

Downing Structured Opportunities VCT 1 PLC

Report & Accounts
for the year ended
31 March 2012

SHAREHOLDER INFORMATION

GENERAL

Selling shares

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

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

Financial calendar

25 September 2012	Annual General Meeting
28 September 2012	Payment of final dividends
November 2012	Announcement of half yearly financial results

Dividends

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

Notification of change of address

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

Share scam warning

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

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

Other information for Shareholders

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

www.downing.co.uk

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

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COMPANY INFORMATION

Registered number	6789187
Directors	Lord Flight (Chairman) Robin Chamberlayne Mark Mathias
Secretary and registered office	Grant Whitehouse 10 Lower Grosvenor Place London SW1W 0EN
Investment and Administration Manager	Downing LLP 10 Lower Grosvenor Place London SW1W 0EN Tel: 020 7416 7780 www.downing.co.uk
Structured Product Manager	Brewin Dolphin Limited 9 Colmore Row Birmingham B3 2BJ
Auditor	PKF (UK) LLP Farringdon Place 20 Farringdon Road London EC1M 3AP
VCT status advisers	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH
Registrars	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU Tel: 0871 664 0324 (calls cost 10p per minute plus network extras, lines open 8:30am to 5:30pm Monday to Friday) www.capitaregistrars.com
Solicitors	Howard Kennedy 19 Cavendish Square London W1A 2AW
Bankers	Bank of Scotland plc 33 Old Broad Street London EC2N 1HZ Royal Bank of Scotland plc London Victoria Branch 119/121 Victoria Street London SW1E 6RA

INVESTMENT OBJECTIVES

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

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

The detailed investment policy adopted to achieve the investment objectives is set out in the Report of the Directors on page 31.

DIRECTORS

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

Robin Chamberlayne is a chartered financial planner and has over 20 years' experience in the financial services industry. He formed Progressive Strategic Solutions in 1997, which provides financial advice and tax planning strategies. He is also a non-executive director of two other VCTs.

Mark Mathias founded and was chief executive of Quantum Asset Management, an award winning fund management company which specialised in risk management, derivatives and structured investments. He has an MBA from Cranfield School of Management and has extensive experience of closed ended investment funds, having also been marketing director of the investment trust business at Henderson Investors, and managing director of Finsbury Asset Management.

All the Directors are non-executive.

CHAIRMAN'S STATEMENT

Introduction

I am pleased to present the Company's Report and Accounts for the year ended 31 March 2012. It has been another busy year for the Company, with both of the established share pools continuing to build their Venture Capital portfolios and reducing the level of funds in their Structured Product portfolios. The Company also launched a new fundraising, creating the 'D' Share pool, which started investing its funds towards the end of the year.

Ordinary Share pool

The Ordinary Share pool raised funds during 2009 and will seek to start returning funds to its Shareholders in 2014. The pool now holds the majority of its funds in Venture Capital investments with approximately 15% of the funds still invested in Structured Products.

Although provisions had to be made against two Venture Capital investments, these were offset by uplifts in other investments, realised gains and investment income. The net asset value per share ("NAV") at 31 March 2012 for the Ordinary Shares was 98.7p and for the 'A' Shares was 0.1p. This represents an increase of 2.5p for a combined holding of one Ordinary Share and one 'A' Share (before taking account of dividends of 5p paid in the year). Total Return (combined NAV plus dividends paid to date) stands at 113.8p per combined share, compared to the initial cost to Shareholders who invested before 5 April 2009 of 100p or 70p net of income tax relief.

'B' Share pool

The 'B' Share pool raised funds during 2010 and has a target to start returning funds to its Shareholders in 2015. The proportion of the pool held in the Structured Product portfolio has now reduced to approximately 30% by value as the pool made a large number of Venture Capital investments over the last year.

All but one of the Structured Products produced a positive return over the year. Within the Venture Capital portfolio, two investments faced significant difficulties. The value of one has been written down and the other was reorganised after the original business went into administration, resulting in a realised loss.

The net asset value per share at 31 March 2012 for the 'B' Shares was 84.9p and for the 'C' Shares was 0.1p. This represents a decrease of 4.0p for a combined holding of one 'B' Share and one 'C' Share (before taking account of dividends of 5p paid in the year). Total Return for a combined 'B' and 'C' Share holding now stands at 95.0p, compared to the initial cost to Shareholders of 100p or 70p net of income tax relief.

'D' Share pool

The 'D' Share offer was launched in August 2011 and, by 31 March 2012, had raised gross proceeds of £4.9 million.

Several Structured Product investments were made prior to the year end. The share pool also made its first group of Venture Capital investments, investing in three companies which own nightclubs in Scotland. A fourth investment is in a company which has contracts in place to manage those nightclubs.

At 31 March 2012, the NAV of the 'D' Shares was 94.5p, which is equal to the issue price less issue costs. The cost to Shareholders of each 'D' Share is 100p or 70p net of income tax relief.

Full details for each share pool are set out in the Summary, Investment Manager's Report and Review of Investments which are presented separately for each pool on pages 5 to 28.

Dividends

It is the Company's intention to pay dividends of at least 5.0p per annum on each of the Ordinary, 'B' and 'D' Shares on a twice yearly basis.

In line with this policy, final dividends for the year ended 31 March 2012 are proposed as follows:

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

Subject to approval at the forthcoming AGM, each of the dividends will be paid on 28 September 2012 to Shareholders on the register at the close of business on 7 September 2012.

Share buybacks

The Company operates a share buyback policy whereby, subject to any liquidity and regulatory restrictions, it intends to buy in any of its own shares that become available in the market for cancellation.

The Company's current policy is to undertake any buybacks at a price equal to the latest published NAV (i.e. at nil discount). The Board expects to continue with this policy until 31 December 2012 in respect of Ordinary Shares and 'A' Shares, 31 December 2013 in respect of 'B' Shares and 'C' Shares and 30 September 2016 in respect of 'D' Shares. After these dates, the Board will review the buyback policy for the respective share classes.

No shares were purchased during the year.

A special resolution to continue this policy is proposed for the forthcoming Annual General Meeting ("AGM").

CHAIRMAN'S STATEMENT (continued)

Annual General Meeting

The Company's third AGM will be held at 10 Lower Grosvenor Place, London SW1W 0EN at 10:00 a.m. on 25 September 2012.

One item of special business, seeking approval for the Company to be able to buy its own shares as described above, will be proposed. Notice of the meeting is at the end of this document.

Outlook

The Company's three share pools are each at different stages of their lives.

It is now clear that the timing of the launch of the Ordinary Share pool was particularly favourable, with the pool benefiting from strong performance by its Structured Product portfolio. Now that the task of building the Venture Capital portfolio is complete, the Manager will continue to work closely with the investee companies over the next two years as plans are developed to achieve timely exits at target prices.

The timing of the launch of the 'B' Share pool has not allowed the pool to benefit from such strong Structured Product performance, however, this portfolio is still expected to deliver good results over the full term of its life. It is anticipated that there will be a number of further Venture Capital investments made by the pool over the coming year as this investment phase draws to completion. With three years until investment exits will be sought, close monitoring by the Manager will be essential to ensure that full value is ultimately extracted from the Venture Capital portfolio.

The 'D' Share pool fundraising is on-going and has to date raised gross proceeds of approximately £7.5 million. The Company's defensive approach to Structured Product investing has demonstrated that these investments can deliver good results even in difficult conditions. The Manager and the Board continue to believe that Structured Products offer good value and, as planned, more Structured Product investments have been made by the pool since the year end. Further Venture Capital investments have also been made and we expect to see significant further investment activity by this pool over the coming year.



Lord Flight
Chairman

5 July 2012

ORDINARY SHARE POOL SUMMARY

Financial highlights

	31 March 2012 Pence	31 March 2011 Pence
Net asset value per Ordinary Share	98.7	101.2
Net asset value per 'A' Share	0.1	0.1
Cumulative distributions	<u>15.0</u>	<u>10.0</u>
Total Return per Ordinary Share and 'A' Share	<u><u>113.8</u></u>	<u><u>111.3</u></u>

Dividend history

Period end	Date paid	Pence per share
2010 First Interim	25 September 2009	2.5
2010 Second Interim	29 January 2010	2.5
2010 Final	30 September 2010	2.5
2011 Interim	28 January 2011	2.5
2011 Final	30 September 2011	2.5
2012 Interim	27 January 2012	<u>2.5</u>
		<u><u>15.0</u></u>
Proposed 2012 Final	(Payable 28 September 2012)	<u><u>2.5</u></u>

Share prices

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

	Ordinary Shares	'A' Shares
TIDM/EPIC codes	DO10	DO1A
Latest share price (4 July 2012)	98.0p per share	5.0p per share

Structure of shareholdings

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

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

Target exit date

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

INVESTMENT MANAGER'S REPORT – ORDINARY SHARE POOL

Introduction

The Ordinary Share pool held three Structured Product investments and 18 Venture Capital investments at the year end and is now fully invested. The majority of the Ordinary Share pool's investments are performing to plan. Four Venture Capital investments have been uplifted in value as a result of strong trading performance, although two have faced some difficulties resulting in a reduction in their valuation at the year end. The pool had a net increase in value of its investments of £167,000 over the year (including Structured Products valuation increase of £84,000).

Net asset value and results

The net asset value ("NAV") per Ordinary Share at 31 March 2012 stood at 98.7p and NAV per 'A' Share at 0.1p, an increase of 2.5p for a combined holding of one Ordinary Share and one 'A' Share (after adjusting for dividends paid in the year). Total Return (combined NAV plus cumulative dividends) stood at 113.8p for a holding of one Ordinary and one 'A' Share.

The profit on ordinary activities after taxation for the year was £256,000 (2011: £356,000), comprising a revenue profit of £144,000 (2011: £46,000) and a capital profit of £112,000 (2011: £310,000).

Venture Capital investments

Investment activity

At 31 March 2012, the pool held a Venture Capital portfolio with a total valuation of £8.3 million, comprising 18 investments spread across a number of sectors. During the year, the share pool made further investments totalling £3.5 million, which were offset by divestments of £1.8 million and a net increase in value of £0.1 million.

The pool made 10 investments during the year, two of which were new qualifying investments. An overview of the largest new qualifying, or partially qualifying, investments made during the period is detailed below.

In May 2011, the pool invested £1,063,000 in Redmed Limited which owned The Annexe nightclub in Lincoln city centre. The venue, which is located close to the University of Lincoln, was completely refurbished and relaunched as "Home" in October 2011. Home operates as a large entertainment venue with a restaurant, nightclub with six themed rooms and a roof terrace all in the one site. Since opening, the business has performed well and in line with expectations.

In August 2011, a £500,000 investment was made in Ecosol Limited, which invests in commercial solar installations. The business benefits from the receipt of Feed-in Tariffs from solar energy generation.

The pool also invested further funds into existing investments as follows:

Investee company	Amount invested £'000
Domestic Solar Limited <i>Rooftop solar panel installer.</i>	500
Atlantic Dogstar Limited <i>Owns and operates a pub in Tooting, South London.</i>	356
Quadrat Catering Limited <i>Operates a Marco Pierre White restaurant in "The Cube", a mixed use building in the centre of Birmingham.</i>	317
Quadrat Spa Limited <i>Operates a spa and health club in "The Cube", a mixed use building in the centre of Birmingham.</i>	313
Bijou Wedding Venues Limited <i>Wedding venue operator.</i>	150
Commercial Street Hotel Limited <i>Operates a 52 bedroom Hotel Indigo in "The Cube", a mixed use building in the centre of Birmingham.</i>	140
Camandale Limited <i>Operates two pubs/bars in Kilmarnock, Scotland.</i>	70
Future Biogas (SF) Limited <i>A 1.4MWh self-contained biogas plant in Norfolk.</i>	69

Portfolio valuation

The majority of the Ordinary Share portfolio performed well during the year with a net valuation uplift of £83,000 recognised at the year end for the Venture Capital investments. Valuation increases arose on four investments: £234,000 in Atlantic Dogstar Limited; £109,000 in Future Biogas (SF) Limited; £69,000 in Bijou Wedding Venues Limited; and £36,000 in Westow House Limited. These increases were partially offset by a £210,000 reduction in the value of Camandale Limited and a £155,000 reduction in the value of The 3D Pub Co Limited.

Camandale Limited owns two pubs, The Riverbank and The Monkey Bar, located in Kilmarnock, Scotland. After a sustained period of poor trading, the investment partner was removed, the management contracts were terminated, and the subsidiaries were put into administration. A new management team has now been put in place and The Riverbank was purchased out of administration by a new subsidiary of Camandale in January 2012. The Monkey Bar is being marketed for sale and trade at The Riverbank is improving. The investment has been written down by £210,000.

INVESTMENT MANAGER'S REPORT – ORDINARY SHARE POOL

Portfolio valuation (continued)

A £155,000 reduction in value of The 3D Pub Co Limited was made to reflect that the business, which operates two pubs in Surrey, is operating behind plan. The business has, however, had a better start to 2012 and it is hoped that the value will recover in due course.

An uplift in value of £234,000 was recognised on Atlantic Dogstar Limited, which operates a pub based in Brixton, South London, to reflect the excellent performance of the business which is significantly surpassing its original business plan.

A £109,000 increase in the valuation of Future Biogas (SF) Limited was recognised to reflect that the biogas plant is now complete and operating at target levels. Further increases in value were recognised in Bijou Wedding Venues Limited, £69,000, and Westow House Limited, £36,000, to reflect that both businesses are performing well and in line with expectations.

In addition to Future Biogas (SF), the pool holds a number of other renewable energy investments, each of which are still valued at original cost at the year end. We believe that these have good potential to build value over the coming years.

Structured Products

The Structured Product portfolio was valued at £1.5 million as at 31 March 2012. During the year, sales and redemptions realised £1.5 million, giving an adjusted total return for the year of 4.61%. This is comfortably ahead of cash and also the FTSE 100 Index which only managed a 0.78% return with dividends reinvested. It was, however, some way behind the FT Government All Stocks Index which returned 14.53% as gilt yields carried on falling to record lows as the Eurozone crisis escalated.

Our objective with the Structured Product portfolio has always been to produce positive returns and for this reason we have tended to avoid products which have involved taking an asset allocation or directional view and have instead focused on investments such as defensive auto-callables or synthetic zeros which offer clearly defined returns that, although linked to equity markets, do not require a positive performance from the underlying index to generate a positive return.

This strategy has once again produced a positive return but, with the portfolio now focused on the repayment of capital, its duration is quite short and the levels of returns available are consequently lower than they have been in previous years.

We sold one half of the one 'directional' product we hold – the Symphony 4.85% FTSE Call Spread - to reduce counterparty exposure. This product offers 4.85 times the first 15% of the FTSE 100 index from 4,149.64 giving a maximum upside of 172.25p. This will be paid as long as the FTSE is above 4,772.09 in August 2012. The sale realised a profit of £140,700 – nearly 40% above cost. The shares are currently priced at 165.93 and are on course to repay their maximum maturity proceeds this August.

The Barclays 4 Synthetic Zero holding was reduced in May 2011 with the balance of the holding maturing in January this year. The Elders 16A roll-over shares matured in June 2011 with both holdings generating useful profits for the portfolio.

Apart from the Symphony Structured Product holding, there are two other investments left in the Structured Product portfolio. The Morgan Stanley Synthetic Zero is due to mature at 150p in March 2013 which compares with a current price of 143.30p and the Elders 29A is due to redeem in April 2013 at a price of 155.49 compared with a current price of 131p.

The short duration of the Structured Product portfolio means that it has been little impacted by the current uncertainty in markets and we may be able to take advantage of this by investing some of the surplus cash which will be left following the payment of the forthcoming dividend.

In summary, we believe that the Structured Product portfolio has delivered considerably in excess of what was expected of it at inception and should continue to produce positive returns up to the wind-up date.

Outlook

The weak UK economy is expected to continue throughout 2012 with consumer confidence likely to remain subdued. The Ordinary Share pool is now fully invested and, therefore, further investment will be limited to the reinvestment of non-qualifying loan stock disposals where good quality investment opportunities exist. The Company is focused on achieving its target returns through these challenging economic times and will seek to return funds to Ordinary Share pool investors in 2014-2015.

Downing LLP

5 July 2012

REVIEW OF INVESTMENTS - ORDINARY SHARE POOL

Portfolio of investments

The following investments were held at 31 March 2012:

	Cost £'000	Valuation £'000	Valuation movement in year £'000	% of portfolio
Structured Product investments				
Symphony Structure 3.5yr FTSE 4.85 Call Spread	355	539	52	5.2%
Elders Capital Accumulator VIII (29A)	486	524	8	5.1%
Morgan Stanley Synthetic Zero	297	473	24	4.6%
	<u>1,138</u>	<u>1,536</u>	<u>84</u>	<u>14.9%</u>
Venture Capital investments				
Redmed Limited	1,063	1,063	-	10.3%
Future Biogas (SF) Limited	909	1,018	109	9.9%
Domestic Solar Limited*	1,000	1,000	-	9.7%
Bijou Wedding Venues Limited	815	884	69	8.6%
Atlantic Dogstar Limited	572	806	234	7.8%
Quadrate Catering Limited	577	577	-	5.6%
Quadrate Spa Limited	543	543	-	5.3%
Ecosol Limited	500	500	-	4.9%
East Dulwich Tavern Limited	459	459	-	4.5%
Westow House Limited	405	441	36	4.3%
The 3D Pub Company Limited	517	362	(155)	3.5%
Mosaic Spa and Health Clubs Limited*	250	250	-	2.5%
Slopingtactic Limited*	102	102	-	1.0%
Camandale Limited*	292	82	(210)	0.8%
Chapel Street Services Limited	75	75	-	0.7%
Chapel Street Food and Beverage Limited	75	75	-	0.7%
Fenkle Street LLP**	69	69	-	0.7%
Chapel Street Hotel Limited**	3	3	-	0.0%
	<u>8,226</u>	<u>8,309</u>	<u>83</u>	<u>80.8%</u>
	<u>9,364</u>	<u>9,845</u>	<u>167</u>	<u>95.7%</u>
Cash at bank and in hand		<u>445</u>		<u>4.3%</u>
Total investments		<u>10,290</u>		<u>100.0%</u>

* partially qualifying investment

** non-qualifying investment

All Venture Capital investments are incorporated in England and Wales.

Investment movements for the year ended 31 March 2012

ADDITIONS

	£'000
Venture Capital investments	
Redmed Limited*	1,063
Domestic Solar Limited*	500
Ecosol Limited	500
Atlantic Dogstar Limited	356
Quadrate Catering Limited	317
Quadrate Spa Limited	313
Bijou Wedding Venues Limited	150
Commercial Street Hotel Limited**	140
Camandale Limited*	70
Future Biogas (SF) Limited	69
	<u>3,478</u>

REVIEW OF INVESTMENTS - ORDINARY SHARE POOL (continued)

DISPOSALS

	Cost £'000	Valuation at 31/03/11*** £'000	Proceeds £'000	Profit vs. cost £'000	Realised gain £'000
Structured Product investments					
Symphony Structure 3.5yr FTSE 4.85 Call Spread	355	488	496	141	8
Barclays 4Y Synthetic Zero	570	644	654	84	10
Elders Capital Accumulation 2 (Delayed Settlement)	259	356	362	103	6
	1,184	1,488	1,512	328	24
Venture Capital investments					
Bijou Wedding Venues Limited**	750	750	750	-	-
Future Biogas (SF) Limited**	350	350	350	-	-
Quadrate Spa Limited**	221	221	221	-	-
Quadrate Catering Limited**	248	248	248	-	-
Commercial Street Hotel Limited**	161	161	161	-	-
Camandale Limited**	55	55	55	-	-
	1,785	1,785	1,785	-	-
	2,969	3,273	3,297	328	24

* partially non-qualifying investment

** non-qualifying investment

*** adjusted for purchases during the year

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

Redmed Limited
www.homelincoln.co.uk



Cost at 31/03/12:	£1,062,500	Valuation at 31/03/12:	£1,062,500
Cost at 31/03/11:	n/a	Valuation at 31/03/11:	n/a
Date of first investment:	May 11	Valuation method:	Cost (reviewed for impairment)

Investment comprises:			
A ordinary shares:	£127,500	Proportion of equity held:	18.2%
B ordinary shares:	£127,500	Proportion of equity held:	42.5%
A loan stock:	£212,500	Proportion of loan stock held:	42.5%
B loan stock:	£595,000	Proportion of loan stock held:	42.5%

Summary financial information from statutory accounts to 30 April 2011	Turnover:	n/a*
	Operating profit:	n/a*
	Net assets:	£69,095

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

Future Biogas (SF) Limited
www.futurebiogas.com



Cost at 31/03/12:	£908,727	Valuation at 31/03/12:	£1,017,686
Cost at 31/03/11:	£1,190,000	Valuation at 31/03/11:	£1,190,000
Date of first investment:	May 10	Valuation method:	Net assets

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

Summary financial information from statutory accounts to 31 May 2011	Turnover:	n/a*
	Operating profit:	n/a*
	Net assets:	£406,757

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

REVIEW OF INVESTMENTS – ORDINARY SHARE POOL (continued)

Domestic Solar Limited



Cost at 31/03/12:	£1,000,000	Valuation at 31/03/12:	£1,000,000
Cost at 31/03/11:	£500,000	Valuation at 31/03/11:	£500,000
Date of first investment:	March 11	Valuation method:	Cost (reviewed for impairment)

Investment comprises:

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

Summary financial information from statutory accounts: None filed

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

Bijou Wedding Venues Limited www.bijouweddingvenues.co.uk



Cost at 31/03/12:	£815,000	Valuation at 31/03/12:	£883,600
Cost at 31/03/11:	£1,415,000	Valuation at 31/03/11:	£1,415,000
Date of first investment:	Sept 09	Valuation method:	Net assets

Investment comprises:

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

Summary financial information from statutory accounts to 31 December 2010	Turnover:	n/a*
	Operating profit:	n/a*
	Net assets:	£865,770

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

Atlantic Dogstar Limited www.atlanticdogstar.com



Cost at 31/03/12:	£572,000	Valuation at 31/03/12:	£806,221
Cost at 31/03/11:	£216,000	Valuation at 31/03/11:	£216,000
Date of first investment:	Sept 09	Valuation method:	Net assets

Investment comprises:

A ordinary shares:	£171,600	Proportion of equity held:	25.5%
B loan stock:	£400,400	Proportion of loan stock held:	31.4%

Summary financial information from statutory accounts to 31 December 2010	Turnover:	n/a*
	Operating profit:	n/a*
	Net assets:	£351,511

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

Quadrate Catering Limited www.mpwsteakhousebirmingham.co.uk



Cost at 31/03/12:	£576,800	Valuation at 31/03/12:	£576,800
Cost at 31/03/11:	£508,270	Valuation at 31/03/11:	£508,270
Date of first investment:	Aug 10	Valuation method:	Net assets

Investment comprises:

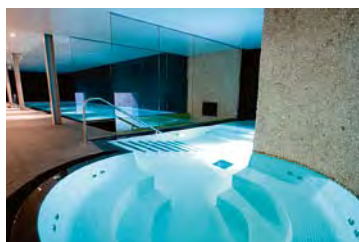
A ordinary shares:	£173,040	Proportion of equity held:	7.6%
Secured loan stock:	£403,760	Proportion of loan stock held:	15.0%

Summary financial information from statutory accounts to 31 March 2011	Turnover:	-
	Operating loss:	(£181,566)
	Net assets:	£525,463

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

REVIEW OF INVESTMENTS – ORDINARY SHARE POOL (continued)

Quadrat Spa Limited
www.theclubandspabirmingham.co.uk



Cost at 31/03/12:	£543,200	Valuation at 31/03/12:	£543,200
Cost at 31/03/11:	£450,730	Valuation at 31/03/11:	£450,730
Date of first investment:	Aug 10	Valuation method:	Net assets

Investment comprises:			
A ordinary shares:	£162,960	Proportion of equity held:	7.8%
Secured loan stock:	£380,240	Proportion of loan stock held:	14.9%

Summary financial information from statutory accounts to 31 March 2011	Turnover:	-
	Operating loss:	(£192,020)
	Net assets:	£437,911

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

Ecosol Limited
www.isis-solar.com



Cost at 31/03/12:	£500,000	Valuation at 31/03/12:	£500,000
Cost at 31/03/11:	n/a	Valuation at 31/03/11:	n/a
Date of first investment:	June 11	Valuation method:	Cost (reviewed for impairment)

Investment comprises:			
A ordinary shares:	£150,000	Proportion of equity held:	12.5%
A loan stock:	£350,000	Proportion of loan stock held:	25.0%

Summary financial information from statutory accounts: None filed

Ecosol owns a portfolio of commercial solar PV installations on UK farms and benefits from the receipt of Feed-in Tariffs (“FITs”) from electricity generated by the solar panels. The investment partner is ISIS Solar Limited who is responsible for the on-going operation and administration of the company.

East Dulwich Tavern Limited
www.eastdulwichtavern.com



Cost at 31/03/12:	£459,000	Valuation at 31/03/12:	£459,000
Cost at 31/03/11:	£459,000	Valuation at 31/03/11:	£459,000
Date of first investment:	Sept 09	Valuation method:	Net assets

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

Summary financial information from statutory accounts to 31 December 2010	Turnover:	n/a*
	Operating profit:	n/a*
	Net assets:	£591,988

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

Westow House Limited
www.westowhouse.com



Cost at 31/03/12:	£405,000	Valuation at 31/03/12:	£441,450
Cost at 31/03/11:	£405,000	Valuation at 31/03/11:	£405,000
Date of first investment:	Sept 09	Valuation method:	Net assets

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

Summary financial information from statutory accounts to 31 December 2010	Turnover:	n/a*
	Operating profit:	n/a*
	Net assets:	£468,954

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

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

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

REVIEW OF INVESTMENTS – ORDINARY SHARE POOL (continued)

Summary of loan stock interest income

	£'000
Loan stock interest receivable in the year	
Redmed Limited	73
Future Biogas (SF) Limited	51
Domestic Solar Limited	-
Bijou Wedding Venues Limited	67
Atlantic Dogstar Limited	47
Quadrate Catering Limited	-
Quadrate Spa Limited	-
Ecosol Limited	-
East Dulwich Tavern Limited	39
Westow House Limited	34
	<u>311</u>
Receivable from other investments	52
	<u>363</u>

Analysis of investments by type

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

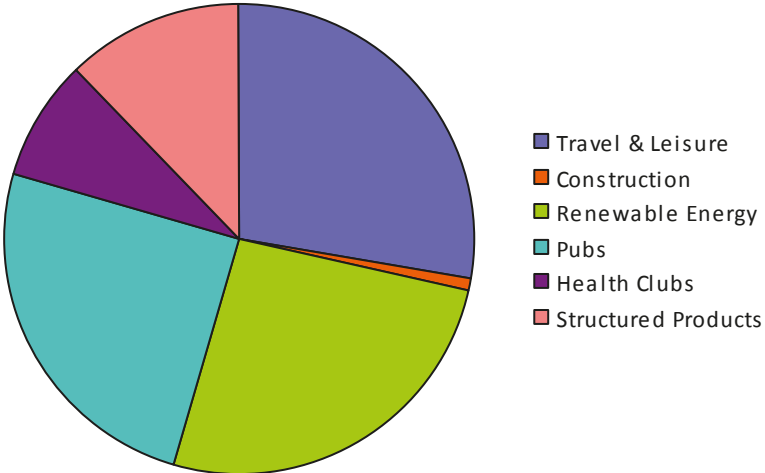
	Actual portfolio split at 31 March 2012	Target portfolio split at 31 March 2012
VCT qualifying investments		
Qualifying loan stock	46%	50%
Ordinary shares	26%	25%
Total	<u>72%</u>	<u>75%</u>
Non-qualifying investments		
Non-qualifying loan stock	9%	-
Structured Products	15%	25%
Total	<u>24%</u>	<u>25%</u>
Cash	4%	-
	<u>100%</u>	<u>100%</u>

REVIEW OF INVESTMENTS – ORDINARY SHARE POOL (continued)

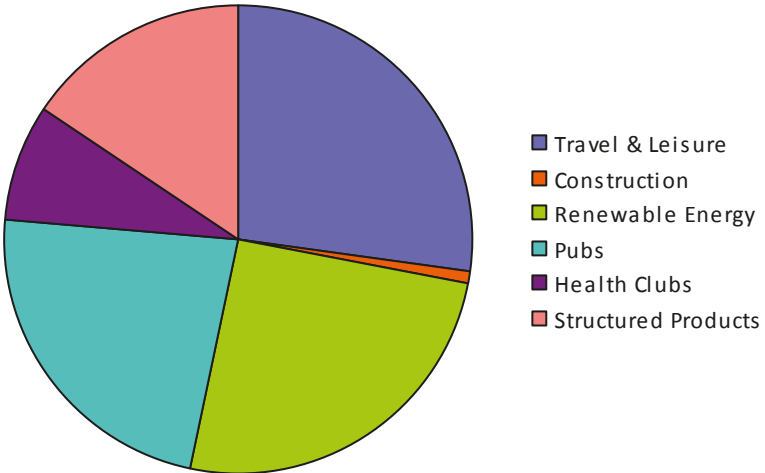
Analysis of investments by commercial sector

The split of the Ordinary Share pool investment portfolio by commercial sector (by cost and by value at 31 March 2012) is as follows:

Ordinary Share Pool
Analysis of investments by sector based on cost



Ordinary Share Pool
Analysis of investments by sector based on valuation



'B' SHARE POOL SUMMARY

Financial highlights

	31 March 2012 Pence	31 March 2011 Pence
Net asset value per 'B' Share	84.9	93.9
Net asset value per 'C' Share	0.1	0.1
Cumulative distributions	10.0	5.0
Total return per 'B' Share and 'C' Share	<u>95.0</u>	<u>99.0</u>

Dividend history

Period end	Date paid	Pence per share
2010 Final	30 Sept 2010	2.5
2011 Interim	28 Jan 2011	2.5
2011 Final	30 Sept 2011	2.5
2012 Interim	27 Jan 2012	2.5
		<u>10.0</u>
Proposed 2012 Final	(Payable 28 Sept 2012)	<u>2.5</u>

Share prices

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

	'B' Shares DO1B	'C' Shares DO1C
TIDM/EPIC codes		
Latest share price (4 July 2012)	82.0p per share	0.1p per share

Structure of shareholdings

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

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

Target exit date

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

INVESTMENT MANAGER'S REPORT- 'B' SHARE POOL

Introduction

The 'B' Share pool currently holds seven Structured Product investments and 24 Venture Capital investments and is expected to become fully invested over the course of 2012/13. Whilst most of the 'B' Share pool's investments are performing more or less to plan, two investments have faced some difficulties.

Net asset value and results

The net asset value ("NAV") per 'B' Share at 31 March 2012 stood at 84.9p and NAV per 'C' Share at 0.1p, a fall of 4.0p for a combined holding of one 'B' Share and one 'C' Share over the year after adjusting for dividends. Total Return (combined NAV plus cumulative dividends) stood at 95.0p for a combined holding.

The loss on ordinary activities after taxation for the year was £801,000, comprising a revenue loss of £133,000 and a capital loss of £668,000. Structured Products deliver their returns as capital gains and do not generally produce any investment income while they are held. This is a very tax-efficient structure for the VCT but does mean that the share pool is likely to report losses on its revenue account in its initial years, as has been the case in the year under review.

Venture Capital investments

Investment activity

At 31 March 2012 the 'B' Share pool held a Venture Capital portfolio with a valuation of £11.3 million comprising investments in 24 companies. During the year, the Company made investments totalling £9.7 million, which was partly funded by divestments of £2.6 million.

The pool made 20 Venture Capital investments during the year, 14 of which were new qualifying investments. An overview of the largest new qualifying, or partially qualifying, investments is detailed below.

In April 2011, the pool invested £1,476,000 in Future Biogas (Reepham Road) Limited which is developing a 1.5MWh self-contained biogas plant in Norfolk. This is the second anaerobic digestion plant with our investment partner, Future Biogas.

In June 2011, a £733,000 investment was made in Alpha Schools (Holdings) Limited to purchase a school in Buckinghamshire and provide working capital to the existing business. The business is performing well and further investment in additional school sites is expected in due course.

In December 2011, the 'B' Share pool invested £350,000 in Mosaic Spa and Health Club (Shrewsbury) Limited to purchase the freehold of an operating health club known as Welti. The purchase was made out of administration for £2.1 million.

In January 2012, a £750,000 investment was made in Kidspace Adventures Holdings Limited to purchase a site in Epsom, Surrey, which will be redeveloped into an indoor and outdoor children's play centre. This business also owns Kidspace Adventures Limited, which owns two indoor play centres in Croydon and Romford.

In June 2011, a £1,152,000 investment was made in Gingerbread Pre-Schools (UK) Limited to purchase two operating children's day nurseries in Liverpool and provide funding to purchase and renovate a third nursery. Unfortunately, Gingerbread experienced significant cost overruns on the renovation, together with poor performance of one of the existing sites. The investment partner, who was also the Chief Executive, was suspended and later dismissed. In the interim, further liabilities came to light, and the business went into administration in February 2012. The trading assets were subsequently purchased from the Administrator by four new companies trading under the "Liverpool Nurseries" name in which the VCT has a stake. A new manager has been appointed and the nurseries are now starting to make progress. A realised loss of £363,000 arose on the reorganisation; however most of the investment value was rolled into the new vehicles.

During the year, the pool invested £2.8 million in six qualifying solar power investments. Four investments were made in companies which install, own and manage solar panels on domestic rooftops. These include: £400,000 in Domestic Solar Limited; £500,000 in Avon Solar Energy Limited; £500,000 in Green Electricity Generation Limited; and £340,000 in Progressive Energies Limited. Two investments were made in solar companies which invest in commercial solar installations, being a £594,000 investment in Westcountry Solar Solutions Limited and a £500,000 investment in Ecossol Limited.

All six of the qualifying solar investments made during the year benefit from the receipt of Feed-in Tariffs from solar energy generation.

Portfolio valuation

The majority of the investments were all made during the year and, accordingly, were held at original cost at the year end. The £516,000 net valuation reduction at the year end arose on two investments: £572,000 decrease in value of Camandale Limited and £56,000 valuation increase in Antelope Pub Limited.

Camandale Limited owns two pubs, The Riverbank and The Monkey Bar, located in Kilmarnock, Scotland. The pubs performed very poorly and, in November 2011, the investment partner was removed as the manager and the management contracts were terminated. A new management team was put in place to manage The Riverbank and the decision was made to close The Monkey Bar and market it for sale in January 2012. A reduction in value of £572,000 was made at the 'B' Share pool's year end to reflect the closed value of The Monkey Bar and the revised view of the value of The Riverbank.

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

Portfolio valuation (continued)

As described above, Gingerbread Pre-Schools (UK) Limited went into administration in February 2012. The trading assets were sold to new companies (in which the VCT has a stake), however, the value received was not sufficient to repay the whole of the original investment and a realised loss of £363,000 was recognised.

An uplift in value of £56,000 was recognised on the Antelope Pub Limited, a pub based in Tooting, South London, to reflect that the business is performing well and in line with expectations.

As with the Ordinary Share pool, the 'B' Share pool holds a significant number of renewable energy investments each which were all valued original cost at the year end. We believe that these have good potential to build value over the coming years.

Structured Products

The Structured Product portfolio was valued at £5.5 million as at 31 March 2012. During the year, sales and redemptions realised £6.9 million although £497,000 was reinvested, giving an adjusted total return for the year of 5.02%. This is comfortably ahead of cash and also the FTSE 100 Index which only managed a 0.78% return with dividends reinvested. It was, however, some way behind the FT Government All Stocks Index which returned 14.53% as gilt yields carried on falling to record lows as the Eurozone crisis once again reared its ugly head.

Our objective with the Structured Product portfolio has always been to produce positive returns and, for this reason, we have tended to avoid products which have involved taking an asset allocation or directional view and have instead focused on investments such as defensive auto-callables or synthetic zeros which offer clearly defined returns that, although linked to equity markets, do not require a positive performance from the underlying index to generate a positive return.

This strategy has once again produced a positive return but, with the Structured Product portfolio now in its third year, much of the focus will be on moving the Venture Capital qualifying portfolio closer to completion. The Company's investment policy targets at least 75% of the pool invested in qualifying Venture Capital investments after three years which means that 30% of the portfolio can remain in non-qualifying investments such as Structured Products, subject to other cash requirements such as the payment of dividends. As a result, the pool's Structured Product portfolio is likely to see further sales and redemptions in the future rather than new investments.

As long as the FTSE 100 Index remains above 5,045, the Barclays 10% Defensive Auto-Call will realise £348,000 in July 2012 with a further £434,000 due in November 2012 from the JP Morgan product as long as the FTSE is above 5,126.

The 'B' Share pool bought the 325,000 Symphony 4.85 Call Spread product from the Ordinary Share portfolio as the return to maturity remained at attractive levels. This is due to mature in August and should release £561,438, a profit of £64,000 over book cost.

In 2013, the Elders 29A product requires a FTSE level of 5,587 to mature which will realise £1.24 million. The remaining three products have maturity dates of between April 2015 and April 2016. Two of these products are fixed life Synthetic Zeros so are likely to form part of the longer term residuary portfolio.

The Goldman Sachs product does have auto-call opportunities but these are fixed at a FTSE level of 6,180 each year until April 2016. However, in the meantime, the product pays an annual return, taxed to capital, of 6.75p as long as the FTSE 100 Index remains above 4,213.38.

The FTSE 100 Index ended the two year period to 31 March 2012 at almost the same value as that at which it started. Over the same period, the 'B' Share Structured Product portfolio recorded realised gains of £899,000 and unrealised gains of £229,000. In summary, we believe that, by employing our defensive approach to Structured Product investing, the portfolio has delivered what was expected of it and is well placed to continue generating positive returns.

Outlook

The general economic conditions in the UK are expected to continue throughout 2012 with consumer confidence likely to remain subdued. The 'B' Share pool is nearing full investment and, therefore, further investment will be limited to the reinvestment of non-qualifying loan stock disposals where good quality investment opportunities exist. The Company is focused on working closely with investee companies to ensure that its target returns are met through these challenging economic times.

Downing LLP

5 July 2012

REVIEW OF INVESTMENTS - 'B' SHARE POOL

Portfolio of investments

The following investments were held at 31 March 2012:

	Cost	Valuation	Valuation movement	% of portfolio
	£'000	£'000	in year £'000	
Structured Product investments				
Barclays 5Y Synthetic Zero	1,003	1,140	77	6.7%
Goldman Sachs 6YR Phoenix Autocall 3	1,003	1,054	(40)	6.2%
Elders Capital Accumulator VIII	970	1,048	16	6.1%
HSBC US Trade Range	752	915	94	5.3%
Symphony Structure 3.5yr FTSE 4.85 Call Spread	497	539	42	3.1%
JP Morgan 8% Defensive FTSE Autocall	356	413	21	2.4%
Barclays 6Y 10% Defensive FTSE Autocall	291	339	19	2.0%
	<u>4,872</u>	<u>5,448</u>	<u>229</u>	<u>31.8%</u>
Venture Capital investments				
Future Biogas (Reepham Road) Limited*	1,476	1,476	-	8.6%
Quadrate Catering Limited	850	850	-	5.0%
Antelope Pub Limited	750	806	56	4.7%
Quadrate Spa Limited	806	806	-	4.7%
Domestic Solar Limited*	800	800	-	4.7%
Kidspace Adventures Holdings Limited**	750	750	-	4.4%
Alpha Schools Holdings Limited	733	733	-	4.3%
Avon Solar Energy Limited	500	500	-	2.9%
Ecosol Limited	500	500	-	2.9%
Green Electricity Generation Limited	500	500	-	2.9%
Westcountry Solar Solutions Limited	500	500	-	2.9%
Liverpool Nurseries (House) Limited**	406	406	-	2.4%
Mosaic Spa and Health Club (Shrewsbury) Limited	350	350	-	2.0%
Progressive Energies Limited	340	340	-	2.0%
Slopingtactic Limited	277	277	-	1.6%
Liverpool Nurseries (Greenbank) Limited**	276	276	-	1.6%
Kidspace Adventures Limited**	270	270	-	1.6%
Mosaic Spa and Health Clubs Limited*	250	250	-	1.4%
Camandale Limited*	796	224	(572)	1.3%
Fenkle Street LLP**	185	185	-	1.1%
Commercial Street Hotel Limited**	185	185	-	1.1%
Ridgeway Pub Company Limited	137	137	-	0.8%
Liverpool Nurseries (Cottage) Limited**	135	135	-	0.8%
Liverpool Nurseries (Holdings) Limited**	2	2	-	0.0%
	<u>11,774</u>	<u>11,258</u>	<u>(516)</u>	<u>65.7%</u>
	<u>16,646</u>	<u>16,706</u>	<u>(287)</u>	<u>97.5%</u>
Cash at bank and in hand		<u>421</u>		<u>2.5%</u>
Total investments		<u>17,127</u>		<u>100.0%</u>

* partially qualifying investment

** non-qualifying investment

All Venture Capital investments are incorporated in England and Wales.

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

Investment movements for the year ended 31 March 2012

ADDITIONS

	£'000
Structured Product investments	
Symphony Structure 3.5yr FTSE 4.85 Call Spread	497
	<u>497</u>
Venture Capital investments	
Future Biogas (Reepham Road) Limited*	1,476
Gingerbread Pre-School (UK) Limited*	1,151
Kidspace Adventures Holdings Limited**	750
Alpha Schools Holdings Limited	733
Westcountry Solar Solutions Limited*	594
Avon Solar Energy Limited	500
Ecosol Limited	500
Green Electricity Generation Limited	500
Quadrate Spa Limited	427
Quadrate Catering Limited	423
Domestic Solar Limited*	400
Liverpool Nurseries (House) Limited**	406
Mosaic Spa and Health Club (Shrewsbury) Limited	350
Progressive Energies Limited	340
Liverpool Nurseries (Greenbank) Limited**	276
Kidspace Adventures Limited**	270
Commercial Street Hotel Limited**	230
Camandale Limited*	193
Liverpool Nurseries (Cottage) Limited**	135
Liverpool Nurseries (Holdings) Limited**	2
	<u>9,656</u>
	<u>10,153</u>

DISPOSALS

	Cost £'000	Valuation at 31/3/11 *** £'000	Proceeds £'000	Profit vs. cost £'000	Realised gain £'000
Structured Product investments					
JP Morgan 5Y 9.75% Defensive FTSE Autocall	1,504	1,620	1,646	142	26
HSBC FTSE/S&P 'Worst of' Autocall	1,003	1,103	1,110	107	7
Societe Generale FSTE/S&P Defensive AutoLock 4	1,003	1,091	1,108	105	17
Morgan Stanley 5YR Synthetic Zero	811	883	916	105	33
Morgan Stanley 3YR Synthetic Zero Accrual	761	825	847	86	22
HSBC 5 Year 9% Defensive FTSE 100 Autocall	702	758	763	61	5
Barclays FTSE 100 Def 10.75% Autocall	451	492	498	47	6
	<u>6,235</u>	<u>6,772</u>	<u>6,888</u>	<u>653</u>	<u>116</u>
Venture Capital investments					
Gingerbread Pre-School (UK) Limited*	1,151	1,151	789	(362)	(362)
Antelope Pub Limited**	338	338	338	-	-
Quadrate Spa Limited**	362	362	362	-	-
Quadrate Catering Limited**	408	408	408	-	-
Camandale Limited**	151	151	151	-	-
Commercial Street Hotel Limited**	80	80	80	-	-
Westcountry Solar Solutions Limited**	94	94	94	-	-
	<u>2,584</u>	<u>2,584</u>	<u>2,222</u>	<u>(362)</u>	<u>(362)</u>
	<u>8,819</u>	<u>9,356</u>	<u>9,110</u>	<u>291</u>	<u>(246)</u>

* partially qualifying investment

** non-qualifying investment

*** adjusted for purchases during the year

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

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

Future Biogas (Reepham Road) Limited www.futurebiogas.com	Cost at 31/03/12:	£1,475,910	Valuation at 31/03/12:	£1,475,910
	Cost at 31/03/11:	n/a	Valuation at 31/03/11:	n/a
	Date of first investment:	March 11	Valuation method:	Cost (reviewed for impairment)



Investment comprises:			
B ordinary shares:	£73,964	Proportion of equity held:	18.6%
A loan stock:	£665,666	Proportion of loan stock held:	37.2%
B loan stock:	£736,280	Proportion of loan stock held:	37.2%

Summary financial information from statutory accounts: None filed

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

Quadrate Catering Limited www.mpwsteakhousebirmingham.co.uk	Cost at 31/03/12:	£849,550	Valuation at 31/03/12:	£849,550
	Cost at 31/03/11:	£835,015	Valuation at 31/03/11:	£835,015
	Date of first investment:	Aug 10	Valuation method:	Net assets



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

Summary financial information from statutory accounts to 31 March 2011	Turnover:	-
	Operating loss:	(£181,566)
	Net assets:	£525,463

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

Antelope Pub Limited www.theantelopepub.com	Cost at 31/03/12:	£750,000	Valuation at 31/03/12:	£806,250
	Cost at 31/03/11:	£1,087,500	Valuation at 31/03/11:	£1,087,500
	Date of first investment:	June 10	Valuation method:	Net assets



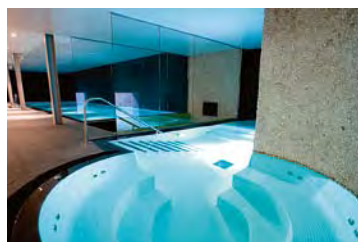
Investment comprises:			
A ordinary shares:	£225,000	Proportion of equity held:	15.0%
B loan stock:	£525,000	Proportion of loan stock held:	50.0%

Summary financial information from statutory accounts to 31 December 2010	Turnover:	n/a*
	Operating profit:	n/a*
	Net assets:	£960,279

The Antelope Pub Limited owns The Antelope, a pub in Tooting, south London. The pub is operated by Antic Limited which has also invested in the company.

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

Quadrate Spa Limited
www.theclubandspabirmingham.co.uk



Cost at 31/03/12:	£805,450	Valuation at 31/03/12:	£805,450
Cost at 31/03/11:	£740,485	Valuation at 31/03/11:	£740,485
Date of first investment:	Aug 10	Valuation method:	Net assets

Investment comprises:			
A ordinary shares:	£241,635	Proportion of equity held:	11.6%
Secured loan stock:	£563,815	Proportion of loan stock held:	22.1%

Summary financial information from statutory accounts to 31 March 2011	Turnover:	-
	Operating loss:	(£191,020)
	Net assets:	£437,911

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

Domestic Solar Limited



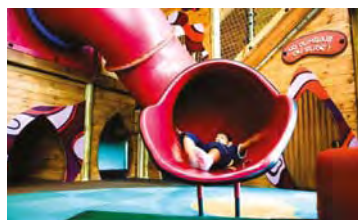
Cost at 31/03/12:	£800,000	Valuation at 31/03/12:	£800,000
Cost at 31/03/11:	£400,000	Valuation at 31/03/11:	£400,000
Date of first investment:	March 11	Valuation method:	Cost (reviewed for impairment)

Investment comprises:			
A ordinary shares:	£120,000	Proportion of equity held:	8.0%
A loan stock:	£280,000	Proportion of loan stock held:	16.0%
B loan stock:	£400,000	Proportion of loan stock held:	20.0%

Summary financial information from statutory accounts: None filed

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

Kidspace Adventures Holdings Limited
www.kidspaceadventures.com



Cost at 31/03/12:	£750,000	Valuation at 31/03/12:	£750,000
Cost at 31/03/11:	n/a	Valuation at 31/03/11:	n/a
Date of first investment:	March 12	Valuation method:	Cost (reviewed for impairment)

Investment comprises:			
Loan stock:	£750,000	Proportion of loan stock held:	37.5%

Summary financial information from statutory accounts: None filed

Kidspace Adventures Holdings Limited is a holding company for Kidspace Adventures Limited. Kidspace Adventures Limited owns and operates, via 100% owned subsidiaries, two well established and profitable children's play centres in Croydon and Romford and is developing a third, farm based children's play centre near Epsom.

Alpha Schools Holdings Limited



Cost at 31/03/12:	£733,333	Valuation at 31/03/12:	£733,333
Cost at 31/03/11:	n/a	Valuation at 31/03/11:	n/a
Date of first investment:	June 11	Valuation method:	Cost (reviewed for impairment)

Investment comprises:			
A ordinary shares:	£110,000	Proportion of equity held:	4.1%
B ordinary shares:	£110,000	Proportion of equity held:	4.1%
A loan stock:	£513,333	Proportion of loan stock held:	36.7%
		Diluted equity:	11.0%

Summary financial information from statutory accounts to 31 August 2010	Turnover:	n/a*
	Operating profit:	n/a*
	Net assets:	£110,500

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

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

Avon Solar Energy Limited
www.britanniasolar.co.uk



Cost at 31/03/12:	£500,000	Valuation at 31/03/12:	£500,000
Cost at 31/03/11:	n/a	Valuation at 31/03/11:	n/a
Date of first investment:	Aug 11	Valuation method:	Cost (reviewed for impairment)

Investment comprises:

Ordinary shares:	£150,000	Proportion of equity held:	12.5%
Loan stock:	£350,000	Proportion of loan stock held:	25.0%

Summary financial information from statutory accounts: None filed

Avon Solar owns solar panels on the rooftops of over 190 domestic properties in the southwest of the UK. The households benefit from free electricity whilst Avon Solar receives Feed-in Tariffs and payments for the surplus electricity produced and exported to the National Grid. The investment partner is Britannia Solar Limited who is responsible for the on-going operation and administration of the company.

Ecosol Limited
www.isis-solar.com



Cost at 31/03/12:	£500,000	Valuation at 31/03/12:	£500,000
Cost at 31/03/11:	n/a	Valuation at 31/03/11:	n/a
Date of first investment:	June 11	Valuation method:	Cost (reviewed for impairment)

Investment comprises:

A ordinary shares:	£150,000	Proportion of equity held:	12.5%
A loan stock:	£350,000	Proportion of loan stock held:	25.0%

Summary financial information from statutory accounts: None filed

Ecosol owns a portfolio of commercial solar PV installations on UK farms and benefits from the receipt of Feed-in Tariffs ("FITs") from electricity generated by the solar panels. The investment partner is ISIS Solar Limited who is responsible for the on-going operation and administration of the company.

Green Electricity Generation Limited
www.freesolarinstallations.net



Cost at 31/03/12:	£500,000	Valuation at 31/03/12:	£500,000
Cost at 31/03/11:	n/a	Valuation at 31/03/11:	n/a
Date of first investment:	May 11	Valuation method:	Cost (reviewed for impairment)

Investment comprises:

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

Summary financial information from statutory accounts: None filed

Green Electricity Generation owns solar panels on the rooftops of over 200 domestic properties in the UK. The households benefit from free electricity whilst Green Electricity receives Feed-in Tariffs and payments for the surplus electricity produced and exported to the National Grid. The investment partner is Solar Capital Limited who is responsible for the on-going operation and administration of the company.

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

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

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

Summary of loan stock interest income

	£'000
Loan stock interest receivable in the year	
Future Biogas (Reepham Road) Limited	-
Quadrate Catering Limited	-
Antelope Pub Limited	77
Quadrate Spa Limited	-
Domestic Solar Limited	-
Kidspace Adventures Holdings Limited	-
Alpha Schools Holdings Limited	-
Avon Solar Energy Limited	-
Ecosol Limited	-
Green Electricity Generation Limited	-
	<u>77</u>
Receivable from other investments	84
	<u><u>161</u></u>

Analysis of investments by type

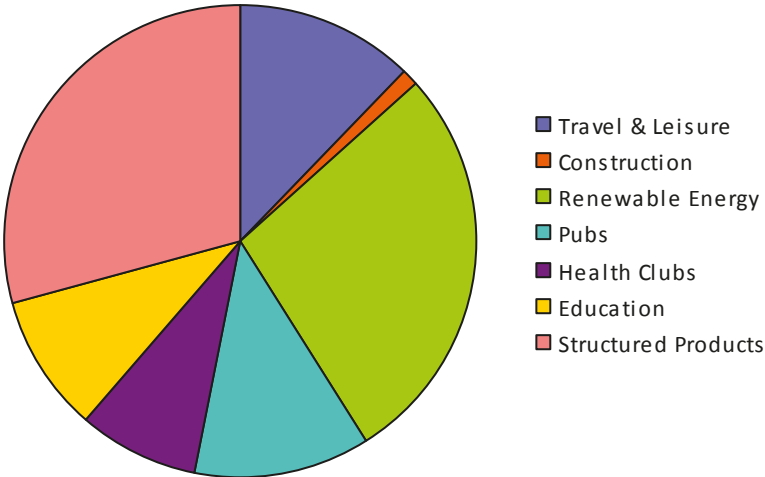
The allocation of the 'B' Share funds compared to the target split is summarised as follows:

	Actual portfolio split at 31 March 2012	Target portfolio split at 31 March 2013
VCT qualifying investments		
Qualifying loan stock	28%	50%
Ordinary shares	17%	25%
Total	<u>45%</u>	<u>75%</u>
Non-qualifying investments		
Non-qualifying loan stock	21%	-
Structured Products	32%	25%
Total	<u>53%</u>	<u>25%</u>
Cash	2%	-
	<u><u>100%</u></u>	<u><u>100%</u></u>

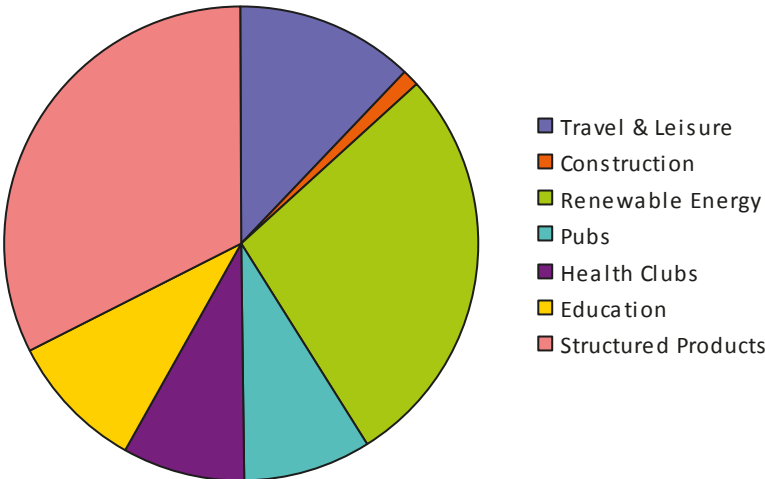
REVIEW OF INVESTMENTS - 'B' SHARE POOL (continued)

The split of the 'B' Share pool investment portfolio by commercial sector (by cost and by value at 31 March 2012) is as follows:

'B' Share Pool
Analysis of investments by sector based on cost



'B' Share Pool
Analysis of investments by sector based on value



B SHARE POOL

'D' SHARE POOL SUMMARY

Financial highlights

	31 March 2012 Pence
Net asset value per 'D' Share	94.5
Total return per 'D' Share	<u>94.5</u>

Dividend history

Period end	Date paid	Pence per share
Proposed 2012 Final	(Payable 28 Sept 2012)	<u>2.5</u>

Share prices

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

	'D' Shares
TIDM/EPIC codes	DO1D
Latest share price (4 July 2012)	100.0p per share

Structure of shareholdings

The Company's 'D' Share offer for subscription opened on 31 August 2011 and is due to close on 17 August 2012. For every £1 invested, Shareholders received one 'D' Share.

Target exit date

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

INVESTMENT MANAGER'S REPORT- 'D' SHARE POOL

Introduction

The 'D' Share pool fundraising opened in August 2011 and issued approximately 4.9 million 'D' Shares by the year end, giving net proceeds of £4.6 million. During the 'D' Share pool's first period, it made Venture Capital investments with a total cost of £1.0 million and Structured Product investments of £1.8 million. No investments were disposed of during the period.

Net asset value and results

The net asset value ("NAV") per 'D' Share at 31 March 2012 stood at 94.5p, equal to the initial NAV after issue costs.

The profit on ordinary activities after taxation for the period was £2,000, comprising a revenue profit of £5,000 and a capital loss of £3,000.

Venture Capital investments

Investment activity

The four Venture Capital investments made during the pool's first period are summarised as follows:

Investee company	Amount invested £'000
City Falkirk Limited <i>Nightclub, sports bar and diner located in Falkirk, Scotland.</i>	562
Fubar Stirling Limited <i>Nightclub in Stirling, Scotland.</i>	357
Cheers Dumbarton Limited <i>Nightclub in Dumbarton, Scotland.</i>	64
Lochrise Limited <i>Provides management services to City Falkirk, Fubar and Cheers and other nightclub/bar operations.</i>	17

Although the pool's initial Venture Capital investments are all in one sector, it is intended that the portfolio will be well balanced across a number of sectors as it develops. Since the year end, the pool has completed a number of further investments, including several investments in the renewable energy sector.

Structured Products

The objective of the Structured Product portfolio will be to produce positive returns and, for this reason, we will tend to avoid products which involve taking an asset allocation or directional view of the market. Our focus is likely to be towards investments such as defensive auto-callables or synthetic zeros which offer clearly defined returns that, although linked to equity markets, do not require a positive performance from the underlying index to generate a positive return.

At the year end, the pool had invested a total of £1.8 million spread across 3 products and 3 counterparties – Barclays, Credit Suisse and JP Morgan. All three are defensive auto-calls with two based on the FTSE 100 Index and one on the worst of the FTSE 100 and S&P 500 Indices. The inclusion of dual index products enables us to obtain a higher coupon than would be available on a single index product. However, we are unlikely to extend this past the FTSE 100 and S&P Indices as other indices, such as the Eurostoxx, exhibit too much volatility which would exceed our risk tolerances.

Outlook

Much of the remaining cash funds arising from the fundraising will be invested in Structured Products as and when suitable opportunities arise. We are in no hurry to commit funds to the market as implied volatility is currently relatively low, which puts downward pressure on returns. Given the continuing uncertainty in the global economy, we do not expect volatility to remain subdued for long. Any 'spike' up in volatility will give a better entry point for the cash currently uninvested.

The difficult general economic conditions in the UK are expected to continue throughout 2012. The continued lack of traditional funding means we are continuing to see a steady flow of potential Venture Capital investment opportunities for the share pool. Identifying the strongest of these opportunities which fit the share pool's investment criteria will be one of the keys to the overall success of the pool. Once the Structured Product portfolio has been built, our focus for most of the coming year will be on securing qualifying investments for the 'D' Share pool and developing a Venture Capital portfolio with a target exit date commencing in 2017.

Downing LLP

5 July 2012

REVIEW OF INVESTMENTS - 'D' SHARE POOL

Portfolio of investments

The following investments were held at 31 March 2012:

	Cost £'000	Valuation £'000	Valuation movement in year £'000	% of portfolio
Structured Product investments				
Credit Suisse 7.25% FTSE Autocall	523	520	(3)	9.5%
JPMorgan 7% Defensive FTSE AC	517	516	(1)	9.5%
Barclays 8% FTSE/S&P Worst -Of Def AC	752	758	6	13.9%
	<u>1,792</u>	<u>1,794</u>	<u>2</u>	<u>32.9%</u>
Venture Capital investments				
City Falkirk Limited**	562	562	-	10.3%
Fubar Stirling Limited**	357	357	-	6.5%
Cheers Dumbarton Limited**	64	64	-	1.2%
Lochrise Limited**	17	17	-	0.3%
	<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>18.3%</u>
	<u>2,792</u>	<u>2,794</u>	<u>2</u>	<u>51.2%</u>
Cash at bank and in hand		<u>2,665</u>		<u>48.8%</u>
Total investments		<u>5,459</u>		<u>100.0%</u>

** non-qualifying investment

All Venture Capital investments are incorporated in England and Wales.

Investment movements for the year ended 31 March 2012

ADDITIONS




	£'000
Structured Product investments	
Credit Suisse 7.25% FTSE Autocall	523
Barclays 8% FTSE/S&P Worst -Of Def AC	752
JPMorgan 7% Defensive FTSE AC	517
	<u>1,792</u>
Venture Capital investments	
City Falkirk Limited**	562
Fubar Stirling Limited**	357
Cheers Dumbarton Limited**	64
Lochrise Limited**	17
	<u>1,000</u>
	<u>2,792</u>

** non-qualifying investment

There were no investment disposals by the 'D' Share pool during the year.

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

Further details of the Venture Capital investments held by the ‘D’ Share pool:

<p>City Falkirk Limited www.cityfalkirk.co.uk</p>	<p>Cost at 31/03/12: £561,982 Cost at 31/03/11: n/a Date of first investment: Feb 12</p>	<p>Valuation at 31/03/12: £561,982 Valuation at 31/03/11: n/a Valuation method: Cost (reviewed for impairment)</p>
	<p>Investment comprises: A ordinary shares: £nil B ordinary shares: £109,085 A loan stock: £198,365 B loan stock: £254,532</p>	<p>Proportion of A equity held: 18.0% Proportion of B equity held: 18.2% Proportion of A loan stock held: 18.2% Proportion of B loan stock held: 18.2%</p>
<p>Summary financial information from statutory accounts: None filed</p>		
<p>City Falkirk Limited owns and operates the City & Sportsters sports bar and nightclub in Falkirk. This profitable freehold asset was purchased out of administration and is being run on a management contract by Lochrise Limited.</p>		
<p>Fubar Stirling Limited www.fubarclub.info</p>	<p>Cost at 31/03/12: £357,436 Cost at 31/03/11: n/a Date of first investment: Feb 12</p>	<p>Valuation at 31/03/12: £357,436 Valuation at 31/03/11: n/a Valuation method: Cost (reviewed for impairment)</p>
	<p>Investment comprises: A ordinary shares: £nil B ordinary shares: £107,231 B loan stock: £250,205</p>	<p>Proportion of A equity held: 17.8% Proportion of B equity held: 18.2% Proportion of B loan stock held: 18.2%</p>
<p>Summary financial information from statutory accounts: None filed</p>		
<p>Fubar Stirling Limited owns and operates the Fubar nightclub in Stirling, Scotland. This profitable freehold asset was purchased out of administration and is being run on a management contract by Lochrise Limited.</p>		
<p>Cheers Dumbarton Limited www.cheersnightclub.info</p>	<p>Cost at 31/03/12: £63,709 Cost at 31/03/11: n/a Date of first investment: Feb 12</p>	<p>Valuation at 31/03/12: £63,709 Valuation at 31/03/11: n/a Valuation method: Cost (reviewed for impairment)</p>
	<p>Investment comprises: A ordinary shares: £nil B ordinary shares: £19,113 B loan stock: £44,596</p>	<p>Proportion of A equity held: 17.2% Proportion of B equity held: 18.2% Proportion of B loan stock held: 18.2%</p>
<p>Summary financial information from statutory accounts: None filed</p>		
<p>Cheers Dumbarton Limited owns and operates the Cheers nightclub in Dumbarton, Scotland. This profitable freehold asset was purchased out of administration and is being run on a management contract by Lochrise Limited.</p>		
<p>Lochrise Limited</p>	<p>Cost at 31/03/12: £16,873 Cost at 31/03/11: n/a Date of first investment: Feb 12</p>	<p>Valuation at 31/03/12: £16,873 Valuation at 31/03/11: n/a Valuation method: Cost (reviewed for impairment)</p>
	<p>Investment comprises: A ordinary shares: £nil B ordinary shares: £5,062 B loan stock: £11,811</p>	<p>Proportion of A equity held: 17.8% Proportion of B equity held: 18.2% Proportion of B loan stock held: 18.2%</p>
<p>Summary financial information from statutory accounts: None filed</p>		
<p>The company operates a number of licensed businesses on a leasehold basis and holds management contracts with City Falkirk Limited, Fubar Stirling Limited and Cheers Dumbarton Limited.</p>		

At 31 March 2012, each of the above investments was in the form of an advance to the investee companies. They were formally converted into equity and loan stock as shown above soon after the year end.

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

Summary of loan stock interest income and interest on advances

	£'000
Loan stock interest and interest on advances receivable in the year	
City Falkirk Limited	5
Fubar Stirling Limited	3
Cheers Dumbarton Limited	1
Lochrise Limited	-
	<u>9</u>

Analysis of investments by type

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

	Actual portfolio split at 31 March 2012	Target portfolio split at 31 March 2015
VCT qualifying investments		
Qualifying loan stock	-	50%
Ordinary shares	-	25%
Total	<u>-</u>	<u>75%</u>
Non-qualifying investments		
Non-qualifying loan stock and advances	18%	-
Structured Products	33%	25%
Total	<u>51%</u>	<u>25%</u>
Cash	49%	-
	<u>100%</u>	<u>100%</u>

100% of the ‘D’ Share pool Venture Capital investment portfolio, by cost and by value at 31 March 2012, is invested in the travel and leisure commercial sector.

REPORT OF THE DIRECTORS

The Directors present the Annual Report and Accounts of the Company for the year ended 31 March 2012. The Company was incorporated on 12 January 2009 and commenced activities from 21 January 2009.

Principal activity and status

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

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

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

Business review and developments

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

Share capital

At the year end, the Company had in issue 10,371,227 Ordinary Shares, 15,556,838 'A' Shares, 19,936,370 'B' Shares, 29,936,370 'C' Shares, and 4,859,588 'D' Shares. Only the holders of the Ordinary Shares, 'B' Shares, and 'D' Shares have voting rights, except where there are issues in respect of the variation of rights of the 'A' Shares and 'C' Shares. There are no other share classes in issue.

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

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

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

No shares were purchased in the year for cancellation.

At the AGM that took place on 20 September 2011, the Company was authorised to make market purchases of its Ordinary Shares, 'A' Shares, 'B' Shares, and 'C' Shares up to a limit of 1,545,313 Ordinary Shares, 2,317,969 'A' Shares, 2,970,519 'B' Shares, and 4,460,519 'C' Shares, which represented approximately 14.9% of the issued Ordinary Share capital, 'A' Share capital, 'B' Share capital, and 'C' Share capital at the date of the AGM. At the current date, authority remains for 1,545,313 Ordinary Shares, 2,317,969 'A' Shares, 2,970,519 'B' Shares, and 4,460,519 'C' Shares. A resolution to renew this authority will be put to Shareholders at the AGM taking place on 25 September 2012.

At the General Meeting that took place on 13 October 2011, the Company was authorised to make market purchase of its 'D' Shares up to a limit of 14.9% of the issued 'D' Share capital pursuant to the offer.

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

Authority is in place for the Company to issue up to a maximum of 30,000,000 'D' Shares. This authority expires in January 2013. There is no other authority currently in place authorising the Directors to issue new shares in the Company.

Results and dividends

Profit/(loss) for the year

	£'000	Pence per share
Ordinary Share	256	2.5p
'B' Share	(801)	(4.0p)
'D' Share	2	0.1p

Interim dividend paid in respect of current period

	£'000	Pence per share
Ordinary Share	259	2.5p
'B' Share	498	2.5p
'D' Share	-	-

Your Board is proposing to pay a final dividend of 2.5p per Ordinary Share, 2.5p per 'B' Share and 2.5p per 'D' Share payable on 28 September 2012 to Shareholders on the register at 7 September 2012.

REPORT OF THE DIRECTORS (continued)

Performance incentive fees

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

No performance incentive fee will be payable until Shareholders:

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

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

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

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

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

As the targets have not been met, no fee is due to be paid for the year ended 31 March 2012. It will be recalculated for the year ended 31 March 2013, and annually thereafter, following approval of the audited accounts by Shareholders.

'D' Share performance incentive fee

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

No performance incentive fee will be payable until Shareholders:

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

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

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

As the targets have not been met, no fee is due to be paid for the year ended 31 March 2012. It will be recalculated for the year ended 31 March 2013, and annually thereafter, following approval of the audited accounts by Shareholders.

Directors

The Directors of the Company during the year and their beneficial interests (including connected persons) in the issued Ordinary Shares, 'A' Shares, 'B' Shares, 'C' Shares, and 'D' Shares at 31 March 2011, 31 March 2012, and the date of this report were as follows:

Directors	31 March 2011 and 31 March 2012				
	No. of shares				
	Ord	A	B	C	D
Lord Flight	41,500	41,500	62,550	62,550	-
Robin					
Chamberlayne	126,000	385,280	83,000	583,000	-
Mark Mathias	-	-	-	-	-

Directors	Date of this report				
	No. of shares				
	Ord	A	B	C	D
Lord Flight	41,500	41,500	62,550	62,550	20,800
Robin					
Chamberlayne	126,000	385,280	83,000	583,000	20,600
Mark Mathias	-	129,640	-	-	10,350

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

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

Insurance cover

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

REPORT OF THE DIRECTORS (continued)

Investment policy

Asset allocation

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

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

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

Venture Capital investments

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

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

Structured Products

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

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

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

Counterparty risk on Structured Products

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

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

Risk diversification

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

Venture Capital Trust regulations

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

1. The Company holds at least 70% of its investments in qualifying companies (as defined by Part 6 of the Income Tax Act 2007) (by 31 March 2012 in respect of the Ordinary Share pool, by 31 March 2013 in respect of the 'B' Share pool, and by 31 March 2015 in respect of the 'D' Share pool);
2. At least 30% of the Company's qualifying investments (by value) are held in "eligible shares" for funds raised before 6 April 2011 and at least 70% in "eligible shares" for funds raised after 6 April 2011– ("eligible shares" generally being ordinary share capital) (by 31 March 2012 in respect of the Ordinary Share pool, by 31 March 2013 in respect of the 'B' Share pool, and by 31 March 2015 in respect of the 'D' Share pool);
3. At least 10% of each investment in a qualifying company is held in "eligible shares" (by cost at time of investment);
4. No investment constitutes more than 15% of the Company's portfolio (by value at time of investment);
5. The Company's income for each financial year is derived wholly or mainly from shares and securities;
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).

REPORT OF THE DIRECTORS (continued)

Investment policy (continued)

Borrowings

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

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

Investment management and administration fees

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

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

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

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

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

Trail commission

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

Creditor payment policy

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

Environmental and social policy

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

Key performance indicators

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

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

VCT status

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

Compliance with the VCT regulations (as described in the Investment policy) for the period under review is summarised as follows:

	Position at 31 Mar 12
1. To ensure that, by and from 31 March 2012, the Company holds at least 70% of its investments in qualifying companies;	75.3%
2. To ensure that, by and from 31 March 2012, at least 30% of the Company’s qualifying investments are held in “eligible shares”;	35.9%
3. At least 10% of each investment in a qualifying company is held in eligible shares;	Complied
4. No investment constitutes more than 15% of the Company’s portfolio;	Complied
5. The Company’s income for each financial year is derived wholly or mainly from shares and securities;	85.8%
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	Complied
7. A maximum unit size of £1 million in each VCT qualifying investment (per tax year).	Complied

REPORT OF THE DIRECTORS (continued)

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 17 to the financial statements.

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

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

Substantial interests

As at 31 March 2012, and the date of this report, the Company had not been notified of any beneficial interest exceeding 3 per cent of the issued share capital.

Auditor

A resolution proposing the reappointment of PKF (UK) LLP will be submitted at the AGM.

Annual General Meeting

The Company's third Annual General Meeting ("AGM") will be held at 10 Lower Grosvenor Place, London SW1W 0EN at 10:00 a.m. on 25 September 2012. The Notice of the Annual General Meeting and Form of Proxy are at the end of this document.

Directors' responsibilities statement

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

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

In preparing these financial statements the Directors are required to:

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

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Manager's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

Directors' statement pursuant to the Disclosure Rules and Transparency Rules

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

- the financial statements, which have been prepared in accordance with UK Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the management report included within the Report of the Directors, Chairman's Statement, Investment Manager's Report, and Review of Investments includes a fair review of the development and performance of the business and the position of the company together with a description of the principal risks and uncertainties that it faces.

REPORT OF THE DIRECTORS (continued)

Electronic publication

The financial statements are published on www.downing.co.uk.

Corporate governance

The Company's compliance with, and departures from, the Financial Reporting Council's UK Corporate Governance Code June 2010 (www.frc.org.uk) is shown on page 39.

Statement as to disclosure of information to Auditor

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

By order of the Board



Grant Whitehouse

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

Registered office:
10 Lower Grosvenor Place
London SW1W 0EN

5 July 2012

DIRECTORS' REMUNERATION REPORT

The Board has prepared this report in accordance with the requirements of Section 420 to 422 of the Companies Act 2006. A resolution to approve this report will be put to the Shareholders at the Annual General Meeting to be held on 25 September 2012.

Under the requirements of Section 497, the Company's Auditor is required to audit certain disclosures contained within the report. These disclosures have been highlighted and the audit opinion thereon is contained within the Auditor's Report on page 40.

Directors' remuneration policy

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

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

Agreement for services

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

Performance incentive fees

The structure of 'A' Shares and 'C' Shares enables a payment, by way of a distribution of income, of the performance incentive fees to the Directors and Management Team (as defined in the prospectus, includes Downing LLP). As the targets have not been met, no fee is due to be paid for the year ended 31 March 2012.

Directors' remuneration (audited)

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

	Current annual fee £	Year ended 31/03/12 £	Year ended 31/03/11 £
Lord Flight	18,000	16,750	15,000
Russell Catley Robin	n/a	n/a	6,644
Chamberlayne	12,500	11,458	10,000
Mark Mathias	12,500	11,458	10,000
	<u>43,000</u>	<u>39,666</u>	<u>41,644</u>

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

2012/2013 remuneration

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

DIRECTORS' REMUNERATION REPORT (continued)

Performance graph

The charts below represent the Company's performance over the period since the Company's Ordinary Shares/'A' Shares and 'B' Shares/'C' Shares were first listed on the London Stock Exchange, and compares the Company's NAV Total Return (net asset value plus dividends reinvested) and Share Price Total Return (share price plus dividends reinvested) to the FTSE All Share Total Return Index (source: FTSE International Limited). Although the FTSE All Share Total Return Index is not a benchmark for the Company, it has been chosen as a comparison as the Board considers it is the most appropriate of the major publicly available indices. All series have been rebased to 100 at the relevant launch dates.

No chart has been prepared in respect of the 'D' Shares as the share pool is still at a very early stage of its life.

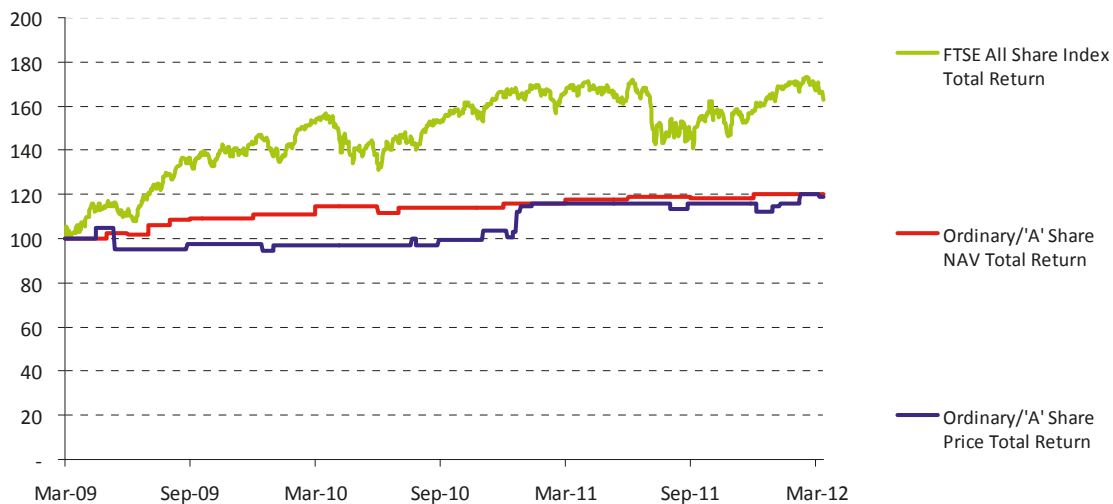
By order of the Board



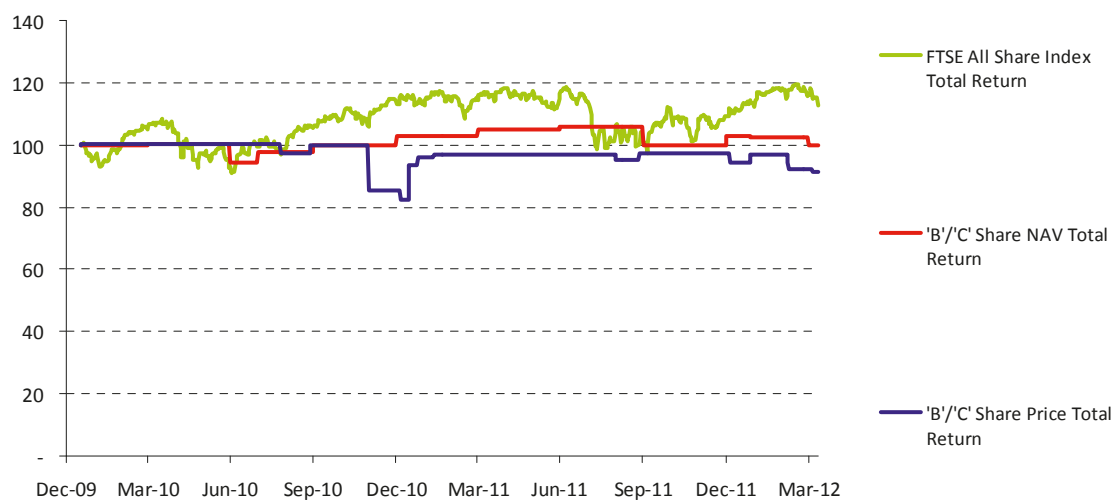
Grant Whitehouse
Company Secretary
10 Lower Grosvenor Place
London SW1W 0EN

5 July 2012

Ordinary/'A' Share performance chart



'B'/'C' Share performance chart



CORPORATE GOVERNANCE

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

The Board

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

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

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

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

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

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

The Board has authority to make market purchases of the Company's own shares. This authority for up to 14.9% of the Company's issued share capital was granted at the Annual General Meeting on 20 September 2011. 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 29.

Audit Committee

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

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

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

As part of its annual review procedures, the Committee has obtained sufficient assurance from their own evaluation, the audit feedback documentation and from correspondence and discussions with the engagement partner of PKF (UK) LLP. Based on the assurance obtained, the Committee has recommended to Shareholders that PKF (UK) LLP be re-appointed as Auditor for the forthcoming year.

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

Board and Committee meetings

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

	Board meetings attended (4 held)	Audit Committee meetings attended (2 held)	Remuneration Committee meetings attended (1 held)
Lord Flight	4	2	1
Robin Chamberlayne	4	2	1
Mark Mathias	4	2	1

No Nomination Committee meetings were held in the year.

Remuneration Committee

The Committee meets as and when required to review the levels of Directors' remuneration. Details of the specific levels of remuneration to each Director are set out in the Directors' Remuneration Report on page 35, and this is subject to Shareholder approval.

CORPORATE GOVERNANCE (continued)

Nomination Committee

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

Relations with Shareholders

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

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

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

Financial reporting

The Statement of Directors' responsibilities for preparing the accounts is set out in the Report of the Directors on page 33, and a statement by the Auditor about their reporting responsibilities is set out in the Independent Auditor's report on page 40.

Internal control

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

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

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

Anti-bribery policy

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

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on pages 3 and 4, the Investment Manager's Report on pages 6, 7, 15, 16 and 25, and the Report of the Directors on page 29. The financial position of the Company, its cash flows, liquidity position, and borrowing facilities are shown in the Cash Flow statement on page 45 and the Report of the Directors on page 32. In addition, note 17 to the financial statements includes the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments, and its exposures to credit risk and liquidity risk.

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

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

Share capital

The company has five classes of share capital: Ordinary Shares, 'A' Shares, 'B' Shares, 'C' Shares, and 'D' Shares. The rights and obligations attached to those shares, including the power of the Company to buy back shares and details of any significant shareholdings, are set out on pages 29 to 34 of the Report of the Directors.

CORPORATE GOVERNANCE (continued)

Compliance statement

The Listing Rules require the Board to report on compliance with the 52 UK Corporate Governance Code provisions throughout the accounting period. With the exception of the limited items outlined below, the Company has complied throughout the accounting year ended 31 March 2012 with the provisions set out in Section 1 of the UK Corporate Governance Code.

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



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

5 July 2012

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

We have audited the financial statements of Downing Structured Opportunities VCT 1 plc for the year ended 31 March 2012 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and 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 explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2012 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the corporate governance statement set out on pages 37 to 39 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 38, in relation to going concern; and
- the part of the corporate governance statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to the Shareholders by the Board on Directors' remuneration.



Rhodri Whitlock (Senior statutory auditor)
for and on behalf of PKF (UK) LLP
Statutory auditor
London, UK

5 July 2012

INCOME STATEMENT

for the year ended 31 March 2012

	Note	Year ended 31 March 2012			Year ended 31 March 2011		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income	2	620	-	620	556	-	556
Net (loss)/gain on investments	9	-	(340)	(340)	-	1,439	1,439
		620	(340)	280	556	1,439	1,995
Investment management fees	3	(219)	(219)	(438)	(218)	(218)	(436)
Other expenses	4	(385)	-	(385)	(338)	-	(338)
Return/(loss) on ordinary activities before tax		16	(559)	(543)	-	1,221	1,221
Tax on ordinary activities	6	-	-	-	-	-	-
Return/(loss) attributable to equity shareholders		16	(559)	(543)	-	1,221	1,221
Basic and diluted return per share:							
Ordinary Share	8	1.4p	1.1p	2.5p	0.4p	3.0p	3.4p
'A' Share	8	-	-	-	-	-	-
'B' Share	8	(0.7p)	(3.3p)	(4.0p)	(0.2p)	4.5p	4.3p
'C' Share	8	-	-	-	-	-	-
'D' Share	8	0.2p	(0.1p)	0.1p	n/a	n/a	n/a

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

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

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

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the year ended 31 March 2012

Note	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Opening Shareholders' funds	29,262	28,636
Proceeds from share issue	4,859	9,503
Share issue costs	(267)	(523)
Purchase of own shares	-	(58)
Unallotted shares	1,491	(7,998)
Dividends paid	7 (1,515)	(1,519)
Total gains for the year/period	(543)	1,221
Closing Shareholders' funds	33,287	29,262

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

INCOME STATEMENT

for the year ended 31 March 2012

Split as: Ordinary Share pool

	Year ended 31 March 2012			Year ended 31 March 2011		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income	367	-	367	272	-	272
Net gain on investments	-	191	191	-	389	389
	367	191	558	272	389	661
Investment management fees	(79)	(79)	(158)	(79)	(79)	(158)
Other expenses	(144)	-	(144)	(147)	-	(147)
Return on ordinary activities before tax	144	112	256	46	310	356
Tax on ordinary activities	-	-	-	-	-	-
Return attributable to equity shareholders	<u>144</u>	<u>112</u>	<u>256</u>	<u>46</u>	<u>310</u>	<u>356</u>

'B' Share pool

	Year ended 31 March 2012			Year ended 31 March 2011		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income	240	-	240	284	-	284
Net (loss)/gain on investments	-	(533)	(533)	-	1,050	1,050
	240	(533)	(293)	284	1,050	1,334
Investment management fees	(135)	(135)	(270)	(139)	(139)	(278)
Other expenses	(238)	-	(238)	(191)	-	(191)
(Loss)/return on ordinary activities before tax	(133)	(668)	(801)	(46)	911	865
Tax on ordinary activities	-	-	-	-	-	-
(Loss)/return attributable to equity shareholders	<u>(133)</u>	<u>(668)</u>	<u>(801)</u>	<u>(46)</u>	<u>911</u>	<u>865</u>

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

INCOME STATEMENT

for the year ended 31 March 2012

'D' Share pool

	Year ended 31 March 2012			Year ended 31 March 2011		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income	13	-	13	-	-	-
Net gain on investments	<u>-</u>	<u>2</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>-</u>
	13	2	15	-	-	-
Investment management fees	(5)	(5)	(10)	-	-	-
Other expenses	<u>(3)</u>	<u>-</u>	<u>(3)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Return/(loss) on ordinary activities before tax	5	(3)	2	-	-	-
Tax on ordinary activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Return/(loss) attributable to equity shareholders	<u><u>5</u></u>	<u><u>(3)</u></u>	<u><u>2</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

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

BALANCE SHEET

as at 31 March 2012

	Note	2012				2011		
		Ordinary Share pool £'000	'B' Share pool £'000	'D' Share pool £'000	Total £'000	Ordinary Share pool £'000	'B' Share pool £'000	Total £'000
Fixed assets								
Investments	9	9,845	16,706	2,794	29,345	9,474	16,195	25,669
Current assets								
Debtors	10	64	10	644	718	606	1,961	2,567
Cash at bank and in hand	16	445	421	2,665	3,531	544	798	1,342
		509	431	3,309	4,249	1,150	2,759	3,909
Creditors: amounts falling due within one year	11	(107)	(182)	(18)	(307)	(115)	(201)	(316)
Net current assets		402	249	3,291	3,942	1,035	2,558	3,593
Net assets		10,247	16,955	6,085	33,287	10,509	18,753	29,262
Capital and reserves								
Called up Ordinary/'B'/'D' Share capital	12	10	20	5	35	10	20	30
Called up 'A'/'C' Share capital	12	16	30	-	46	16	30	46
Capital redemption reserve	13	5	-	-	5	5	-	5
Special reserve	13	5,818	16,441	-	22,259	6,077	17,802	23,879
Share premium account	13	2,794	-	4,587	7,381	2,794	-	2,794
Share capital to be issued	13	-	-	1,491	1,491	-	-	-
Revaluation reserve	13	482	62	2	546	619	884	1,503
Capital reserve – realised	13	1,091	618	(5)	1,704	1,101	100	1,201
Revenue reserve	13	31	(216)	5	(180)	(113)	(83)	(196)
Total equity shareholders' funds		10,247	16,955	6,085	33,287	10,509	18,753	29,262
Basic and diluted net asset value per:								
Ordinary/'B' Share/'D' Share	14	98.7p	84.9p	94.5p		101.2p	93.9p	
'A' Share/'C' Share	14	0.1p	0.1p	-		0.1p	0.1p	

The financial statements on pages 41 to 59 were approved and authorised for issue by the Board of Directors on 5 July 2012 and were signed on its behalf by



Lord Flight
Chairman
Company number: 6789187

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

CASH FLOW STATEMENT

for the year ended 31 March 2012

	Note	Year ended 31 March 2012				As reclassified Year ended 31 March 2011		
		Ordinary Share pool £'000	'B' Share pool £'000	'D' Share pool £'000	Total £'000	Ordinary Share pool £'000	'B' Share pool £'000	Total £'000
Net cash inflow/(outflow) from operating activities	15	100	(213)	14	(99)	(17)	(115)	(132)
Capital expenditure								
Purchase of investments	9	(3,478)	(10,153)	(2,792)	(16,423)	(5,139)	(18,481)	(23,620)
Proceeds from disposal of investments	9	3,297	9,110	-	12,407	5,542	5,898	11,440
Movements in deposit held for purchase of investments	10	500	1,876	(640)	1,736	(500)	(1,876)	(2,376)
Net cash inflow/(outflow) from capital expenditure		319	833	(3,432)	(2,280)	(97)	(14,459)	(14,556)
Equity dividends paid	7	(518)	(997)	-	(1,515)	(519)	(1,000)	(1,519)
Net cash outflow before financing		(99)	(377)	(3,418)	(3,894)	(633)	(15,574)	(16,207)
Financing								
Proceeds from 'D' Share issue		-	-	4,859	4,859	-	-	-
Proceeds from 'B' Share issue		-	-	-	-	-	9,503	9,503
Share issue costs		-	-	(267)	(267)	-	(523)	(523)
Unallotted share capital		-	-	1,491	1,491	-	(7,998)	(7,998)
Purchase of own shares		-	-	-	-	-	(58)	(58)
Net cash inflow from financing		-	-	6,083	6,083	-	924	924
(Decrease)/increase in cash	16	(99)	(377)	2,665	2,189	(633)	(14,650)	(15,283)

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

NOTES TO THE ACCOUNTS

for the year ended 31 March 2012

1. Accounting policies

Basis of accounting

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

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

The Company implements new Financial Reporting Standards ("FRS") issued by the 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 the SORP, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been presented alongside the Income Statement. The 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

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

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

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

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

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

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

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

Income

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

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

NOTES TO THE ACCOUNTS (continued)

for the year ended 31 March 2012

1. Accounting policies (continued)

Expenses

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

- Expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment.
- Expenses are split and presented partly as capital items where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated. The Company has adopted a policy of charging 50% of the investment management fees to the revenue account and 50% to the capital account to reflect the Board's estimated split of investment returns which will be achieved by the company over the long term.

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

Taxation

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

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

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

Other debtors and other creditors

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

Issue costs

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

2. Income

	2012 £'000	2011 £'000
Income from investments		
Loan stock interest	532	511
Dividend income	68	-
Other income		
Bank interest	20	34
Arrangement fee	-	11
	<u>620</u>	<u>556</u>

3. Investment management fees

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

	2012 £'000	2011 £'000
Investment management fees	<u>438</u>	<u>436</u>

NOTES TO THE ACCOUNTS (continued)

for the year ended 31 March 2012

4. Other expenses

	2012 £'000	2011 £'000
Administration services	68	65
Trail commission	136	125
Directors' remuneration	40	42
Social security costs	2	3
Auditor's remuneration for audit	18	15
Auditor's remuneration for non-audit services (taxation)	2	1
Provision for loan stock interest (previously recognised)	78	-
Other	41	87
	<u>385</u>	<u>338</u>

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

5. Directors' remuneration

Details of remuneration (excluding employer's NIC) are given in the audited part of the Directors' Remuneration Report on pages 35 and 36.

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

6. Tax on ordinary activities

	2012 £'000	2011 £'000
(a) Tax charge for the year		
UK corporation tax at 20.0% (2011: 21.0%)	-	-
Charge for the year	<u>-</u>	<u>-</u>
(b) Factors affecting tax charge for the year		
(Loss)/return on ordinary activities before taxation	<u>(543)</u>	<u>1,221</u>
Tax charge calculated on (loss)/return on ordinary activities before taxation at the applicable rate of 20.0% (2011: 21.0%)	(109)	256
Effects of:		
Expenses disallowed for tax purposes	27	28
Profit on investments	68	(302)
Losses available to carry forward	14	18
Current tax charge	<u>-</u>	<u>-</u>

Excess management expenses, which are available to be carried forward and set off against future taxable income, amounted to £319,000 (2011: £253,000).

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 March 2012

7. Dividends

	Year ended 31 March 2012			Year ended 31 March 2011		
Ordinary Shares	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Paid						
2012 Interim – 2.5p	-	259	259	-	-	-
2011 Final – 2.5p	-	259	259	-	-	-
2011 Interim – 2.5p	-	-	-	-	259	259
2010 Final – 2.5p	-	-	-	-	260	260
Total	<u>-</u>	<u>518</u>	<u>518</u>	<u>-</u>	<u>519</u>	<u>519</u>
Proposed						
2012 Final – 2.5p	-	259	259	-	-	-
2011 Final – 2.5p	-	-	-	-	259	259
Total	<u>-</u>	<u>259</u>	<u>259</u>	<u>-</u>	<u>259</u>	<u>259</u>
'B' Shares	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Paid						
2012 Interim – 2.5p	-	498	498	-	-	-
2011 Final – 2.5p	-	499	499	-	-	-
2011 Interim – 2.5p	-	-	-	-	500	500
2010 Final – 2.5p	-	-	-	-	500	500
Total	<u>-</u>	<u>997</u>	<u>997</u>	<u>-</u>	<u>1,000</u>	<u>1,000</u>
Proposed						
2012 Final – 2.5p	-	498	498	-	-	-
2011 Final – 2.5p	-	-	-	-	500	500
Total	<u>-</u>	<u>498</u>	<u>498</u>	<u>-</u>	<u>500</u>	<u>500</u>
'D' Shares	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Proposed						
2012 Final – 2.5p	-	189	189	-	-	-

8. Basic and diluted return per share

		Weighted average number of shares in issue	Revenue return/(loss) £'000	Capital gain/(loss) £'000
Return per share is calculated on the following:				
Year ended 31 March 2012	Ordinary Shares	10,371,227	144	112
	'A' Shares	15,556,838	-	-
	'B' Shares	19,936,370	(133)	(668)
	'C' Shares	29,936,370	-	-
	'D' Shares	2,720,954	5	(3)
Year ended 31 March 2011	Ordinary Shares	10,371,227	46	310
	'A' Shares	15,556,838	-	-
	'B' Shares	19,931,087	(46)	910
	'C' Shares	29,931,087	-	1

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

NOTES TO THE ACCOUNTS (continued) for the year ended 31 March 2012

9. Fixed assets – investments

	Structured Products £'000	Unquoted investments £'000	Total £'000
Opening cost at 1 April 2011	12,932	11,234	24,166
Unrealised gains/(losses)/(impairments) at 1 April 2011	1,503	-	1,503
Opening fair value at 1 April 2011	14,435	11,234	25,669
Movement in the year:			
Purchased at cost	2,289	14,134	16,423
Disposals - proceeds	(8,400)	(4,007)	(12,407)
- realised gains/(losses) on disposals	140	(362)	(222)
Unrealised gains/(losses) in the Income Statement	315	(433)	(118)
Closing value at 31 March 2012	8,779	20,566	29,345
Closing cost at 31 March 2012	7,801	20,998	28,799
Unrealised gains/(losses)/(impairments) at 31 March 2012	978	(432)	546
	8,779	20,566	29,345

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

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

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

	Level 1 £'000	Level 2 £'000	Level 3 £'000	2012 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	2011 £'000
Structured Products	8,779	-	-	8,779	14,435	-	-	14,435
Loan notes	-	-	15,799	15,799	-	-	8,791	8,791
Unquoted	-	-	4,767	4,767	-	-	2,443	2,443
	8,779	-	20,566	29,345	14,435	-	11,234	25,669

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

	Unquoted equity £'000	Loan notes £'000	Total £'000
Balance at 31 March 2011	2,443	8,791	11,234
<i>Movements in the Income Statement:</i>			
Unrealised gains/(losses) in the income statement	115	(548)	(433)
Realised losses in the income statement	(231)	(131)	(362)
	2,327	8,112	10,439
Purchases at cost	2,440	11,694	14,134
Sales proceeds	-	(4,007)	(4,007)
Balance at 31 March 2012	4,767	15,799	20,566

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

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

NOTES TO THE ACCOUNTS (continued)

for the year ended 31 March 2012

9. Fixed assets - investments (continued)

The Board and the Investment Manager believe that the valuations as at 31 March 2012 reflect the most appropriate assumptions at the date, giving due regard to all information available from each investee company. Valuations are subject to fluctuations in market conditions and the sensitivity of the Company to such changes is shown within note 17.

An analysis of Venture Capital investments between equity and non-equity elements is set out in the review of investments on pages 9 to 11, 19 to 21 and 27.

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

	Company	Other Downing Funds	Equity held by Other Downing Funds	Equity held by Other Funds
	£'000	£'000	%	%
Alpha Schools Holdings Limited	733	533	5.9	8.1
Antelope Pub Limited	750	1,350	15.0	-
Atlantic Dogstar Limited	572	-	-	38.3
Avon Solar Energy Limited	500	1,000	25.0	12.5
Bijou Wedding Venues Limited	815	-	-	20.0
Camandale Limited	1,088	1,595	14.1	10.6
Chapel Street Food and Beverage Limited	75	375	18.8	10.0
Chapel Street Hotel Limited	3	15	18.6	10.9
Chapel Street Services Limited	75	375	18.8	10.0
Cheers Dumbarton Limited	64	191	-	-
City Falkirk Limited	562	1,686	-	-
Commercial Street Hotel Limited	185	115	23.0	40.0
Domestic Solar Limited	1,800	900	14.0	18.0
East Dulwich Tavern Limited	459	-	-	24.0
Ecosol Limited	1,000	-	-	25.0
Fenkle Street LLP	254	415	-	-
Fubar Stirling Limited	357	1,072	-	-
Future Biogas (Reephram Road) Limited	1,476	997	12.6	18.8
Future Biogas (SF) Limited	909	1,161	13.6	21.1
Green Electricity Generation Limited	500	1,000	30.0	15.0
Kidspace Adventures Holdings Limited	750	2,000	37.5	12.5
Kidspace Adventures Limited	270	1,360	-	-
Liverpool Nurseries (Cottage) Limited	135	81	-	-
Liverpool Nurseries (Greenbank) Limited	276	165	-	-
Liverpool Nurseries (Holdings) Limited	2	1	-	-
Liverpool Nurseries (House) Limited	406	242	-	-
Lochrise Limited	17	51	-	-
Mosaic (Shrewsbury) Limited	350	1,200	23.8	17.5
Mosaic Spa and Health Clubs Limited	500	550	5.9	11.8
Progressive Energies Limited	340	1,720	39.6	10.2
Quadrate Catering Limited	1,427	887	11.7	20.4
Quadrate Spa Limited	1,349	838	12.1	21.0
Redmed Limited	1,063	562	11.3	17.5
Ridgeway Pub Company Limited	137	137	10.0	20.0
Slopingtactic Limited	379	379	16.5	17.0
The 3D Pub Company Limited	517	900	23.1	13.7
Westcountry Solar Solutions Limited	500	1,000	25.0	12.5
Westow House Limited	405	-	-	24.0
	<u>21,000</u>	<u>24,853</u>		

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

NOTES TO THE ACCOUNTS (continued) for the year ended 31 March 2012

10. Debtors

	2012 £'000	2011 £'000
Prepayments and accrued income	64	178
Other debtors	654	2,389
	<u>718</u>	<u>2,567</u>

Other debtors at 31 March 2012 includes £640,000 (2011: £2,376,000) held on a solicitor's account in respect of new investments which completed shortly after the year end.

11. Creditors: amounts falling due within one year

	2012 £'000	2011 £'000
Accruals and deferred income	307	316

12. Called up share capital

	2012 £'000	2011 £'000
Allotted, called up and fully-paid:		
10,371,227 (2011: 10,371,227) Ordinary Shares	10	10
15,556,838 (2011: 15,556,838) 'A' Shares	16	16
19,936,370 (2011: 19,936,370) 'B' Shares	20	20
29,936,370 (2011: 29,936,370) 'C' Shares	30	30
4,859,588 (2011: n/a) 'D' Shares	5	-
	<u>81</u>	<u>76</u>

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

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

Between 5 December 2011 and 20 March 2012, 4,859,588 'D' Shares were issued at 100.0p per share pursuant to the offers for subscription by way of a prospectus. The aggregate consideration for the shares was £4,859,000 which excludes issue costs of £267,000.

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

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

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

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

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

The Company does not have any externally imposed capital requirements.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 March 2012

13. Reserves

	Capital redemption reserve £'000	Special reserve £'000	Share premium account £'000	Share capital to be issued £'000	Revaluation reserve £'000	Capital reserve realised £'000	Revenue reserve £'000
At 31 March 2011	5	23,879	2,794	-	1,503	1,201	(196)
Issue of new shares	-	-	4,854	-	-	-	-
Share issue costs	-	-	(267)	-	-	-	-
Unallotted shares	-	-	-	1,491	-	-	-
Dividend paid	-	-	-	-	-	(1,515)	-
Gains on investments	-	-	-	-	(118)	(222)	-
Expenses capitalised	-	-	-	-	-	(219)	-
Transfer between reserves	-	(1,620)	-	-	(839)	2,459	-
Retained net revenue	-	-	-	-	-	-	16
At 31 March 2012	5	22,259	7,381	1,491	546	1,704	(180)

Split as:

Ordinary Share pool	Capital redemption reserve £'000	Special reserve £'000	Share premium account £'000	Share capital to be issued £'000	Revaluation reserve £'000	Capital reserve realised £'000	Revenue reserve £'000
At 31 March 2011	5	6,077	2,794	-	619	1,101	(113)
Dividend paid	-	-	-	-	-	(518)	-
Gains on investments	-	-	-	-	167	24	-
Expenses capitalised	-	-	-	-	-	(79)	-
Transfer between reserves	-	(259)	-	-	(304)	563	-
Retained net revenue	-	-	-	-	-	-	144
At 31 March 2012	5	5,818	2,794	-	482	1,091	31

'B' Share pool	Capital redemption reserve £'000	Special reserve £'000	Share premium account £'000	Share capital to be issued £'000	Revaluation reserve £'000	Capital reserve realised £'000	Revenue reserve £'000
At 31 March 2011	-	17,802	-	-	884	100	(83)
Dividend paid	-	-	-	-	-	(997)	-
Gains on investments	-	-	-	-	(287)	(246)	-
Expenses capitalised	-	-	-	-	-	(135)	-
Transfer between reserves	-	(1,361)	-	-	(535)	1,896	-
Retained net revenue	-	-	-	-	-	-	(133)
At 31 March 2012	-	16,441	-	-	62	618	(216)

'D' Share pool	Capital redemption reserve £'000	Special reserve £'000	Share premium account £'000	Share capital to be issued £'000	Revaluation reserve £'000	Capital reserve realised £'000	Revenue reserve £'000
At 31 March 2011	-	-	-	-	-	-	-
Issue of new shares	-	-	4,854	-	-	-	-
Share issue costs	-	-	(267)	-	-	-	-
Unallotted shares	-	-	-	1,491	-	-	-
Gains on investments	-	-	-	-	2	-	-
Expenses capitalised	-	-	-	-	-	(5)	-
Retained net revenue	-	-	-	-	-	-	5
At 31 March 2012	-	-	4,587	1,491	2	(5)	5

NOTES TO THE ACCOUNTS (continued)

for the year ended 31 March 2012

13. Reserves (continued)

The Special reserve is available to the Company to enable the purchase of its own shares in the market without affecting its ability to pay capital distributions. The Special reserve, Capital reserve – realised and Revenue reserve are all distributable reserves. The distributable reserve is reduced by losses of £596,000 (2011: £nil) which are included in the Revaluation reserve.

14. Basic and diluted net asset value per share

	Shares in issue		Pence per share	2012	Pence per share	2011
	2012	2011		Net asset value £'000		Net asset value £'000
Ordinary Shares	10,371,227	10,371,227	98.7	10,232	101.2	10,494
'A' Shares	15,556,838	15,556,838	0.1	15	0.1	15
'B' Shares	19,936,370	19,936,370	84.9	16,925	93.9	18,723
'C' Shares	29,936,370	29,936,370	0.1	30	0.1	30
'D' Shares	4,859,588	-	94.5	4,594	-	-
Share capital to be issued				1,491		-
Net assets per Balance Sheet				<u>33,287</u>		<u>29,262</u>

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

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

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

	2012	As reclassified 2011
	£'000	£'000
(Loss)/return on ordinary activities before taxation	(543)	1,221
Losses/(gains) on investments	340	(1,439)
Decrease/(increase) in debtors	113	(27)
(Decrease)/increase in creditors	(9)	113
Net cash outflow from operating activities and returns on investments	<u>(99)</u>	<u>(132)</u>

The 2011 comparative cash flows have been reclassified to represent funds paid into a solicitors account and held in debtors pending completion of an investment to capital expenditure rather than as a movement on cash flows from operating activities and returns on investment. There have been no changes in the overall net movement in cash during the period.

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

	2012	2011
	£'000	£'000
Beginning of year	1,342	16,625
Net cash inflow/(outflow)	2,189	(15,283)
End of year	<u>3,531</u>	<u>1,342</u>

NOTES TO THE ACCOUNTS (continued)

for the year ended 31 March 2012

17. Financial instruments

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

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

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

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

- Market risks,
- Credit risk; and
- Liquidity risk

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

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

Market risks

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

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

- Market price risk; and
- Interest rate risk

Market price risk

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

At 31 March 2012, the Structured Product portfolio was valued at £8,779,000.

NOTES TO THE ACCOUNTS (continued)

for the year ended 31 March 2012

17. Financial instruments (continued)

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

As at 31 March 2012

	Risk exposure at 31 March 2012 £'000	
Structured Products		<u>8,779</u>
FTSE 100 at 31 March 2012		<u>5,768</u>
	Estimated Impact on NAV £'000	Estimated Impact on NAV Pence
Movement in FTSE 100 Index		
Ordinary Shares		
20% increase to 6,922	<u>209</u>	<u>2.0p</u>
20% decrease to 4,614	<u>(209)</u>	<u>(2.0p)</u>
'B' Shares		
20% increase to 6,922	<u>644</u>	<u>3.8p</u>
20% decrease to 4,614	<u>(644)</u>	<u>(3.8p)</u>
'D' Shares		
20% increase to 6,922	<u>180</u>	<u>3.9p</u>
20% decrease to 4,614	<u>(180)</u>	<u>(3.9p)</u>

As at 31 March 2011

	Risk exposure at 31 March 2011 £'000	
Structured Products		<u>14,435</u>
FTSE 100 at 31 March 2011		<u>5,909</u>
	Estimated Impact on NAV £'000	Estimated Impact on NAV Pence
Movement in FTSE 100 Index		
Ordinary Shares		
20% increase to 7,091	<u>349</u>	<u>3.4p</u>
20% decrease to 4,727	<u>(349)</u>	<u>(3.4p)</u>
'B' Shares		
20% increase to 7,091	<u>1,075</u>	<u>5.4p</u>
20% decrease to 4,727	<u>(1,075)</u>	<u>(5.4p)</u>

NOTES TO THE ACCOUNTS (continued)

for the year ended 31 March 2012

17. Financial instruments (continued)

At 31 March 2012, the unquoted portfolio was valued at £20,566,000.

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

10% movement in unquoted investment valuations

Unquoted investments	2012		2011	
	Impact on net assets £'000	Impact on NAV per share Pence	Impact on net assets £'000	Impact on NAV per share Pence
Share pool				
Ordinary Shares	831	8.1p	653	6.3p
'B' Shares	1,126	6.7p	470	2.4p
'D' Shares	100	2.2p	-	-

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

Interest rate risk

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

NOTES TO THE ACCOUNTS (continued)

for the year ended 31 March 2012

17. Financial instruments (continued)

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

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

	Average interest rate	Average period until maturity	2012 £'000	2011 £'000
Fixed rate	3.1%	1,019 days	15,799	8,791
Floating rate	0.5%		3,531	1,342
No interest rate			13,957	19,129
			<u>33,287</u>	<u>29,262</u>

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

It is estimated that an increase of 1% in interest rates would have increased total return before taxation for the year by £35,000. As the Bank of England base rate stood at 0.5% per annum throughout the year, it is not believed that a reduction from this level is likely.

Credit risk

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

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

	2012 £'000	2011 £'000
Investments in loan stocks	15,799	8,791
Investments in Structured Products	8,779	14,435
Cash and cash equivalents	3,531	1,342
Interest and other receivables	60	175
	<u>28,169</u>	<u>24,743</u>

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

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

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

Liquidity risk

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

NOTES TO THE ACCOUNTS (continued)

for the year ended 31 March 2012

17. Financial instruments (continued)

As the Company has a relatively low level of creditors, being £307,000 (2011: £316,000), and has no borrowings, the Board believes that the Company's exposure to liquidity risk is low. Also, some quoted investments held by the Company are considered to be readily realisable. The Company always holds sufficient levels of funds as cash and readily realisable investments in order to meet expenses and other cash outflows as they arise. For these reasons, the Board believes that the Company's exposure to liquidity risk is minimal.

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

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

The carrying value of loan stock investments held and at fair value through the profit and loss account at 31 March 2012, as analysed by expected maturity date, is as follows:

As at 31 March 2012	Not later than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 3 years £'000	Between 3 and 5 years £'000	More than 5 years £'000	Total £'000
Fully performing loan stock	2,868	32	1,403	6,874	-	11,177
Past due loan stock	439	-	782	3,401	-	4,622
	<u>3,307</u>	<u>32</u>	<u>2,185</u>	<u>10,275</u>	<u>-</u>	<u>15,799</u>
As at 31 March 2011	Not later than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 3 years £'000	Between 3 and 5 years £'000	More than 5 years £'000	Total £'000
Fully performing loan stock	1,751	106	106	5,276	-	7,239
Past due loan stock	1,087	-	-	465	-	1,552
	<u>2,838</u>	<u>106</u>	<u>106</u>	<u>5,741</u>	<u>-</u>	<u>8,791</u>

Of the loan stock classified as "past due" above, £4,368,000 relates to the principal of loan notes where, although the principal remains within term, the investee company is not fully servicing the interest obligations under the loan note and is thus in arrears. As at the balance sheet date, the extent to which the interest giving rise to the classification of the loan notes as past due falls within the banding of one to two years past due. Notwithstanding the arrears of interest, the Directors do not consider that the loan note itself has been impaired or the maturity of the principal has altered.

Of the loan stock classified as "past due" above, £254,000 relates to the principal of loan notes where the principal has passed its maturity date. As at the balance sheet date, the extent to which the principle is past its maturity date giving rise to the classification of the loan notes as past due falls within the banding of nil to six months past due. Notwithstanding that the principal has passed its maturity date, the Directors do not consider that the loan note itself has been impaired or the maturity of the principal has altered.

18. Contingencies, guarantees and financial commitments

At 31 March 2012, the Company had no contingencies, guarantees or financial commitments.

19. Controlling party and related party transactions

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

20. Post Balance Sheet event

Since the year, the Company received further subscription monies of approximately £1.3 million. Between 2 April 2012 and 1 June 2012 the Company issued 2,737,418 'D' Shares for an average price of £1 and an aggregate consideration of £2.6 million, which excludes issue costs of £151,000.

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

NOTICE IS HEREBY GIVEN that the third Annual General Meeting of Downing Structured Opportunities VCT 1 plc will be held at 10 Lower Grosvenor Place, London SW1W 0EN at 10:00 a.m. on 25 September 2012 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 2012 together with the report of the Auditor thereon.
2. To approve the Directors' Remuneration Report.
3. To approve the payment of final dividends of 2.5p per Ordinary Share, 2.5p per 'B' Share and 2.5p per 'D' Share.
4. To re-appoint PKF (UK) LLP as Auditor of the Company to hold office until the conclusion of the next Annual General Meeting at which accounts of the Company are presented and to authorise the Directors to determine their remuneration.
5. To re-elect as Director, Lord Flight, who retires and, being eligible, offers himself for re-election.
6. To re-elect as Director, Robin Chamberlayne, who retires and, being eligible, offers himself for re-election.
7. To re-elect as Director, Mark Mathias, who retires and, being eligible, offers himself for re-election.

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

Special Resolution

8. That, the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 693(4) of the Companies Act 2006) of Ordinary Shares of 0.1p each ("Ordinary Shares"), 'A' Shares of 0.1p each ("A' Shares"), 'B' Shares of 0.1p each ("B' Shares"), 'C' Shares of 0.1p each ("C' Shares") and 'D' Shares of 0.1p each ("D' Shares") in the capital of the Company provided that:
 - (i) the maximum number of Ordinary Shares hereby authorised to be purchased is 1,545,313 representing approximately 14.9% of the issued Ordinary Share capital, 2,317,969 representing approximately 14.9% of the issued 'A' Share capital, 2,970,519 representing approximately 14.9% of the issued 'B' Share capital 4,460,519 representing approximately 14.9% of the issued 'C' Share capital and 1,131,954 representing approximately 14.9% of the issued 'D' Share capital of the Company from time to time;
 - (ii) the minimum price which may be paid for an Ordinary Share, 'A' Share, 'B' Share, 'C' Share or 'D' Share is 0.1p, exclusive of all expenses;
 - (iii) the maximum price which may be paid for an Ordinary Share, 'A' Share, 'B' Share, 'C' Share or 'D' Share is an amount, exclusive of all expenses, equal to 105% of the average of the middle market quotations of the relevant share as derived from the Daily Official List of the London Stock Exchange, for each of the five business days immediately preceding the day on which the share is contracted to be purchased; and
 - (iv) the Company may validly make a contract to purchase its own Ordinary Shares, 'A' Shares, 'B' Shares, 'C' Shares or 'D' Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may validly make a purchase of Ordinary Shares, 'A' Shares, 'B' Shares, 'C' Shares or 'D' Shares in pursuance of any such contract;

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

By order of the Board



Grant Whitehouse
Company Secretary

Registered office:
10 Lower Grosvenor Place
London SW1W 0EN

5 July 2012

Notes

- (a) Any member of the Company entitled to attend and vote at the Annual General Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the Annual General Meeting in order to represent his appointor. A member entitled to attend and vote at the Annual General Meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person. If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in these Notes. Please read Note (h) below. Under section 319A of the Act, the Company must answer any question a member asks relating to the business being dealt with at the Annual General Meeting unless:
- answering the question would interfere unduly with the preparation for the Annual General Meeting or involve the disclosure of confidential information;
 - the answer has already been given on a website in the form of an answer to a question; or
 - it is undesirable in the interests of the Company or the good order of the Annual General Meeting that the question be answered.
- (b) To be valid, a Form of Proxy and the power of attorney or other written authority, if any, under which it is signed or an office or notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority, must be delivered to Downing LLP, 10 Lower Grosvenor Place, London SW1W 0EN or electronically at proxy@downing.co.uk, in each case not less than 48 hours (excluding weekends and public holidays) before the time appointed for holding the Annual General Meeting or adjourned meeting at which the person named in the Form of Proxy proposes to vote. In the case of a poll taken more than 48 hours (excluding weekends and public holidays) after it is demanded, the document(s) must be delivered as aforesaid not less than 24 hours (excluding weekends and public holidays) before the time appointed for taking the poll, or where the poll is taken not more than 48 hours (excluding weekends and public holidays) after it was demanded, be delivered at the meeting at which the demand is made.
- (c) In order to revoke a proxy instruction a member will need to inform the Company using one of the following methods:
- by sending a signed hard copy notice clearly stating the intention to revoke the proxy appointment to Downing LLP, 10 Lower Grosvenor Place, London SW1W 0EN. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.
 - by sending an e-mail to proxy@downing.co.uk.
- In either case, the revocation notice must be received by Downing LLP before the Annual General Meeting or the holding of a poll subsequently thereto. If a member attempts to revoke his or her proxy appointment but the revocation is received after the time specified then, subject to Note (d) directly below, the proxy appointment will remain valid.
- (d) Completion and return of a Form of Proxy will not preclude a member of the Company from attending and voting in person. If a member appoints a proxy and that member attends the Annual General Meeting in person, the proxy appointment will automatically be terminated.
- (e) Copies of the Directors' Letters of Appointment and the Register of Directors' interests in the Shares of the Company, will be available for inspection at the registered office of the Company during usual business hours on any weekday (excluding weekends and public holidays) from the date of this notice, until the end of the Annual General Meeting for at least 15 minutes prior to and during the meeting.
- (f) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those holders of the Company's shares registered on the Register of Members of the Company as at 10:00 a.m. on 25 September 2012 or, in the event that the Annual General Meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the said Annual General Meeting in respect of such shares registered in their name at the relevant time. Changes to entries on the Register of Members after 10:00 a.m. on 25 September 2012 or, in the event that the Annual General Meeting is adjourned, on the Register of Members less than 48 hours before the time of any adjourned meeting, shall be disregarded in determining the right of any person to attend and vote at the Annual General Meeting.
- (g) As at 9 a.m. on 5 July 2012, the Company's issued share capital comprised 10,371,227 Ordinary Shares, 15,556,838 'A' Shares, 19,936,370 'B' Shares, 29,936,370 'C' Shares, and 7,597,006 'D' Shares and the total number of voting rights in the Company was 37,904,603. 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; and
 - Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.
- (i) A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.
- (j) A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, the proxy will vote or abstain from voting at his or her discretion. The proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Annual General Meeting.
- (k) Except as provided above, members who have general queries about the Annual General Meeting should write to the Chairman at the registered office set out above.
- (l) Members may not use any electronic address provided either in this notice of Annual General Meeting, or any related documents (including the Chairman's letter and Form of Proxy), to communicate with the Company for any purposes other than those expressly stated.

FORM OF PROXY

DOWNING STRUCTURED OPPORTUNITIES VCT 1 PLC

For use at the Annual General Meeting of the above-named Company to be held on 25 September 2012 at 10 Lower Grosvenor Place, London SW1W 0EN at 10:00 a.m.

I/We*(in BLOCK CAPITALS please)

of

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

or

of

as my/our* proxy to attend for me/us* on my/our* behalf at the Annual General Meeting of the Company to be held at 10 Lower Grosvenor Place, London SW1W 0EN on 25 September 2012 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

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

SPECIAL BUSINESS

8. To authorise the Directors to make market purchases of the Company's shares.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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Signature Date:2012

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

* Delete as appropriate

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



NOTES AND INSTRUCTIONS:

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



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