and have signed distribution agreements in approximately 30 countries.

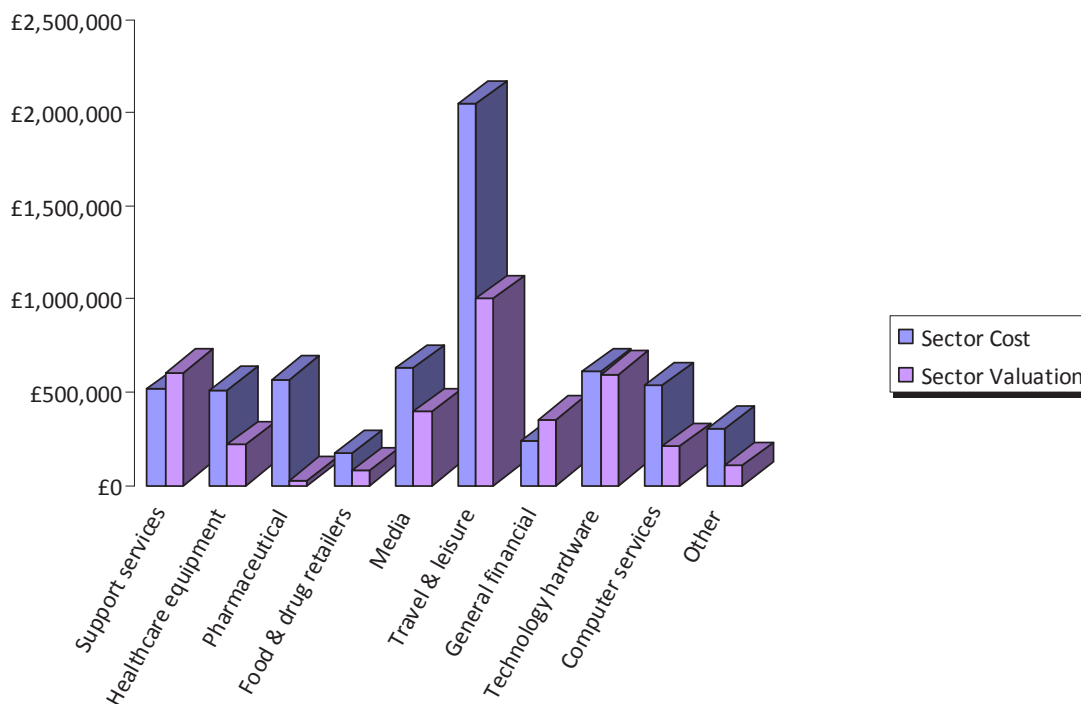
## REVIEW OF INVESTMENTS (continued)

### 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.

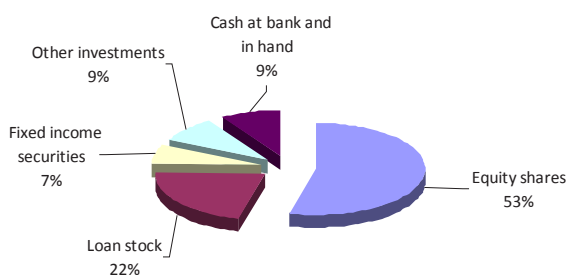
### Analysis of investments by commercial sector

The split of the venture capital investment portfolio by commercial sector (by cost and by value at 31 March 2010) is as follows:



### Analysis of investments by nature of instrument

The following chart summarises the Company's investment portfolio by the nature of instrument held (by value at 31 March 2010):



### Portfolio balance

At 31 March 2010, the Company assets employed were broadly in line with the targets within the investment policy. These are summarised as follows:

Type of Investment (by value, according to HMRC rules)	Actual	Target
VCT qualifying investments	87.1%	Minimum 70%
Other investments	8.3%	-
Fixed income securities	4.6%	Maximum 30%
Cash at bank and in hand	-	-
Total	100.0%	100%

## REPORT OF THE DIRECTORS

The Directors present the Annual Report and Accounts of the Company for the year ended 31 March 2010.

The Company changed its name from The AIM Distribution Trust plc to Downing Distribution VCT 1 plc on 26 March 2010.

### Principal activity and status

The Directors initially obtained provisional approval for the Company to act as a venture capital trust from HM Revenue and Customs and have continued to meet the standards set out by the Revenue.

The Company revoked its status as an investment company in 2000. 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

At the year end, the investment portfolio had risen in value by £690,000, with realisations thereon recognising gains of £102,000.

Additionally, the total running costs of the Company exceeded revenue income arising from the portfolio investments by £115,000. This takes into account the reduction in the Manager's fee by £5,000 as a result of the operation of the 5.0% cap on annual expenses. The total expense ratio at the year end, compared to net assets before taking account of the expense cap was 5.3% (2009: 5.5%), and thereafter was 5.2% (2009: 5.5%).

On 1 April 2010, the mergers with Pennine AIM VCT 5 plc and Pennine AIM VCT 6 plc completed. Further details of the new portfolio and balance sheet are shown on pages 6 to 7.

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

### Share capital

During the year, the Company had only one class of shares in issue, being Ordinary Shares of 25p each.

In accordance with the Company's previous reported policy, no shares were repurchased during the year for cancellation.

At the year end the Company had 13,140,436 Ordinary Shares of 25p each in issue. There were no other share classes in issue at the year end.

Upon completion of the Scheme the ordinary shares of 25p each were converted into ordinary shares of 1p each ("New Ordinary Shares"). The Company also issued 7,089 New Ordinary Shares on 1 April 2010 for a total consideration of £7,500.

Following these transactions and at the date of this report the Company has 21,869,287 New Ordinary Shares of 1p each in issue.

### Results and dividends

	£'000	Per share
Return on ordinary activities after tax for the year ended 31 March 2010	<u>677</u>	5.10p
Interim dividend paid on 23 December 2009	<u>230</u>	1.75p

The Board is not proposing to pay a final dividend for the year to 31 March 2010. An interim dividend of 2.5p per share in respect of the year to 31 March 2011 will be paid on 30 September 2010.

### Performance incentive fees

Under the original agreement an incentive bonus of 18% would be paid to Rathbone Investment Management Limited of the excess of the growth in net assets over the increase in the FTSE AIM Index calculated every third anniversary. No performance fees were due for the year under review.

With effect from 1 April 2010, the performance incentive fee arrangements as noted above have been cancelled and replaced with the following arrangement with Downing Corporate Finance Limited ("Downing"):

Downing will receive an additional fee equal to 25% of the sum by which annual dividends declared by the Company exceed 3p per Share.

No fee will be payable if the following hurdle is not met:

NAV must be greater than: 100p less cumulative dividends paid since 1 January 2010 plus 3p per New Share per annum.

The performance incentive fee will be capped at 1p per Ordinary Share per annum. No fees will be payable (but can accrue) in the three years following 1 April 2010.

## REPORT OF THE DIRECTORS (continued)

### Investment policy

Under the original investment policy, the Company aimed to invest at least 70% of its funds in qualifying holdings and the remainder in non-qualifying investments.

Quantitative analyses of the investment policy are shown in the Review of Investments on pages 10 to 15 and in the VCT compliance section of this report on page 20.

Following the mergers, the investment policy of the Company is now as follows:

#### Asset allocation

The Company will seek to have a minimum of 70% of its funds invested in VCT qualifying investments, with the balance held in VCT non-qualifying investments. New funds raised under the Offer for Subscription will initially be held in VCT non-qualifying investments and will gradually be invested in VCT qualifying investments over a two to three year period.

#### VCT qualifying investments

The Company seeks to hold a portfolio of VCT qualifying investments as follows:

Investment type	Target	Maximum
Growth	40%-60%	100%
Income producing	40%-60%	100%

Growth investments will be in companies with prospects for high capital growth, predominantly focusing on:

- companies already quoted on AIM or being admitted to AIM, and
- investments in unquoted companies or PLUS-traded companies, where there are reasonable prospects of flotation or a clear exit strategy.

Income producing investments will generally be in unquoted businesses (although this may include some quoted businesses), with a preference for companies which own substantial assets. These investments are likely to be structured such that they comprise significant levels of loan stock and/or preference shares.

Some investments may exhibit features of both of the above categories.

#### VCT non-qualifying investments

The funds not employed in VCT qualifying investments (20% to 30% of total funds) may be invested in a variety of investments which may include:

- Fixed income securities
- Hedge funds
- Non-qualifying quoted investments
- Pooled funds
- Secured loans
- Structured products

**Fixed income securities** will consist of bonds issued by the UK Government, major companies and institutions, liquidity funds, fixed deposits or similar securities and will have credit ratings of not less than A minus (Standard & Poor's rated)/A3 (Moody's rated).

**Hedge funds** will be reduced risk "funds of funds" hedge funds.

**VCT non-qualifying quoted investments** will typically be in quoted companies where the holdings can be traded and in companies in which the Investment Manager has detailed knowledge as a result of VCT qualifying investments made previously.

**Pooled funds** including those typically investing in equities, bonds and property.

**Secured loans** will be secured on assets held by the borrower.

**Structured products** will be investment products which provide returns based on the performance of the FTSE 100 or similar indices and use derivatives to provide some level of capital protection.

The maximum exposure to any one counterparty will not exceed 15% of the fund at the time of investment.

The allocation between asset types in the VCT non-qualifying portfolio will vary depending upon opportunities that arise, with any one asset class having a maximum exposure of 100% of the VCT non-qualifying portfolio.

## REPORT OF THE DIRECTORS (continued)

### *Risk diversification*

The Directors will control the overall risk of the Company. The Investment Manager will ensure the Company has exposure to a diversified range of VCT qualifying investments from different sectors and generally no more than 15% of the Company's funds in any one company or any one issue of fixed income securities (except UK Government gilts or deposit accounts with UK clearing banks).

### *Borrowing policy*

It is not the Company's intention to have any borrowings. The Company does, however, have the ability to borrow a sum equal to no more than the aggregate of the nominal capital of the Company (being issued and paid up) plus the amounts standing to the credit of the consolidated reserves of the Company.

At 31 March 2010, the maximum amount of borrowings allowed, without the previous sanction at a General Meeting, stood at £4.9 million. There are no plans to utilise this ability at the current time.

### Further Investment Restrictions

#### *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);
2. At least 30% of the Company's qualifying investments (by value) are held in "eligible shares" ("eligible shares" generally being ordinary share capital);
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;
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; and
7. A maximum unit size of £1 million in each VCT qualifying investment (per tax year).

### *Listing rules*

In accordance with the Listing Rules:

- (i) the Company may not invest more than 10%, in aggregate, of the value of the total assets of the Company at the time an investment is made in other listed closed-ended investment funds except listed closed-ended investment funds which have published investment policies which permit them to invest no more than 15% of their total assets in other listed closed-ended investment funds;
- (ii) the Company must not conduct any trading activity which is significant in the context of its group as a whole; and
- (iii) the Company must, at all times, invest and manage its assets in a way which is consistent with its object of spreading investment risk and in accordance with its published investment policy set out in this document. This investment policy is in line with Chapter 15 of the Listing Rules and Part 6 ITA.

### **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.

### **Investment manager**

Rathbone Investment Management Limited ("Rathbones") provided investment management services to the Company for an annual fee of 1.5% of net assets of the Company at the relevant valuation date. Rathbones was originally appointed as investment manager when the Company was launched and their appointment was terminated on 1 April 2010 following completion of the mergers.

Downing has been appointed in its place for an annual fee of 1.8% of the enlarged Company's net asset value, with two of Rathbones' key VCT investment executives having joined Downing on completion of the mergers.

In the opinion of the Directors, the appointment of Downing as investment manager is in the best interest of the Shareholders as a whole, and will provide continuity of management in respect of the existing investments (through the Rathbones executives that have joined Downing) as well as bringing in additional expertise in the unquoted sector which will allow the Company to benefit from its revised broadened investment policy.

## REPORT OF THE DIRECTORS (continued)

### Administration manager

Downing Management Services Limited provided administration services to the Company for an annual fee of £30,000 (plus VAT plus RPI). Downing Management Services Limited was appointed on 30 September 2003 and their appointment was terminated on 1 April 2010 following completion of the Scheme.

In addition to their appointment as investment manager, Downing Corporate Finance Limited is also providing administration services to the Company for a fee of £70,000 per annum RPI adjusted. It is expected that there will be continuity of the key personnel providing these administration services.

### Annual running costs cap

For the year ender review, the Company's annual running costs were capped at 5% of the net assets, calculated on a semi-annual basis, with any excess being repaid by Rathbone Investment Management Limited and Downing Management Services Limited pro-rata to their respective fees received for investment management and administration respectively. At the year end the excess amounted to £5,000 (2009: £Nil) which has since been repaid in full by both parties.

From 1 April 2010, the Annual Running Costs of the Company are capped at 3.0%, of its NAV (calculated on a semi-annual basis) for a period of two years and six months following completion of the Scheme. Thereafter, such costs will be capped at 3.5% (including irrecoverable VAT), of its NAV. Any excess running costs above the caps will be paid by Downing.

Annual Running Costs are costs incurred by the Company in the ordinary course of its business and include, *inter alia*, Directors' fees, fees for audit and taxation advice, registrar's fees, costs of communicating with Shareholders, annual trail commission and all the annual fees payable to the Company's fund manager and administrators. Costs incurred on abortive investment proposals are the responsibility of the Investment Manager. It is intended that fees payable by the Company to the Investment Manager will be allocated at least 25% to revenue and up to 75% to capital. This allocation may be reviewed in the future as the focus of the portfolio changes.

### Directors

The Directors of the Company during the year and their beneficial interests in the issued Ordinary Shares of the Company at 1 April 2009 and 31 March 2010 were as follows:

#### At 1 April 2009 and 31 March 2010

	Ordinary Shares of 25p each
Christopher Powell	-
Aubrey Brocklebank	15,001
Stuart Goldsmith	20,000
Roger Jeynes	79,855

Christopher Powell, who replaced Aubrey Brocklebank as Chairman of the Company on 1 April 2010, is to retire at the forthcoming Annual General Meeting ("AGM") and, being eligible, is offering himself for re-election. The remainder of the Board feels that he has made valuable contributions during the term of his appointment and remains committed to his role. The Board therefore recommends to Shareholders to re-elect him at the AGM.

Michael Cunningham was appointed as a Director, and is offering himself for re-election at the forthcoming AGM. Following completion of the mergers, the Board and their shareholdings in the Company were as follows:

#### At the date of this report

	Ordinary Shares of 1p each
Christopher Powell	4,157
Aubrey Brocklebank	7,332
Michael Cunningham	Nil
Stuart Goldsmith	11,168
Roger Jeynes	36,268

Each of the Directors has entered into an agreement for services whereby he is required to devote such time to the affairs of the Company as the Board reasonably requires consistent with his role as a non-executive Director, and is subject to a three month termination notice on either side. Appointments of new Directors to the Board are considered by all existing Directors as, and when, required.

The Company provides Directors' and Officers' liability insurance, giving appropriate cover for legal action brought against its Directors, and has also agreed to indemnify Directors in circumstances where they are not considered to be culpable. The indemnity, which is a qualifying third party indemnity provision for the purpose of the Companies Act, is for the benefit of all of the Company's current Directors.

## REPORT OF THE DIRECTORS (continued)

### VCT compliance

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

A summary of the VCT Regulations is included in the Company’s Investment Policy as shown on page 18. Compliance with the main VCT regulations at 31 March 2010 and the period then ended is summarised as follows:

1. 70% of its investments in qualifying companies (Company as a whole)	87.1%
2. At least 30% of the Company’s qualifying investments in “eligible shares”	89.4%
3. At least 10% of each investment in a qualifying company held in “eligible shares”	Complied
4. No investment constitutes more than 15% of the Company’s portfolio	Complied
5. Income for the year ended 31 March 2010 is derived wholly or mainly from shares and securities	97.4%
6. For the year ended 31 March 2010, no more than 15% of the income from shares and securities is retained (after taking into account paid and proposed Revenue Dividends in respect of the year under review)	Revenue loss thereby complied
7. A maximum unit size of £1 million in each VCT qualifying investment (per tax year).	Complied

### 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 (2009: Nil).

### Key performance indicators

The main key performance indicators for the Company are the Venture Capital Trust Regulations as shown in the table above. The Manager, together with PwC, reviews compliance with the regulations monthly, and the Board reviews the position at the quarterly board meetings.

At each Board meeting, the Directors consider a number of performance measures to assess the Company’s success in meeting its investment policy (as shown on pages 17 and 18). The Board believes the Company’s key performance indicators, for comparison against similar VCTs, are Net Asset Value Total Return (NAV plus cumulative dividends paid to date) and dividends per share (see page 2).

### Principal risks and uncertainties

The principal financial risks faced by the Company, which include interest rate, market price, credit and liquidity risks, are summarised within note 18 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 UK Listing Authority Listing Rules 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 Managers which monitor 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 period.

### Substantial interests

As at 31 March 2010, and at the date of this report, the Company was not aware of any beneficial interest exceeding 3 per cent of the issued share capital.

### Auditor

A resolution to re-appoint Baker Tilly UK Audit LLP as the Company’s auditor will be proposed at the forthcoming AGM.

## REPORT OF THE DIRECTORS (continued)

### Annual General Meeting

The AGM will be held at 10 Lower Grosvenor Place, London, SW1W 0EN at 11 am on 23 September 2010. The Notice of the AGM and Form of Proxy are at the end of this document.

### Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report, the Corporate Governance Statement, and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with 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. In preparing those financial statements, the Directors are required to:

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

The Directors are responsible for keeping accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements, and the Directors' Remuneration Report, comply with the requirements of 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 and Transparency Rules

Each of the Directors, whose names are listed on page 19, confirms that, to the best of each person's knowledge:

- the financial statements, prepared in accordance with United Kingdom Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Directors' Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the company together with a description of the principal risks and uncertainties that it faces.

### Electronic publication

The financial statements are published on [www.downing.co.uk](http://www.downing.co.uk), a website maintained by the Company's Manager. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

### Corporate Governance

The Company's compliance with, and departures from, the Financial Reporting Council's Combined Code on Corporate Governance June 2008 ([www.frc.org.uk](http://www.frc.org.uk)) is shown on pages 23 to 25.

### Statement as to disclosure of information to Auditor

The Directors in office at the date of the report have confirmed that, as far as they are aware, 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  
Company Number: 3150868  
Registered Office:  
Kings Scholars House  
230 Vauxhall Bridge Road  
London SW1V 1AU

19 July 2010



## DIRECTORS' REMUNERATION REPORT

The Board has prepared this report, in accordance with the requirements of Schedule 420 of the Companies Act 2006. A resolution to approve this report will be put to the members at the Annual General Meeting to be held on 23 September 2010.

### Directors' remuneration policy

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

- (i) The ordinary remuneration of the Directors (other than an executive director appointed under the Articles) shall be such amount as the Directors shall from time to time determine (provided that, unless otherwise approved by the Company in general meeting, the aggregate of the ordinary remuneration of such Directors shall not exceed £75,000 per year, to be divided among them in such proportion and manner as the Directors may determine). The Directors shall also be paid by the Company all travelling, hotel and other expenses they may incur in attending meetings of the Directors or general meetings or otherwise in connection with the discharge of their duties.
- (ii) Any Director who, by request of the Directors, performs special services or goes or resides abroad for any purposes of the Company may be paid such extra remuneration as the Directors may determine.
- (iii) The emoluments and benefits of any executive director for his services as such shall be determined by the Directors and may be of any description, including membership of any pension or life assurance scheme for employees or their dependants or, apart from membership of any such scheme, the payment of a pension or other benefits to him or his dependants on or after retirement or death.

Directors' remuneration, as set out in the following paragraphs, is set at a level designed to reflect the time commitment and the high level of responsibility borne by the non-executive Directors and should be broadly comparable with those paid by similar companies.

### Directors' agreements

Each of the Directors on the current Board has entered into an agreement for services whereby he is required to devote such time to the affairs of the Company as the Board reasonably requires

consistent with his role as a non-executive Director. A three month rolling notice period applies.

### Directors' remuneration (audited)

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

	2010 fee £	2009 fee £
Christopher Powell	12,000	12,000
Aubrey Brocklebank	15,000	15,000
Stuart Goldsmith	12,000	12,000
Roger Jaynes	12,000	12,000
	51,000	51,000

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.

### 2010/2011 remuneration

The remuneration levels for the forthcoming year, following completion of the mergers, are expected to be at the following levels:

	Annual fee £
Christopher Powell	15,000
Aubrey Brocklebank	12,000
Michael Cunningham	10,000
Stuart Goldsmith	12,000
Roger Jaynes	12,000
	61,000

The chart shown on page 2 represents the Company's performance over the reporting periods since incorporation and compares the Net Asset Value ("NAV") Total Return of the Company (NAV plus cumulative dividends paid to date) and the Company's Share Price Total Return (share price plus cumulative dividends paid to date) against the FTSE AIM All Share Index Total Return ("AIM Index"). All series are rebased to 100 at the Company's launch date. Although it is not an ideal standard against which to assess the Company's performance, the FTSE AIM All Share Index has been chosen as it is the most appropriate of the publicly available indices.

By Order of the Board



**Grant Whitehouse**

Kings Scholars House  
230 Vauxhall Bridge Road  
London SW1V 1AU

19 July 2010

## CORPORATE GOVERNANCE STATEMENT

The Directors support the relevant principles of the Combined Code being the principles of good governance and the code of best practice.

### The Board

At the date of this report, the Company has a Board comprising of five non-executive Directors. The Chairman is Christopher Powell, who replaced Sir Aubrey Brocklebank on 1 April 2010. The Company does not have a Senior Independent Director. Biographical details of all current Board members (including the significant commitments of the Chairman) are shown on page 3.

Directors are subject to re-election at the first AGM after their appointment and by rotation thereafter. One Director retired by rotation during the year and a further director is retiring by rotation at the forthcoming AGM. Michael Cunningham, who was appointed as a director on 21 April 2010, will offer himself for re-election at the next AGM, being the first AGM since his appointment.

Full Board meetings take place quarterly and the Board meets or communicates more regularly to address specific issues. The Board has a formal schedule of matters specifically reserved for its decision which includes, but is not limited to: considering recommendations from the Manager; making decisions concerning the acquisition or disposal of investments; and reviewing, yearly, the terms of engagement of all third party advisers (including the investment manager and administration manager). All the members of the Board attended each full Board meeting held during the year.

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.

### Share capital

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 last AGM. 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 16.

### Committees to the Board

As the Company has a small Board of non-executive Directors, all Directors sit on the Nomination Committee and Remuneration Committee and all, with the exception of Michael Cunningham, sit on the Audit Committee. The Chairman of each Committee is Sir Aubrey Brocklebank. Committee meetings are held in conjunction with the Board meetings. All committees have defined terms of reference and duties.

### Board and committee meetings

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

	Board meetings attended (4 held)	Audit committee meetings attended (2 held)
Christopher Powell	4	2
Aubrey Brocklebank	4	2
Stuart Goldsmith	4	2
Roger Jeynes	4	2

Although the Nomination and Remuneration Committees did not meet specifically during the year, relevant matters were discussed as part of the negotiations on the mergers.

### Audit Committee

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

Any non-audit services provided by the Auditor (e.g. provision of corporation tax services or additional services in respect of work in relation to Schemes of Arrangement) are reviewed and approved by the Committee prior to being undertaken, to ensure that Auditor objectivity and independence is safeguarded. In addition, yearly reports are received from the Auditor confirming their independent status.

## CORPORATE GOVERNANCE STATEMENT (continued)

### Audit Committee (continued)

The Committee are satisfied with the performance of the Auditor and have seen no cause to request they step down. They therefore recommend to Shareholders that they be re-appointed as Auditor for the forthcoming year.

The Committee reviewed the internal financial controls of the Company, and recommended that, although still appropriate to the Company, they be updated. They also considered the need for an internal audit function and concluded that this function would not be an appropriate control for a Venture Capital Trust.

As the Company has had no staff, other than Directors, there are no procedures in place in respect of C3.4 of the Combined Code, relating to whistle blowing. The Audit Committee understands the Manager has whistle blowing procedures in place.

### Remuneration Committee

The Remuneration Committee meets as and when required. Details of the specific levels of remuneration to each Director are set out in the Directors' Remuneration Report on page 22 which is subject to shareholder approval.

### Nomination Committee

The Nomination Committee meets as and when required. The 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.

### 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 larger Shareholders if so requested.

In addition to the formal business of the AGM, representatives of the management team 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. Downing Management Services Limited 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 Combined 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, and are published immediately following the AGM.

The notice of the next AGM and proxy form can be found at the end of these financial statements.

The terms of reference of the Audit Committee and terms and conditions of appointment of non-executive Directors are available to Shareholders upon request.

### Financial reporting

The Directors' Statement of Responsibilities for preparing the accounts is set out in the Report of the Directors on page 21, and a statement by the Auditor about their reporting responsibilities is set out in the Independent Auditor's Report on page 26.

### 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 Combined 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. This is achieved through internal control and risk management of financial reporting. The Board reviews the perceived risks in line with relevant guidance on an annual basis and implements additional controls as appropriate.

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 the following advisers:

<i>Venture Capital Investment Management and fixed income management</i>	Rathbone Investment Management Limited
<i>Administration</i>	Downing Management Services Limited

Following completion of the Scheme, the day to day operation of the Company has been delegated to Downing.

## CORPORATE GOVERNANCE STATEMENT (continued)

### 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 page 4, the Investment Managers Report on page 8 and the Directors' Report on page 16. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are shown in the Cash Flow Statement on page 29 and the Directors' Report on page 18. In addition, notes 17 to 19 to the financial statements include 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.

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 have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.


The Directors confirm that the business is a going concern and that their assessment of the going concern position has been prepared in accordance with Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009, published by the Financial Reporting Council in October 2009.

### Compliance statement

The Listing Rules require the Board to report on compliance with the 48 Combined Code provisions throughout the accounting period. With the exception of the items outlined below, the Company has complied throughout the accounting year ended 31 March 2010 with the provisions set out in Section 1 of the Combined 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. (A5-1, D1-1, D1-2)
- b) Non-executive Directors' contracts are on three months' rolling notice following an initial three year fixed term, whereas the Cadbury recommendation is for fixed term renewable contracts. In the Directors' opinion this does not make a substantive difference to the circumstances of the Company. (A7-2, B1-6)
- c) 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. (A6-1, A7-2)
- d) The Company does not have a Senior Director or any Independent Directors as defined by the Combined Code as a result of non-executive Directors holding a place on the Board in excess of nine years and of other directorships of companies managed by the same Investment Manager. (A1-2, A3-1). The Board considers that all Directors have sufficient experience to be able to exercise proper judgement within the meaning of the Combined Code. (A3-2, A3-3). (Consequently the Board of the Remuneration and Audit Committees do not comply with B2-1 and C3-1)

By Order of the Board



### Grant Whitehouse

Secretary  
Kings Scholars House  
230 Vauxhall Bridge Road  
London SW1V 1AU

19 July 2010

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

We have audited the financial statements on pages 27 to 40. The financial reporting framework that has been applied in their preparation 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 Auditor

As more fully explained in the Directors' Responsibilities Statement on page 21, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/UKP](http://www.frc.org.uk/apb/scope/UKP).

### Opinion on the 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 2010 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the information given in the Corporate Governance Statement set out on pages 23 to 25, in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook issued by the Financial Services Authority (information about internal control and risk management systems in relation to financial reporting processes and about share capital structures) is consistent with the financial statements.

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

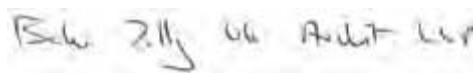
We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 25 in relation to going concern; and
- the part of the Corporate Governance Statement on page 25, relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.



**Gregory Craig Waller (Senior Statutory Auditor)**

**For and on behalf of**

**BAKER TILLY UK AUDIT LLP**, Statutory Auditor

Chartered Accountants

2 Bloomsbury Street

London WC1B 3ST

19 July 2010

## INCOME STATEMENT

### for the year ended 31 March 2010

		2010			2009		
	Note	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income	2	139	-	139	146	-	146
Gains/(losses) on investments	9	-	792	792	-	(2,121)	(2,121)
		139	792	931	146	(2,121)	(1,975)
Investment management fees	3	(17)	(51)	(68)	(22)	(68)	(90)
Other expenses	4	(186)	-	(186)	(155)	-	(155)
<b>Return on ordinary activities before tax</b>		(64)	741	677	(31)	(2,189)	(2,220)
Tax on ordinary activities	6	-	-	-	-	-	-
<b>Return attributable to equity Shareholders</b>		(64)	741	677	(31)	(2,189)	(2,220)
<b>Basic and diluted return per Ordinary Share</b>	8	(0.5p)	5.6p	5.1p	(0.2p)	(16.5p)	(16.7p)

The revenue and capital movements in the year relate to continuing operations. The total column within the Income Statement represents the profit and loss account of the Company.

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

## RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

### for the year ended 31 March 2010

	Note	2010	2009
		Total £'000	Total £'000
Opening Shareholders' funds		4,413	6,832
Purchase of own shares		-	(199)
Total recognised gains/(losses) for the year		677	(2,220)
Distributions paid	7	(230)	-
Closing Shareholders' funds		4,860	4,413

The accompanying notes form an integral part of this statement.

**BALANCE SHEET**  
as at 31 March 2010

	Note	2010 £'000	2009 £'000
<b>Fixed assets</b>			
Investments	9	<u>4,317</u>	<u>3,978</u>
<b>Current assets</b>			
Debtors	10	219	53
Cash at bank and in hand		<u>425</u>	<u>435</u>
		644	488
<b>Creditors: amounts falling due within one year</b>	11	<u>(101)</u>	<u>(53)</u>
<b>Net current assets</b>		<u>543</u>	<u>435</u>
<b>Net assets</b>		<u>4,860</u>	<u>4,413</u>
<b>Capital and reserves</b>			
Called up share capital	12	3,285	3,285
Capital redemption reserve	13	1,126	1,126
Share premium account	13	348	348
Capital reserve – realised	13	2,871	5,454
Investment holding losses	13	(2,731)	(5,825)
Revenue reserve	13	<u>(39)</u>	<u>25</u>
<b>Total equity Shareholders' funds</b>		<u>4,860</u>	<u>4,413</u>
<b>Basic and diluted net asset value per Share</b>	14	37.0p	33.6p

The financial statements on pages 27 to 40 were approved and authorised for issue by the Board of Directors on 19 July 2010 and were signed on its behalf by



**Christopher Powell**  
Chairman

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

**CASH FLOW STATEMENT**  
for the year ended 31 March 2010

	Note	2010 £'000	2009 £'000
<b>Net cash outflow from operating activities</b>	15	<u>(73)</u>	<u>(129)</u>
<b>Capital expenditure</b>			
Purchase of investments		(352)	(201)
Disposal of investments		<u>805</u>	<u>1,005</u>
<b>Net cash inflow from capital expenditure</b>		<u>453</u>	<u>804</u>
<b>Acquisitions</b>			
Costs in relation to scheme of arrangement		<u>(170)</u>	<u>-</u>
<b>Equity distributions paid</b>		<u>(230)</u>	<u>-</u>
<b>Net cash (outflow)/inflow before financing</b>		(20)	675
<b>Financing</b>			
Unallotted share issue		10	-
Purchase of own shares		<u>-</u>	<u>(199)</u>
<b>Net cash inflow/(outflow) from financing</b>		<u>10</u>	<u>(199)</u>
<b>(Decrease)/increase in cash</b>	16	<u><u>(10)</u></u>	<u><u>476</u></u>

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



## NOTES TO THE ACCOUNTS for the year ended 31 March 2010

### 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" January 2009 ("SORP").

The financial statements are prepared under the historical cost convention except for the revaluation of certain financial instruments.

The Company implements new Financial Reporting Standards ("FRS") issued by the Accounting Standards Board when required.

#### Presentation of income statement

In order to better reflect the activities of a Venture Capital Trust and in accordance with guidance issued by the Association of Investment Companies ("AIC"), supplementary information which analyses the income statement between items of a revenue and capital nature has been presented alongside the income statement. The net revenue 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

Venture capital 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 FRS26.

Listed fixed income investments, hedge funds and investments quoted on recognised stock markets are measured using bid prices in accordance with the IPEV.

In respect of unlisted instruments, fair value is established by using the IPEV. The valuation methodologies for unlisted instruments used by the IPEV to ascertain the fair value of an investment are as follows:

- Price of recent investment;
- Multiples;
- 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.

Where an investee company has gone into receivership, liquidation, or administration where there is little likelihood of a recovery, the loss on the investment, although not physically disposed of, is treated as being realised.

Gains and losses arising from changes in fair value are included in the income statement as a capital item.

It is not the Company's policy to exercise either significant or controlling influence over investee companies. Therefore the results of these companies are not incorporated into the revenue account 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 apportioned basis, by reference to the principal outstanding and at the effective interest rate applicable and only where there is reasonable certainty of collection.

## NOTES TO THE ACCOUNTS (continued)

### for the year ended 31 March 2010

#### 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 acquisition of an investment are deducted from the Capital Account.
- 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 and accordingly the investment management fee and finance costs have been allocated 25% to revenue and 75% to capital, in order to reflect the Directors' expected long-term view of the nature of the investment returns of the Company.

##### 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.

Deferred taxation 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 tax rates and law enacted or substantively enacted at the balance sheet date. 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. Deferred tax assets are only recognised if it is expected that future taxable profits will be available to utilise such assets and is recognised on a non-discounted basis.

##### Other debtors and other creditors

Other debtors (including accrued income) and other creditors are included within the accounts at amortised cost, equivalent to the fair value of the expected balance receivable/payable by the Company.

##### Share issue costs

Share issue costs have been deducted from the share premium account.

##### Segmental reporting

The Company only has one class of business and one market.

#### 2. Income

	2010 £'000	2009 £'000
<b>Income from investments</b>		
Loan stock interest	20	19
Dividend income	74	80
Listed fixed income security interest	41	41
	<u>135</u>	<u>140</u>
<b>Other income</b>		
Deposit interest	4	6
	<u>139</u>	<u>146</u>

#### 3. Investment management fees

	2010 £'000	2009 £'000
Investment management fees	<u>68</u>	<u>90</u>

The investment management fees are also subject to an annual running costs cap of 5% as discussed in note 4.

**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 31 March 2010**

**4. Other expenses**

	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Administration services	39	40
Directors' remuneration	51	51
Social security costs	1	1
Auditor's remuneration for statutory audit	18	15
Provision for doubtful income	3	-
Other expenses	74	48
	<u>186</u>	<u>155</u>

The annual running costs of the Company for the year are subject to a cap of 5% of the Company's net assets. The Investment Manager's and Administration Manager's fees have been reduced accordingly.

**5. Directors' remuneration**

Details of remuneration (excluding VAT and employer's NIC) are given in the Directors' Remuneration Report on page 22.

The Company had no employees (other than Directors) during the year (2009: none).

**6. Tax on ordinary activities**

	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
<b>a) Tax charge for year</b>		
Current year:		
UK Corporation tax (charged to the Revenue Account)	-	-
Tax credited to Capital Account	-	-
	<u>-</u>	<u>-</u>
<b>b) Factors affecting tax charge for the year</b>		
Return/(loss) on ordinary activities before taxation	<u>677</u>	<u>(2,220)</u>
Tax charge calculated on return/(loss) on ordinary activities before taxation at the applicable rate of 21.0% (2009: 21.0%)	142	(466)
Effects of:		
(Gains)/losses on investments	(166)	445
UK dividend income	(16)	(17)
Excess management fees carried forward	40	38
	<u>-</u>	<u>-</u>

- (c)** Excess management fees, which are available to be carried forward and set off against future taxable income, amounted to £3,374,000 (2009: £3,184,000). The deferred tax asset has not been recognised due to the fact that it is unlikely that the excess management fees will be set off in the foreseeable future.

Due to the Company's status as a Venture Capital Trust and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

## NOTES TO THE ACCOUNTS (continued)

### for the year ended 31 March 2010

#### 7. Dividends

	2010			2009		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>Paid in year</b>						
2010 interim – 1.75p	-	230	230	-	-	-

#### 8. Return per Share

	2010	2009
<b>Return per Share based on:</b>		
Net revenue loss for the financial year (£'000)	64	31
<b>Capital return per Share based on:</b>		
Net capital gain/(loss) for the financial year (£'000)	741	(2,189)
Weighted average number of Shares in issue	13,140,436	13,300,205

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

On 1 April 2010 the 13,140,436 Ordinary Shares of 25p each, as shown above were converted into 4,593,244 Ordinary Shares of 1p each under the Schemes. The conversion had no impact on the weighted average shares for the year (2009: equivalent weighted average shares 4,649,092). The impact on the total return per share for the year is an increase from 5.1p to 14.7p (2009 loss: 16.7p to 47.7p), split as revenue loss per share increase from 0.5p to 1.4p (2009 loss: 0.2p to 0.7p) and capital return per share increase from 5.6p to 16.1p (2009 loss: 16.5p to 47.1p). The impact of the shares issued to P5 and P6 Shareholders under the Schemes on the return per share to 31 March 2010, has not been presented on the face of the income statement due to the significant increase in resources that arose on completion of the Schemes.

#### 9. Investments

	Unlisted investments £'000	Quoted on PLUS £'000	Quoted on AIM £'000	Quoted on Main Market £'000	Total £'000
<b>Cost at 1 April 2009</b>	2,027	660	5,435	1,681	9,803
Losses at 1 April 2009	(1,317)	(18)	(4,346)	(144)	(5,825)
<b>Opening fair value at 1 April 2009</b>	710	642	1,089	1,537	3,978
<b>Movement in the year:</b>					
Purchased at cost	389	-	281	205	875
Sale - proceeds	(383)	(127)	(328)	(490)	(1,328)
- realised gains on sales in the income statement	23	13	39	27	102
Unrealised gains in the income statement	277	68	308	37	690
<b>Closing fair value at 31 March 2010</b>	1,016	596	1,389	1,316	4,317
Closing cost at 31 March 2010	1,087	609	3,955	1,397	7,048
Losses at 31 March 2010	(71)	(13)	(2,566)	(81)	(2,731)
	1,016	596	1,389	1,316	4,317

Costs incidental to the acquisitions of investments incurred during the year were minimal (2009: minimal) and minimal costs were incurred on the disposal of investments (2009: £3,000). A full schedule of additions and disposals during the year can be found within the Review of Investments on page 11.

**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 31 March 2010**

**10. Debtors**

	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Other debtors	170	-
Income tax recoverable	16	8
Prepayments and accrued income	33	45
	<u>219</u>	<u>53</u>

Included in accrued income is £Nil which is due after more than one year (2009: £2,000).

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

	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Taxation and social security	4	1
Other creditors	42	-
Accruals and deferred income	55	52
	<u>101</u>	<u>53</u>

**12. Called up share capital**

	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
<b>Authorised:</b>		
24,000,000 (2009: 24,000,000) Ordinary Shares of 25p each	<u>6,000</u>	<u>6,000</u>
<b>Issued, allotted, called up and fully-paid:</b>		
13,140,436 (2009: 13,140,436) Ordinary Shares of 25p each	<u>3,285</u>	<u>3,285</u>

The Company adopted a new set of Articles of Association on 24 March 2010, which are compliant with the Companies Act 2006. These Articles of Association have removed the authorised share capital requirement of the Company.

No shares were issued or repurchased for cancellation during the year to 31 March 2010.

## NOTES TO THE ACCOUNTS (continued)

### for the year ended 31 March 2010

#### 13. Reserves

	Capital redemption reserve £'000	Special reserve £'000	Share premium account £'000	Capital reserve - realised £'000	Investment holding losses £'000	Revenue reserve £'000
<b>At 1 April 2009</b>	1,126	-	348	5,454	(5,825)	25
Capital expenses	-	-	-	(51)	-	-
Gains on investments	-	-	-	102	690	-
Realisation of revaluations from previous years	-	-	-	(2,404)	2,404	-
Transfer between reserves	-	230	-	(230)	-	-
Dividend paid	-	(230)	-	-	-	-
Retained net revenue loss	-	-	-	-	-	(64)
<b>At 31 March 2010</b>	<b>1,126</b>	<b>-</b>	<b>348</b>	<b>2,871</b>	<b>(2,731)</b>	<b>(39)</b>

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 dividends/capital distributions.

Distributable reserves comprise the special reserve, capital reserve – realised and revenue reserve, and are reduced by investment holding losses of £3,008,000 (2009: £5,825,000) (which exclude unquoted gains of £277,000). At both year ends there were no reserves available for distribution.

#### 14. Net asset value per Share

	Shares in issue		2010 Net asset value		2009 Net asset value	
	2010	2009	Pence per Share	£'000	Pence per Share	£'000
Ordinary Shares	13,140,436	13,140,436	37.0p	<u>4,860</u>	33.6p	<u>4,413</u>

As the Company has not issued any convertible securities or share options, there is no dilutive effect on net asset value per class of share in issue. The net asset value per share disclosed therefore represents both basic and diluted net asset value per class of share in issue.

#### 15. Reconciliation of net revenue return before taxation to net cash flow from operating activities

	2010 £'000	2009 £'000
Gain/(loss) on activities before taxation	677	(2,220)
(Gains)/losses on investments	(792)	2,121
Decrease/(increase) in debtors	4	(16)
Increase/(decrease) in creditors	38	(14)
Net cash outflow from operating activities	<u>(73)</u>	<u>(129)</u>

#### 16. Change in cash

	2010 £'000	2009 £'000
Beginning of year	435	(41)
Net cash (outflow)/inflow	(10)	476
End of year	<u>425</u>	<u>435</u>

## NOTES TO THE ACCOUNTS (continued)

### for the year ended 31 March 2010

#### 17. Financial instruments and derivatives

The Company's financial instruments comprise investments in quoted companies, unlisted companies, government securities and hedge funds and are all designated as "fair value through profit or loss" assets. The main purpose of these financial instruments is to generate revenue and capital appreciation for the Company's operations. The fair value of investments is determined in accordance with the accounting policy as shown in note 1.

Loans and receivables (including cash at bank and debtors) and other financial liabilities are stated at amortised cost which the Directors consider is equivalent to fair value.

The Company has not entered into any derivative transactions.

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

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

	Level 1 £'000	Level 2 £'000	Level 3 £'000	2010 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	2009 £'000
Quoted on the Main market	1,316	-	-	1,316	1,537	-	-	1,537
Quoted on AIM	1,189	-	-	1,189	1,089	-	-	1,089
Quoted on Plus	596	-	-	596	642	-	-	642
Loan notes	-	-	1,031	1,031	-	-	590	590
Unlisted	-	-	185	185	-	-	120	120
	<u>3,101</u>	<u>-</u>	<u>1,216</u>	<u>4,317</u>	<u>3,268</u>	<u>-</u>	<u>710</u>	<u>3,978</u>

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

	£'000
Balance at 31 March 2009	710
<i>Movements in the income statement:</i>	
Unrealised gains in the income statement	277
Realised gains in the income statement	23
	<u>300</u>
Purchases at cost	589
Sales proceeds	(383)
	<u>1,216</u>
Balance at 31 March 2010	<u>1,216</u>

## NOTES TO THE ACCOUNTS (continued)

### for the year ended 31 March 2010

#### 17. Financial instruments and derivatives (continued)

##### Interest rate profile of financial assets and financial liabilities

There are three levels of interest which are attributable to the financial instruments as follows:

- “Fixed rate” assets represent investments with predetermined yield targets and comprise listed fixed interest securities and loan note investments.
- “Floating rate” assets predominantly bear interest at rates linked to Bank of England base rate and comprise cash at bank.
- “No interest rate” assets do not attract interest and comprise equity investments, hedge funds, non-interest bearing convertible loan note, loans and receivables (excluding cash at bank) and other financial liabilities.

##### Interest rate risk profile of financial assets and financial liabilities

	Average interest rate	Average period until maturity	2010 £'000	2009 £'000
Fixed rate	8.8%	1,306 days	1,098	548
Floating rate	0.5%	1,795 days *	425	435
No interest rate			3,337	3,430
			<u>4,860</u>	<u>4,413</u>

\* In respect of non-interest bearing loan notes only.

##### Financial liabilities

The Company has no financial liabilities or guarantees other than the creditors disclosed within the Balance Sheet (2009: None).

##### Currency exposure

As at 31 March 2010, the Company had no foreign currency exposures (2009: None).

##### Borrowing facilities

The Company had no committed borrowing facilities as at 31 March 2010 (2009: None).

#### 18. Principal financial risks

As a Venture Capital Trust (“VCT”), the majority of the Company’s assets are represented by financial instruments which are held as part of the investment portfolio. In order to ensure continued compliance with relevant VCT regulations and to be in a position to deliver the long term capital growth which is part of the Company’s investment objective, the Board is very much aware of the need to manage and mitigate the risks associated with the financial instruments held within the investment portfolio.

The management of these risks starts with the application of a clear investment strategy which has been developed by the Board, which comprises of experienced investment professionals. Furthermore, the Board has appointed an experienced Investment Manager to whom they have communicated the Company’s investment strategy and whose remuneration is linked to the achievement of that strategy. The Investment Manager reports regularly to the Board on performance, and to facilitate the direct Board involvement with key decisions, on whether or not to invest, disinvest and the nature, terms and the security of investments being made.

Further information about the VCT’s investment strategy is set out in the Directors’ Report on page 17.

In assessing the risk profile of its investment portfolio, the Board has identified four principal classes of financial investment which are analysed within Note 9. All such financial investments are “fair value through the profit and loss account” and are recognised as such on initial recognition.

In addition to its investment portfolio, the VCT holds cash balances with one of the main UK banks and the Investment Manager. The Directors consider that by splitting the cash balances between the bank and the Investment Manager, the risk profile associated with cash deposits is reduced to a low level, thus the carrying value in the financial statements is a close approximation of its fair value.

The Board has reviewed the Company’s financial risk profile and concluded that the current sensitivity level remains appropriate.

A review of the specific financial risks faced by the Company follows.



## NOTES TO THE ACCOUNTS (continued)

### for the year ended 31 March 2010

#### 18. Principal financial risks (continued)

##### Market risks

The key market risks to which the Company is exposed are interest rate risk and market price risk. The Company has undertaken sensitivity analysis on its financial instruments, split into the relevant component parts, taking into consideration the economic climate at the time of review in order to ascertain the appropriate risk allocation.

##### Interest rate risk

Board decisions in relation to amounts to be retained as cash deposits and held in fixed interest investments (including yields) are influenced by actual and potential changes in the Bank of England base rate. Sensitivity has been tested by the impact on the NAV over a one year period of a fall in the base rate to nil, being the largest possible fall. The impact is summarised below:

Movement in interest rate	Risk exposure £'000	Impact on Net Assets £'000	2010	Risk exposure £'000	Impact on Net Assets £'000	2009
			Impact on NAV per share Pence			Impact on NAV per share Pence
0.5% fall/1.0% fall	425	(1)	-	435	(4)	-

##### Market price risk

Market price risk arises from uncertainty about the future prices of financial instruments held in accordance with the Company's investment objectives. It represents the potential loss that the Company might suffer through holding market positions in the face of market movements. At 31 March 2010, the net unrealised loss on the quoted portfolios (Full list, AIM-quoted, PLUS-quoted and non-qualifying investments) was £2.7 million (2009: £4.5 million).

The investments the Company holds are (with the exception of hedge funds), in comparison to the Main Market, thinly traded (due to being traded on the AIM and Plus Markets) and, as such, the prices are more volatile than those of more widely traded, full list, securities. In addition, the ability of the Company to realise the investments at their carrying value may at times not be possible if there are no willing purchasers. The ability of the Company to purchase or sell investments is also constrained by the requirements set down for VCTs.

The Board considers each investment purchase to ensure that an acquisition will enable the Company to continue to have an appropriate spread of market risk and that an appropriate risk reward profile is maintained.

It is not the Company's policy to use derivative instruments to mitigate market risk, as the Board believes that the effectiveness of such instruments does not justify the cost involved.

##### Quoted investments

The Company's sensitivity to fluctuations in the share prices of its quoted investments (AIM-quoted, PLUS-quoted and Full List but excluding non-qualifying investments and related loan notes), based on current market conditions is summarised below. A 50% fall in the market price in each of the quoted investments held by the Company would have an effect as follows:

Sensitivity	Risk exposure £'000	Impact on Net Assets £'000	2010	Risk exposure £'000	Impact on Net Assets £'000	2009
			50% fall			Impact on NAV per share Pence
Share pool						
Ordinary Shares	2,571	(1,185)	(9.0)	2,298	(1,149)	(8.7)

## NOTES TO THE ACCOUNTS (continued)

### for the year ended 31 March 2010

#### 18. Principal financial risks (continued)

##### *Unlisted investments*

As the larger proportion of the Company's unlisted investments are classed as "asset backed", a fall in shares prices generally would have a lesser impact on the valuation of the unlisted portfolio. A 25% fall in the valuations of all of the unlisted investments, including loan notes, held by the Company would have an effect as follows:

	2010			2009		
Sensitivity			25% fall			25% fall
Share pool	Risk exposure £'000	Impact on Net Assets £'000	Impact on NAV per share Pence	Risk exposure £'000	Impact on Net Assets £'000	Impact on NAV per share Pence
Ordinary Shares	1,216	(304)	(2.3)	710	(176)	(1.3)

##### *Non-qualifying investments*

The Company also has exposure to variations in the price of its non-qualifying investments. Other non-qualifying investments, which include protected plans and hedge funds, are more sensitive to fluctuations in the market. A 5% fall in the valuation of these assets held by the Company would have the following impact:

	2010			2009		
Sensitivity			5% fall			5% fall
Share pool	Risk exposure £'000	Impact on Net Assets £'000	Impact on NAV per share Pence	Risk exposure £'000	Impact on Net Assets £'000	Impact on NAV per share Pence
Ordinary Shares	730	(36)	(0.3)	975	(49)	(0.4)

In each case, the impact of such changes to the return for the year would be the same as that on Net Assets and NAV per share.

##### **Credit risk**

Credit risk is the risk that the counterparty to a financial instrument is unable to discharge a commitment to the Company made under that instrument. The Company's financial assets that are exposed to credit risk are summarised as follows:

	2010 £'000	2009 £'000
<i>Fair value through profit or loss assets:</i>		
Investments in listed fixed interest investments	317	245
Investments in loan stocks	1,031	590
<i>Loans and receivables:</i>		
Cash and cash equivalents	425	435
Interest, dividends and other receivables	30	43
	<u>1,803</u>	<u>1,313</u>

The carrying values of financial assets best represent the maximum credit risk exposure at the balance sheet date.

## NOTES TO THE ACCOUNTS (continued) for the year ended 31 March 2010

### 18. Principal financial risks (continued)

Investments in loan stocks comprise a fundamental part of the Company's venture capital investments, therefore credit risk in respect of these assets is managed within the main investment management procedures.

Credit risk in respect of investments in listed fixed interest investments is minimised by investing in UK Government Stocks.

Cash is mainly held by Bank of Scotland plc, which is an Aa3 rated financial institution (Moody's) and, consequently the Directors consider that the risk profile associated with cash deposits is low. There have been no changes in fair value that are directly attributable to changes in credit risk.

Interest, dividends and other receivables are predominantly covered within the investment management procedures. There have been no changes in fair value 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 only ever has a very low level of creditors, (2010: £101,000, 2009: £53,000), has no borrowings and holds £425,000 of funds in the bank at the year end (2009: £435,000), the Board believes that the Company's exposure to liquidity risk is minimal.

### 19. Management of capital

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to continue to provide returns for Shareholders.

The requirements of the Venture Capital Trust Regulations and the fact that the Company has a policy of not having any borrowings mean that there is limited scope to manage the Company's capital structure. However, to the extent it is possible, the Company can maintain or adjust its capital structure by adjusting the amount of dividends paid to Shareholders, purchasing its own shares or issuing new shares.

As the Company has a low level of liabilities, the Board considers the Company's net assets to be its capital. The Company does not have any externally imposed capital requirements. There has been no change in the objectives, policies or processes for managing capital from the previous year.

### 20. Contingencies, guarantees and financial commitments

The Company has committed £225,000 to two new investments (2009: £Nil). There were no contingencies or guarantees of the Company at the year end.

### 21. Controlling party

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

### 22. Post balance sheet event

On 1 April 2010, the Schemes to merge with P5 and P6 completed. On that date all the assets and liabilities from P5 and P6 were transferred to the Company. The NAV of the Company following completion of the Schemes was approximately 100.0p per New Ordinary Share. A Balance Sheet and Portfolio of the Company as at 30 June 2010 is shown on pages 6 and 7.

Immediately prior to the Schemes the Company had 13,140,436 Ordinary Shares of 25p each in issue. Upon completion of the Schemes the Ordinary Shares of 25p each shares were converted into 4,593,244 ordinary shares of 1p each ("New Ordinary Shares") and the Company issued 17,268,954 New Ordinary Shares to Shareholders in P5 and P6 as consideration from the Schemes. The Company also issued 7,089 New Ordinary Shares on 1 April 2010 for a total consideration of £7,500 under an offer for subscription dated 26 February 2010. Other creditors includes an amount of £10,000 in respect of funds received in respect of the offer for shares.

Following these transactions and at the date of this report the Company has 21,869,287 New Ordinary Shares of 1p each in issue.

Other debtors, as shown within note 10, of £170,000 relate to upfront costs in respect of the Scheme, and represent a proportion of the total costs expected, which as stated in the prospectus are £350,000. These were recognised on 1 April 2010. Accruals, as shown within note 11, includes £7,000 in respect of merger costs due at the year end.

## **NOTICE OF ANNUAL GENERAL MEETING OF DOWNING DISTRIBUTION VCT 1 PLC** (Formerly The AIM Distribution Trust plc)

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of Downing Distribution VCT 1 plc will be held at 10 Lower Grosvenor Place, London, SW1W 0EN at 11am on 23 September 2010 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 2010 together with the Report of the Auditor thereon.
2. To approve the Directors' Remuneration Report.
3. To re-appoint Baker Tilly UK Audit 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.
4. To re-elect as Director, Michael Cunningham, who retires and, being eligible, offers himself for re-election.
5. To re-elect as Director, Christopher Powell, who retires by rotation and, being eligible, offers himself for re-election.

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

### ***Ordinary Resolution***

6. That the Directors be and are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 ("the Act") to exercise all the powers of the Company to allot shares or to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £250,000 during the period commencing on the passing of this resolution and expiring at the conclusion of the Company's next annual general meeting, or on the expiry of 15 months following the passing of the resolution, whichever is the later (unless previously revoked, varied or extended by the Company in a general meeting), but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require shares to be allotted or rights to be granted to subscribe for or to convert any security into shares in the Company after such expiry and all previous authorities given by the Directors in accordance with Section 551 of the Act be and are hereby revoked, provided that such revocation shall not have retrospective effect.

### ***Special Resolutions***


7. That, conditional upon the passing of the other resolutions set out in this Notice, in substitution for any existing power under Section 570 of the Act, but without prejudice to the exercise of any such power prior to the date hereof, the Directors be and are hereby empowered, during the period commencing on the passing of this special resolution and expiring at the conclusion of the Company's next annual general meeting, or on the expiry of 15 months following the passing of the resolution, whichever is the later (unless previously revoked, varied or extended by the Company in general meeting), pursuant to Section 570 of the Act, to allot equity securities (as defined in Section 560(1) of the Act) for cash pursuant to the authority given in accordance with Section 551 of the Act, pursuant to resolution 6 above, as if Section 561 of the Act did not apply to any such allotment but so that this authority shall allow the Company to make offers or agreements before the expiry and the Directors may allot equity securities in pursuance of such offers or agreements as if the powers conferred hereby had not so expired.

**NOTICE OF ANNUAL GENERAL MEETING  
OF DOWNING DISTRIBUTION VCT 1 PLC (continued)**

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 its own Ordinary Shares of 1p each (“Ordinary Shares”) in the capital of the Company provided that:
- (i) the maximum number of Ordinary Shares hereby authorised to be purchased shall not exceed 14.9% of the present issued Ordinary Share capital of the Company;
  - (ii) the minimum price which may be paid for an Ordinary Share is 1p exclusive of all expenses;
  - (iii) the maximum price which may be paid for an Ordinary Share is an amount, exclusive of all expenses, equal to 105% of the average of the middle market quotations of the Ordinary Shares 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 Ordinary Shares are contracted to be purchased;
  - (iv) the Company may validly make a contract to purchase Ordinary 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 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, if earlier, on the expiry of 15 months from the passing of this resolution.

By Order of the Board



**Grant Whitehouse**  
Secretary  
Registered Office  
Kings Scholars House  
230 Vauxhall Bridge Road  
London SW1V 1AU

19 July 2010

**Notes**

**Information regarding the Annual General Meeting, including the information required by section 311A of the Companies Act 2006 (the “Act”), is available from [www.downing.co.uk](http://www.downing.co.uk).**

## **NOTICE OF THE ANNUAL GENERAL MEETING of Downing Distribution VCT 1 plc (continued)**

### **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 appointer. 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 Management Services Limited, Kings Scholars House, 230 Vauxhall Bridge Road, London SW1V 1AU 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 Management Services Limited, Kings Scholars House, 230 Vauxhall Bridge Road, London SW1V 1AU. 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 Management Services Limited 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.

## **NOTICE OF THE ANNUAL GENERAL MEETING of Downing Distribution VCT 1 plc (continued)**

- (e) Copies of the Directors' Letters of Appointment and the Register of Directors' interests in the Ordinary Shares of the Company, will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturday and Public Holidays excluded) 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 11am on 21 September 2010 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 11am on 21 September 2010 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 9:00 am on 19 July 2010, the Company's issued share capital comprised 21,869,287 Ordinary Shares and the total number of voting rights in the Company was 21,869,287. The website referred to above will include information on the number of shares and voting rights.
- (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;
  - 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.





**DOWNING DISTRIBUTION VCT 1 PLC (Formerly The AIM Distribution Trust plc)**  
**FORM OF PROXY**

For use at the Annual General Meeting of the above-named Company to be held on 23 September 2010 at 10 Lower Grosvenor Place, London, SW1W 0EN at 11am.

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

of .....  
 being the holder(s)\* of Ordinary Shares of 1p each in 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 23 September 2010 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.

**ORDINARY BUSINESS**

1. To receive and adopt the Directors' Report and Accounts.
2. To approve the Directors' Remuneration Report.
3. To re-appoint the Auditor and authorise the Directors to determine their remuneration.
4. To re-elect Michael Cunningham as a Director.
5. To re-elect Christopher Powell as a Director.

FOR	AGAINST	WITHHELD
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**SPECIAL BUSINESS**

6. To authorise the Company to allot shares.
7. To authorise the Company to disapply pre-emption rights.
8. To authorise the Directors to make market purchases of its shares.

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Dated this ..... day of ..... 2010

Signature(s)\* ...../.....

**Notes:**

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 appointer. 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, 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 Management Services Limited, Kings Scholars House, 230 Vauxhall Bridge Road, London SW1V 1AU 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.
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.

\* Delete as appropriate



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Business Reply Service  
Licence No. RRJU-YLYH-CTJK



**Downing Distribution VCT 1 plc  
c/o Downing Management Services Limited  
Kings Scholars House  
230 Vauxhall Bridge Road  
London  
SW1V 1AU**

Second Fold

First fold



