

# Downing ONE VCT plc

Report & Accounts  
for the year ended  
31 March 2018



## SHAREHOLDER INFORMATION

### Share prices

The Company's share price can be found on various financial websites with the TIDM/EPIC code **DDV1**. The share price is also available on Downing's website ([www.downing.co.uk](http://www.downing.co.uk)).

Latest share price at 11 July 2018: 81.25p per share

### Financial calendar

|                |                                   |
|----------------|-----------------------------------|
| 22 August 2018 | Annual General Meeting ("AGM")    |
| 24 August 2018 | Payment of final dividend         |
| November 2018  | Announcement of half year results |

### Dividends

Dividends are paid by the registrar on behalf of the Company. Shareholders who wish to have dividends paid directly into their bank account, rather than by cheque to their registered address, can complete a mandate form for this purpose (forms can be downloaded from [www.linkassetservices.com](http://www.linkassetservices.com)). Queries relating to dividends, shareholdings, and requests for mandate forms should be directed to the Company's registrar, Link Asset Services, 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.

### Selling shares

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

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

The Company is, however, unable to buy back shares direct from Shareholders, so you will need to use a stockbroker to sell your shares. If you are considering selling your shares or wish to buy shares in the secondary market, please contact the Company's Corporate Broker, Panmure Gordon (UK) Limited ("Panmure"). Panmure can be contacted as follows:

Chris Lloyd  
0207 886 2716  
[chris.lloyd@panmure.com](mailto:chris.lloyd@panmure.com)

Paul Nolan  
0207 886 2717  
[paul.nolan@panmure.com](mailto:paul.nolan@panmure.com)

### Share scam warning

We are aware that a significant number of shareholders of VCTs managed by both Downing and other VCT managers/advisers 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. If you have any concerns, please contact Downing on 020 7416 7780.

### Notification of change of address

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

### Other information for Shareholders

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

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

If you have any queries regarding your shareholding in Downing ONE VCT plc, please contact the registrar on the above number or visit Link's website at [www.linkassetservices.com](http://www.linkassetservices.com) and click on "Share Portal".

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# FINANCIAL HIGHLIGHTS

## Total Return Increase

Total Return (Net Asset Value plus dividends) increased by 4.6 pence per share (4.2%) from 108.4 pence per share on 31 March 2017 to 113.0 pence per share at this year-end.

## Dividend

The proposed final dividend of 3.0 pence per share will result in total dividends for the financial year of 6.0 pence per share (2017: 7.5 pence per share), equivalent to 6.6% based on the opening net asset value.

## Significant portfolio activity

The year has seen a continued steady level of portfolio activity with 26 realisations giving rise to total proceeds of £19.3 million and net realised gains of £1.0 million.

### FINANCIAL SUMMARY

|  | <b>31 Mar<br/>2018<br/>pence</b> | <b>31 Mar<br/>2017<br/>pence</b> |
|--|----------------------------------|----------------------------------|
| Net asset value per share ("NAV")  | 87.5                             | 90.4                             |
| Cumulative dividends paid since 12 November 2013                               | 25.5                             | 18.0                             |
| <b>Total return</b> (net asset value plus cumulative dividends paid per share) | <u>113.0</u>                     | <u>108.4</u>                     |
| <b>Dividends in respect of financial year</b>                                  |                                  |                                  |
| Interim dividend per share   | 3.0                              | 3.0                              |
| Proposed final dividend per share  | 3.0                              | 4.5                              |
|  | <u>6.0</u>                       | <u>7.5</u>                       |

### DIVIDEND POLICY

The Directors are targeting an annual dividend of at least 4% of net assets per annum, subject to sufficient distributable reserves and capital resources.

A full dividend history for the Company can be found at [www.downing.co.uk](http://www.downing.co.uk).

## INVESTMENT OBJECTIVES

The Company's principal investment objectives are:

- To provide private investors with attractive returns from a portfolio of investments focused on unquoted and AIM quoted companies; and
- to maintain VCT status so that the Company and its shareholders may benefit from the tax reliefs and exemptions available under the VCT legislation.

The detailed investment policy adopted to achieve the investment objectives is set out in the Strategic Report on pages 22 to 23.

## DIRECTORS

**Chris Kay** (Chairman) has over 30 years' experience in the venture capital industry. He spent nine years with 3i Group plc, where he was an investment director, and a further eight years at Elderstreet Investments Limited, where he headed the VCT team. He is a chief executive of Chrysalis VCT Management Limited. He is a Cambridge University graduate and gained an MBA at Manchester Business School. He was formerly chairman of Downing Absolute Income VCT 1 plc and a non-executive director of Downing Income VCT plc and Downing Income VCT 4 plc.

**Barry Dean** is a chartered accountant and has over 30 years' experience in the private equity industry including 14 years as managing director of Dresdner Kleinwort Benson Private Equity Limited. He is currently a non-executive director of Elderstreet Draper Esprit VCT plc and ProVen VCT plc. He was formerly a non-executive director of Downing Absolute Income VCT 2 plc.

**Stuart Goldsmith** is chairman of Ketton Securities Limited, a firm that advises a range of companies on corporate strategy, mergers and acquisitions, which he founded in 1989. Previously, he was chairman and chief executive of two groups of the financial services companies - Fredericks Place Group, which offered private client investment management and financial planning services and the Britannia Group of Investment Companies, which managed £4 billion of funds in London and the USA for institutions and private clients. He has been a non-executive director of a number of companies, including Savoy Asset Management and the Hallwood Group.

All the Directors are non-executive and independent of the Investment Adviser.

## CHAIRMAN'S STATEMENT

I am pleased to present the Company's Annual Report for the year ended 31 March 2018.

The year saw a reasonable amount of investment activity along with the completion of a successful offer for subscription which has provided the Company with further funds for investment and increased the size of the Company.

### Net asset value and results

As at 31 March 2018, the net asset value per share ("NAV") stood at 87.5p, an increase of 4.6p (5.1%) after adding back dividends of 7.5p per share which were paid during the year.

The Income Statement shows a return attributable to equity shareholders for the year of £4.8 million comprising a revenue gain of £2.1 million and a capital return of £2.7 million.

### Fundraising

The Company launched an offer for subscription in September 2017, which closed in April 2018 having reached the full capacity of £30 million. With the size of the Company now increased, the burden of the fixed running costs on all Shareholders is reduced and the task of starting to invest the new funds is now underway.

### Investment activity and performance

At the year end, the Company held a portfolio of 79 investments. Of these, 31 are either quoted on AIM or the NEX Exchange Growth Market and have a value of £30.0 million (36.8% of the portfolio). The 48 unquoted investments have a value of £51.6 million and represent 63.2% of the portfolio.

Further details on the investment activity are included in the Investment Adviser's Reports on pages 5 to 10.

### Dividends

The Company has a policy of seeking to pay annual dividends of at least 4% of net assets per annum.

The Board is again proposing to pay a final dividend higher than the target level in view of the level realisations achieved. A final dividend of 3.0p per share to be paid on 24 August 2018, subject to Shareholder approval at the forthcoming AGM, to Shareholders on the register at 3 August 2018. This will bring total dividends in respect of the year ended 31 March 2018 to 6.0p per share (2017: 7.5p), which represents a yield based on opening NAV of 6.6% pa.

Shareholders are reminded that the Company operates a Dividend Reinvestment Scheme for those investors that wish to reinvest their dividends and obtain further income tax relief on the reinvested dividend. A Dividend Reinvestment Form is available on Downing's website or further information can be obtained by contacting Downing.

### Share buybacks

The Company continues to operate a policy of buying in its own shares that become available in the market at a 5% discount to NAV (subject to liquidity and any regulatory restrictions).

During the year, the Company purchased 2,099,238 shares at an average price of 83.8p per share.

The Company retains Panmure Gordon as its corporate broker to assist in operating the share buyback process and ensuring that the quoted spread on the Company's shares remains at a reasonable level. Contact details for Panmure Gordon are on page 62.

## CHAIRMAN'S STATEMENT (continued)

### Annual General Meeting

The Company's next Annual General Meeting ("AGM") will be held at Downing LLP, 6<sup>th</sup> floor, St. Magnus House, 3 Lower Thames Street, London, EC3R 6HD at 10:45 a.m. on 22 August 2018.

Three items of special business are proposed at the AGM:

- one in respect of the authority to buy back shares as noted above, and
- two in respect of the authority to allot shares.

The offer for subscription mentioned above gave investors the opportunity to make regular monthly subscriptions in the Company. The authority to allot shares ensures the Company will be able to allot shares to monthly investors and also give the Board the opportunity to consider further fundraising options without having to necessarily incur the expense of seeking separate approval via a circular. Any decision on future fundraising will, of course, give consideration to the level of uninvested funds already held by the Company and the rate of investment.

### Outlook

Shareholders will likely be aware that the Government has made significant changes to the VCT scheme in the last two years in order to refocus it towards young growth companies. A feature of Downing ONE is that it holds a substantial portfolio of investments, in both the growth and income focussed categories, made before the latest rule changes. The Company can continue to benefit from holding this broader range of assets, however additions made in the future will mainly now be growth investments. The Board is pleased to report that the Investment Adviser is generating a steady flow of suitable investment opportunities that fall within the new parameters. Over time, as the available funds are invested, we expect the balance of the portfolio to shift gradually towards growth investments. This will increase the risk profile of the portfolio but also provides the opportunity for greater rewards.

Against this background, the Board has had some initial discussions with the Investment Adviser about the possibility of introducing a performance incentive scheme. Such schemes are common in the VCT industry and are a helpful tool in assisting the Adviser to attract and retain talented and experienced executives. This is particularly important now that the investment focus has shifted to growth investing and the environment is becoming increasingly competitive. The Board will work with the Adviser to seek to design a scheme which it believes to be in the best interests of Shareholders and expects to be able to circulate formal proposals to Shareholders for approval in the coming months.

In summary, the Board feels the Company is well positioned in holding a diversified existing portfolio and further developing the portfolio of growth investments with the new funds.

I look forward to meeting Shareholders at the AGM and to reporting developments in my statement with the Half Year Report to 30 September 2018.



**Chris Kay**  
Chairman  
12 July 2018



## INVESTMENT ADVISER'S REPORT - OVERVIEW

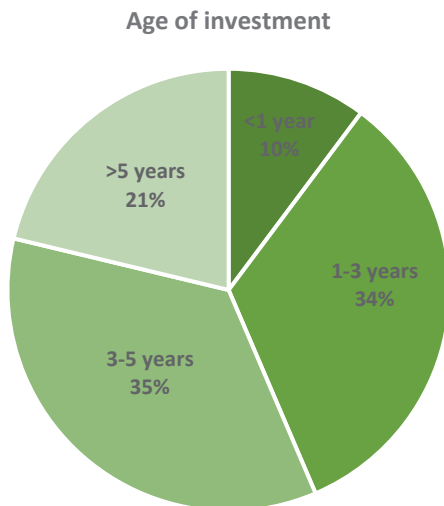
### Introduction

We are pleased to present a review of the investment portfolio and activity over the last financial year. Our review is split into three parts comprising this overview, a detailed report on the unquoted investments on pages 8 to 9 and a report on quoted investments on page 10.

### Portfolio Overview

At 31 March 2018, the Company held a portfolio with a value of £81.6 million comprising 79 quoted and unquoted companies, across a diverse range of sectors in both growth and income-focussed investments.

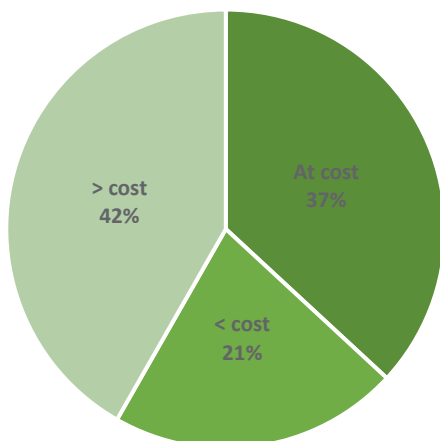
A significant proportion of the portfolio is in maturing investments as is illustrated by the chart below. This shows investment value analysed by age of investment



### Portfolio Performance

The performance of the portfolio over the year has been positive with unrealised gains of £2.3 million (2017: £2.1 million) evenly split between the quoted and unquoted portfolios. Overall 79% of the portfolio is held at a valuation either at or above cost.

**Valuation compared to cost**



The net unrealised gains in the quoted portfolio totalled £1.2 million. The largest unrealised gains in the quoted portfolio were Craneware plc (£950,000), Tracsis plc (£732,000) and Anpario plc (£711,000). These were partially offset by unrealised losses on Universe Group plc (£567,000) and Downing Strategic Micro Cap Investment Trust plc (£400,000). Other smaller gains and losses amounted to a net loss of £219,000.

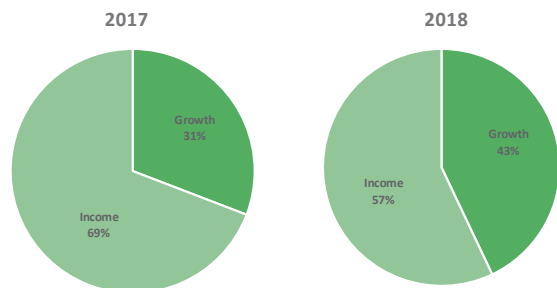
The unrealised gains in the unquoted portfolio totalled £1.1 million. Within the unquoted portfolio the largest unrealised gains were on Data Centre Response Limited (£281,000) and Downing Care Home Limited (£245,000).

Realised profits in the period mostly came from the unquoted portfolio with £510,000 generated from the sale of the Anaerobic Digestion plant, Vulcan Renewables Limited and £464,000 on the full exit from Giving Limited.

Further details on these and other movements can be found within the quoted and unquoted Investment Adviser Reports.

### Increased focus on growth investments

The charts below show how the proportion of the portfolio represented by growth investments has increased over the last year. This is mainly due to newer investments being made mostly in the growth category in line with the changes in the VCT regulations that have taken place over the last two years.



Several of the recent unquoted growth investments have been completed alongside funds from the Downing EIS funds which invest in early-stage UK technology companies. As these investee companies become more mature, they generally require further funding rounds to support their growth and this provides a good pipeline of investment opportunities for the Company.

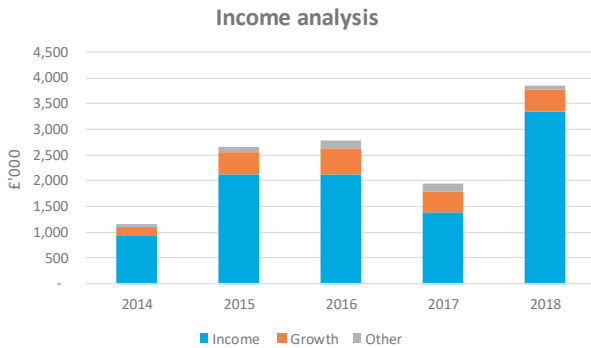
It is our expectation that the proportion of growth investments in the portfolio will steadily increase over the coming years. This will result in a gradual increase of the overall risk profile of the portfolio over time but also provides the Company with greater prospects of benefitting from the higher rewards that can arise from backing such businesses.



## INVESTMENT ADVISER'S REPORT – OVERVIEW (continued)

### Reliable income generation

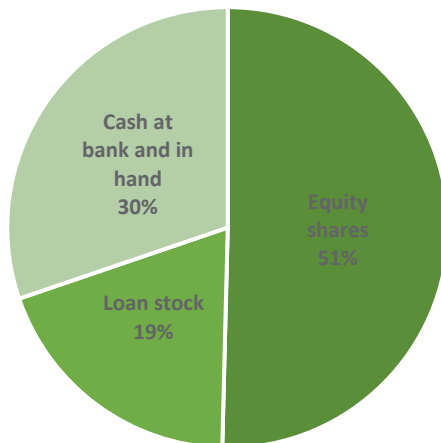
Whilst the proportion of income-focused investments by value in the portfolio has declined to 57% (2017:69%), it is comforting to see that income generated in 2018 at over £3.5 million across the portfolio, is higher than it has been in any year since the merger date (2013).



### Portfolio Composition

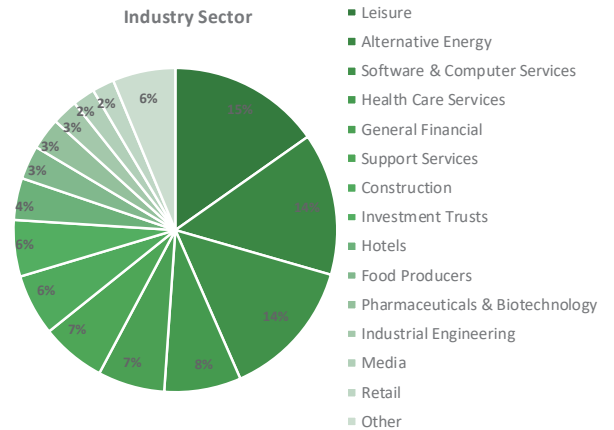
Following the 2017/18 fundraising and some significant realisations, 30% of the net assets of the Company are currently held in cash. Focus for the coming year is on deploying these funds into qualifying investments within our investment pipeline.

#### Security type \*



\*includes cash and cash equivalents

The diversified portfolio of the Company is reflected in the following chart and shows that the main sectors in which the Company has invested are Leisure, Alternative Energy and Software and Computer Services albeit the maximum exposure to any sector is 15%.

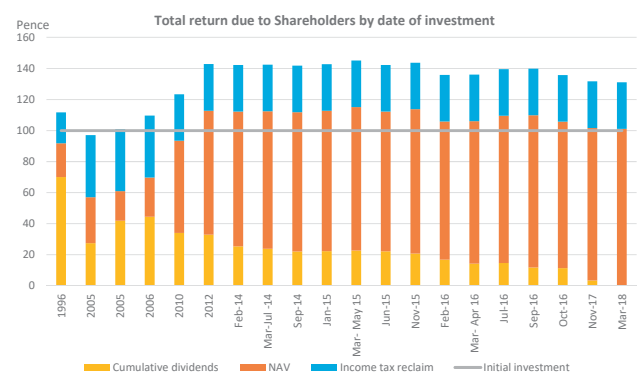
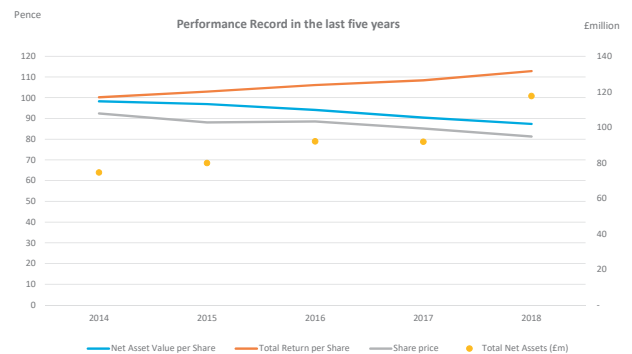


### Net asset value and results

The net asset value per Share ("NAV") at 31 March 2018 stood at 87.5p, compared to the NAV at 31 March 2017 of 90.4p. Total Return (NAV plus cumulative dividends paid since the merger in 2013) is 113.0p.

The charts below summarise the performance of the company over the past five years since the merger, and the total returns to investors since the incorporation of the VCT.

The return on ordinary activities after taxation for the year was £4.8 million, comprising a revenue profit of £2.1 million and a capital profit of £2.7 million.



## **INVESTMENT ADVISER'S REPORT – OVERVIEW (continued)**

### **Outlook**

The recent changes to the VCT regulations have ensured that any new investment activity is now focussed on growth investments, being the area where the Government wishes to incentivise the investment of capital. Downing has made adjustments to its investment team as these changes have come into force to ensure that we are able to generate high quality deal flow to meet the Company's demands. Our pipeline of suitable investments is now developing well and should allow us to invest a significant proportion of the available funds over the coming year.

We are reasonably satisfied with the existing portfolio which comprises a significant number of investments. Close monitoring and support of these businesses will continue to be a primary activity for the team over the next year, as well as pursuing exit opportunities from the more mature businesses as and when they arise.

**Downing LLP**

12 July 2018

## INVESTMENT ADVISER'S REPORT – UNQUOTED PORTFOLIO

We present a review of the unquoted investment portfolio for the year ended 31 March 2018.

### Investment activity

At 31 March 2018, the unquoted portfolio of 48 investments was valued at £51.6 million.

During the period, the Company invested a total of £5.1 million in unquoted companies comprising five new opportunities and three follow-on investments. In addition, there was a £490,000 share for share restructure of two pub investments (Pabulum and Augusta), which are now both held through Downing Pub EIS One Limited.

The five new investments were as follows: -

**Empiribox Holdings Limited (£750,000)** provides equipment and training to enable teachers to deliver engaging and practical science lessons to pupils in primary schools across the UK.

**Volo Commerce Limited (£567,000)** has created an SAAS-based Enterprise Resource Planning platform to support online merchants and brands selling through market places such as Amazon and eBay.

**BridgeU Corporation (£394,000)** is an educational technology business focussing on student university applications by working to enhance students' decision making and application processes.

**E Fundamentals (Group) Limited (£278,000)** has developed a Software as a Service (SaaS) analytics tool sold to companies which own consumer brands to enable them to accurately assess the performance of their products when being sold through third party e-commerce sites.

**Limitless Technology Limited (£174,000)** is a technology company which sells software to enable customer service inquiries to be answered by "ambassadors" - people who don't work for the company, but earn money based on the number of questions they answer and the quality of answers.

Follow on investments totalling £2.5 million were made into Xupes Limited (£1.2 million), Leytonstone Pub Limited (£850,000) and Curo Compensation Limited (£400,000).

Details of the realisations of investments in the year are set out on page 15. Total proceeds of £17.7 million were generated, producing profits over holding value of £1.2 million.

Vulcan Renewables Limited, the anaerobic digestion plant near Doncaster, was the biggest disposal during the year and was sold during the summer at a profit of £510,000.

Giving Limited, which operates the leading online platform for charitable sponsorship in the UK, justgiving.com, in which the Company held a minority interest, was bought out by a US based software developer for 5.5 times the amount invested, a profit of £464,000 for the VCT.

The Scottish licenced leisure companies (City Falkirk Limited, Cheers Dumbarton Limited, Lochrise Limited, and Fubar Stirling Limited) were also disposed of in full, exiting at a modest profit of £121,000 against holding value, after recent years of difficult trading.

Gatewales Limited and Tramps Night Club Limited continue to repay loan notes in line with their agreed repayment schedules.

Rhodes Solutions Limited, Brownfields Trading Limited and Vectis Alpha Limited were set up in 2016 to seek investment opportunities in specific sectors. No appropriate deals were identified and so the companies have been wound up, returning £7.5 million to the Company in order to invest in new qualifying investments.

Gara Rock Resort Limited (previously Aminghurst Limited) loan notes were redeemed in full and generated proceeds of £672,000.

Loan notes from Mosaic Spa and Health Clubs Limited were partially redeemed generating realised losses recognised in previous year's valuation write downs.

### Portfolio valuation

The unquoted portfolio performance for the year was positive, with an uplift in value of £1.1 million (2.0% of opening value).

Data Response Centre Limited has recently completed a bolt-on acquisition and the group is continuing to outperform its budget. There are significant expected synergies from the new partnership which have been ignored for valuation purposes, but give us reason to be positive about the future outlook of the business. A valuation increase of £281,000 has been recognised in the year.

Downing Care Homes Limited, which owns four care homes, was uplifted in value by £245,000 following good performance in the year when occupancy levels at all four homes have continued to improve. We expect the budget will be achieved for this financial year.

The underlying value of the property held in Leytonstone Pub Limited has resulted in a further uplift of £186,000.

## INVESTMENT ADVISER'S REPORT – UNQUOTED PORTFOLIO (continued)

### Portfolio valuation (continued)

FCT No.1 Limited was formerly known as First Care Limited. The Company holds a small interest in the business and an offer was recently received for the shares that was turned down because it is believed that it undervalued the potential value of the company. The valuation has been uplifted to the offer price and this resulted in an uplift of £171,000 (75% uplift over the opening value).

Kimbolton Lodge Limited, the care home in Bedford was valued up by £121,000 in the year on the back of stronger trading.

These gains were partially offset by some valuation write downs in the period totalling £200,000. The most significant decrease in value was Tramps Night Club Limited, the owner of three nightclub sites in central Worcester which reduced in value by £74,000 following a challenging period of trading.

### Outlook

Following a series of new investments during the period, we are satisfied with the composition of the portfolio for the year to 31 March 2018 and are confident that the current deal flow will provide the opportunity to build further. In addition, we shall continue to closely monitor the current portfolio companies as they reach maturity.

### Downing LLP

12 July 2018

## INVESTMENT ADVISER'S REPORT - QUOTED PORTFOLIO

### Investment activity

As at 31 March 2018, the quoted portfolio was valued at £30.0 million comprising of 31 holdings. Over 48% of the quoted portfolio is accounted for in the top 10 holdings.

The quoted portfolio saw relatively little change in the year. One partial and two full disposals were made, realising gains (versus cost) of £182,000. Hornby plc, the international hobby products group, was a full disposal from the portfolio resulting in a loss against cost of £384,000 and a loss against the brought forward valuation of £43,000. The position was exited prior to a profit warning due to a lack of confidence in new management and the strategy it was seeking to deploy. There were two new quoted holdings in the year, the largest being an investment of £5 million into the Downing Strategic Micro-Cap Investment Trust.

### Portfolio Movements

The main positive contributors to performance were Craneware plc, the market leader in Value Cycle solutions for the US healthcare market, which contributed £950,000 of unrealised gains. Growing market opportunities, a record sales pipeline and increasing long-term revenue visibility supports Craneware's continued future growth.

Tracsis plc, a traffic data software company, delivered strong revenue growth over the period. All key financial and operational metrics were comfortably ahead of the previous year, with good progress being made on a number of strategic initiatives. Tracsis' core target markets of rail technology and traffic and transport data services continue to be supported by a favourable market backdrop and positive growth drivers. Tracsis contributed £732,000 of unrealised gains to the portfolio.

Negative contributors to the portfolio included Universe Group plc, a company that develops and supports point of sale, payment and online loyalty solutions for the UK petrol forecourt and convenience store markets. Universe reduced the value of the portfolio by £567,000. The company's performance was dependant on a small number of high value contracts being executed, and delays to these projects drove down the share price. However, Universe has had a solid start to 2018, with a contract extension with a large food retailer as well as the prospect of new business from a major international forecourt operator. Management report that take-up of next generation products and feed-back from customers bodes well for the future.

The Company holds a non-qualifying investment in Downing Strategic Micro-Cap Investment Trust which is a focused portfolio of UK micro-cap investments with the target to achieve compound returns of 15% per year over the long term. The Trust, which is currently trading at a premium, is managed by the Downing team who manage the quoted portfolio of the Company.

This holding was also a negative contributor, reducing the value of the portfolio by £400,000. While the net asset value per share fell, management reported the investment rate is encouraging. The Trust overlays various strategic mechanisms meaning that it seeks definable catalysts to realise the underlying value of portfolio holdings. However, these mechanisms take time to deploy and typically even longer to mature, hence the average investment horizon is around five to seven years.

As the Trust's portfolio matures and these strategic mechanisms evolve, the investment strategy should deliver returns regardless of prevailing market sentiment.

Generally, we are confident of the longer-term prospects for the quoted portfolio.

**Downing LLP**

12 July 2018

## REVIEW OF INVESTMENTS

### Portfolio of investments

The following investments, all of which are incorporated in England and Wales, were held at 31 March 2018:

|   | Cost<br>£'000 | Valuation<br>£'000 | Valuation<br>movement<br>in year<br>£'000 | % of<br>portfolio<br>by value | Total invested<br>by Funds also<br>managed by<br>Downing LLP <sup>1</sup><br>£'000 |
|---|---------------|--------------------|---|-------------------------------|--|
| <b>Top ten venture capital investments</b>          |               |                    |   |                               |  |
| Doneloans Limited                                   | 5,000         | 5,000              | -   | 4.3%                          | -  |
| Downing Strategic Micro-Cap Investment Trust plc*** | 5,000         | 4,600              | (400)                                     | 3.9%                          | 4,800  |
| Downing Care Homes Holdings Limited                 | 3,880         | 4,495              | 245                                       | 3.8%                          | -  |
| Tracsis plc*  | 1,443         | 3,930              | 732                                       | 3.4%                          | 2,538  |
| Leytonstone Pub Limited                             | 1,911         | 3,686              | 186                                       | 3.1%                          | -  |
| Craneware plc*                                      | 850           | 3,151              | 950                                       | 2.7%                          | 1,091  |
| Cadbury House Holdings Limited                      | 3,081         | 3,075              | -   | 2.6%                          | 1,410  |
| Baron House Developments LLP                        | 2,695         | 2,695              | -   | 2.3%                          | 2,055  |
| Anpario plc*  | 1,448         | 2,598              | 711                                       | 2.2%                          | 2,610  |
| Pilgrim Trading Limited                             | 2,594         | 2,594              | -   | 2.2%                          | 3,176  |
|   | 27,902        | 35,824             | 2,424                                     | 30.5%                         | 17,680   |
| <b>Other quoted investments</b>                     |               |                    |   |                               |  |
| Inland Homes plc*                                   | 1,526         | 1,862              | 76  | 1.6%                          | -  |
| Universe Group plc*                                 | 1,586         | 1,781              | (567)                                     | 1.5%                          | 1,948  |
| Science in Sport plc*                               | 1,239         | 1,458              | (276)                                     | 1.2%                          | 4,397  |
| Vianet Group plc*                                   | 951           | 1,323              | 387                                       | 1.1%                          | -  |
| Finsbury Food Group plc*                            | 655           | 1,298              | 133                                       | 1.1%                          | 1,951  |
| Amino Technologies plc*                             | 700           | 1,066              | 5   | 0.9%                          | 3,154  |
| Impact Healthcare REIT plc***                       | 1,017         | 1,000              | (18)                                      | 0.9%                          | -  |
| Pittards plc*                                       | 1,350         | 923                | 34  | 0.8%                          | 1,994  |
| Redhall Group plc*                                  | 500           | 725                | (175)                                     | 0.6%                          | 5,672  |
| Cohort plc*   | 394           | 660                | (163)                                     | 0.6%                          | -  |
| Sprue Aegis plc*                                    | 545           | 515                | (121)                                     | 0.4%                          | 7,580  |
| Angle plc*  | 678           | 437                | 19  | 0.4%                          | -  |
| Pennant International Group plc*                    | 335           | 390                | 5   | 0.3%                          | 990  |
| Sanderson Group plc*                                | 336           | 376                | (5)                                       | 0.3%                          | 2,100  |
| Norman Broadbent plc*                               | 906           | 331                | 30  | 0.3%                          | 1,323  |
| Dillistone Group plc*                               | 411           | 330                | 32  | 0.3%                          | -  |
| Brooks Macdonald Group plc*                         | 257           | 313                | (27)                                      | 0.3%                          | 1,751  |
| SysGroup plc*                                       | 377           | 251                | (38)                                      | 0.2%                          | 767  |
| Brady Public Limited Company*                       | 272           | 233                | (63)                                      | 0.2%                          | -  |
| Frontier IP Group plc*                              | 30            | 189                | 95  | 0.2%                          | -  |
| ACHP plc*   | 61            | 100                | -   | 0.1%                          | -  |
| Pressure Technologies plc*                          | 249           | 89                 | (13)                                      | 0.1%                          | -  |
| Avacta Group plc*                                   | 168           | 67                 | (48)                                      | 0.1%                          | -  |
| MI Downing UK Micro-Cap Growth Fund***              | 50            | 50                 | -   | 0.0%                          | 4,975  |
| Wheelsure Holdings plc**                            | 48            | 29                 | (1)                                       | 0.0%                          | -  |
| Mi-Pay Group plc*                                   | 113           | 22                 | (12)                                      | 0.0%                          | -  |
| Flowgroup plc*                                      | 385           | 1                  | (75)                                      | 0.0%                          | -  |
|   | 15,139        | 15,819             | (786)                                     | 13.5%                         | 38,602   |
| <b>Other unquoted investments</b>                   |               |                    |   |                               |  |
| Jito Trading Limited                                | 2,500         | 2,500              | -   | 2.1%                          | 2,500  |
| Yamuna Renewables Limited                           | 2,500         | 2,500              | -   | 2.1%                          | 4,100  |
| Xupes Limited                                       | 1,800         | 1,800              | -   | 1.5%                          | 600  |
| Pantheon Trading Limited                            | 1,500         | 1,500              | -   | 1.3%                          | -  |
| Quadrate Catering Limited                           | 1,500         | 1,500              | -   | 1.3%                          | 1,610  |
| Quadrate Spa Limited                                | 1,872         | 1,500              | -   | 1.3%                          | 2,568  |
| Harrogate Street LLP                                | 1,400         | 1,400              | -   | 1.2%                          | -  |

Continued over the page

## REVIEW OF INVESTMENTS (continued)

|   | Cost<br>£'000 | Valuation<br>£'000    | Valuation<br>movement<br>in year<br>£'000 | % of<br>portfolio<br>by value | Total invested by<br>Funds also<br>managed by<br>Downing LLP <sup>1</sup><br>£'000 |
|---|---------------|-----------------------|---|-------------------------------|--|
| Pearce and Saunders Limited               | 1,320         | 1,320                 | -   | 1.1%                          | 1,680  |
| Nomansland Biogas Limited                 | 1,300         | 1,300                 | -   | 1.1%                          | 4,860  |
| Data Centre Response Limited              | 557           | 1,045                 | 281                                       | 0.9%                          | -  |
| Indigo Generation Limited                 | 920           | 920                   | -   | 0.8%                          | 6,580  |
| Ironhide Generation Limited               | 920           | 920                   | -   | 0.8%                          | 6,630  |
| Oak Grove Renewables Limited              | 1,365         | 852                   | 71  | 0.7%                          | 6,983  |
| Curo Compensation Limited                 | 1,088         | 828                   | (25)                                      | 0.7%                          | 705  |
| Fenkle Street LLP                         | 346           | 813                   | 50  | 0.7%                          | 1,340  |
| Ludorum plc                               | 3,269         | 750                   | -   | 0.7%                          | 110  |
| Empiribox Holdings Limited                | 750           | 750                   | -   | 0.7%                          | 1,022  |
| Rockhopper Renewables Limited             | 738           | 738                   | -   | 0.6%                          | 5,570  |
| Kimbolton Lodge Limited                   | 664           | 724                   | 121                                       | 0.6%                          | -  |
| Avid Technologies Group Limited           | 700           | 700                   | -   | 0.6%                          | -  |
| Wickham Solar Limited                     | 472           | 650                   | 50  | 0.6%                          | 5,673  |
| Pabulum Pubs Limited                      | 607           | 607                   | -   | 0.5%                          | -  |
| Downing Pub EIS One Limited               | 490           | 601                   | 15  | 0.5%                          | 5,862  |
| Volo Commerce Limited                     | 567           | 567                   | -   | 0.5%                          | 567  |
| Fresh Green Power Limited                 | 377           | 462                   | 84  | 0.4%                          | 566  |
| SF Renewables (Solar) Limited             | 422           | 422                   | -   | 0.4%                          | 2,360  |
| FCT No.1 Limited                          | 228           | 398                   | 171                                       | 0.3%                          | -  |
| BridgeU Corporation                       | 394           | 394                   | -   | 0.3%                          | 394  |
| Tramps Night Club Limited                 | 756           | 365                   | (74)                                      | 0.3%                          | -  |
| E-Fundamentals (Group) Limited            | 278           | 278                   | -   | 0.3%                          | 556  |
| Limitless Technology Limited              | 174           | 174                   | -   | 0.2%                          | 1,076  |
| Green Energy Production Limited           | 200           | 159                   | (41)                                      | 0.1%                          | 300  |
| Mosaic Spa and Health Clubs Limited       | 725           | 128                   | (50)                                      | 0.1%                          | 251  |
| London City Shopping Centre Limited       | 110           | 110                   | -   | 0.1%                          | 489  |
| Gatewales Limited                         | 55            | 94                    | 19  | 0.1%                          | 344  |
| Pearce and Saunders DevCo Limited         | 88            | 88                    | -   | 0.1%                          | 112  |
| Leytonstone Pub No1 Limited               | 81            | 81                    | -   | 0.1%                          | -  |
| Fubar Stirling Limited                    | 127           | 7                     | (11)                                      | 0.0%                          | 538  |
| Chester (HH) Spa and Leisure Club Limited | 297           | -                     | -   | 0.0%                          | -  |
| The Thames Club Limited                   | 175           | -                     | -   | 0.0%                          | 2,800  |
| Top Ten Holdings plc                      | 399           | -                     | -   | 0.0%                          | -  |
| Resource Reserve Recovery Limited         | 6             | -                     | -   | 0.0%                          | -  |
|   | <u>34,037</u> | <u>29,945</u>         | <u>661</u>                                | <u>25.7%</u>                  | <u>68,746</u>  |
| Total investments                         | <u>77,078</u> | <u>81,588</u>         | <u>2,299</u>                              | <u>69.7%</u>                  | <u>125,028</u>   |
| Cash at bank and in hand                  |               | <u>35,456</u>         |   | <u>30.3%</u>                  |  |
|   |               | <u><u>117,044</u></u> |   | <u><u>100.0%</u></u>          |  |



## REVIEW OF INVESTMENTS (continued)

The Company also invested into Imagelinx plc and Invocas Group plc. These investments were acquired at negligible value and continued to be valued at the same level.

All venture capital investments are unquoted unless otherwise stated.

\* Quoted on AIM

\*\* Quoted on the NEX Exchange Growth Market

\*\*\* Quoted on the Main Market of the London Stock Exchange

<sup>1</sup> Other funds also managed by Downing LLP as Investment Manager or Adviser as at 31 March 2018:

- Downing TWO VCT plc
- Downing THREE VCT plc
- Downing FOUR VCT plc
- MI Downing UK Micro-Cap Growth Fund
- Downing AIM Estate Planning Service and Downing AIM NISA

## REVIEW OF INVESTMENTS (continued)

### Investment movements for the year ended 31 March 2018

#### Additions

£'000

#### *Quoted*

Downing Strategic Micro Cap Investment Trust plc  
Impact Healthcare REIT plc

5,000

1,017

6,017

#### *Unquoted*

Xupes Limited  
Leytonstone Pub Limited  
Empiribox Holdings Limited  
Volo Commerce Limited  
Downing Pub EIS One Limited  
Curo Compensation Limited  
BridgeU Corporation  
E Fundamentals (Group) Limited  
Limitless Technology Limited

1,200

850

750

566

490

400

393

278

173

5,100

11,117

## REVIEW OF INVESTMENTS (continued)


### Disposals

|   | Cost<br>£'000 | Value at<br>01/04/17*<br>£'000 | Proceeds<br>£'000 | Profit/<br>(loss) vs<br>cost<br>£'000 | Realised<br>gain/<br>(loss)<br>£'000 |
|---|---------------|--------------------------------|-------------------|---------------------------------------|--------------------------------------|
| <b>Quoted</b>                                     |               |                                |                   |                                       |                                      |
| Mi-Pay Group plc                                  | 23            | 7                              | 5                 | (18)                                  | (2)                                  |
| Hornby plc  | 500           | 159                            | 116               | (384)                                 | (43)                                 |
| Plastics Capital plc                              | 849           | 1,528                          | 1,433             | 584                                   | (95)                                 |
|   | <u>1,372</u>  | <u>1,694</u>                   | <u>1,554</u>      | <u>182</u>                            | <u>(140)</u>                         |
| <b>Unquoted (including loan note redemptions)</b> |               |                                |                   |                                       |                                      |
| Vulcan Renewables Limited                         | 5,030         | 5,548                          | 6,058             | 1,028                                 | 510                                  |
| Giving Limited                                    | 84            | 84                             | 548               | 464                                   | 464                                  |
| City Falkirk Limited                              | 326           | 236                            | 324               | (2)                                   | 88                                   |
| Tramps Night Club Limited                         | 93            | 83                             | 122               | 29                                    | 39                                   |
| Gatewales Limited                                 | 17            | 23                             | 61                | 44                                    | 38                                   |
| Cheers Dumbarton Limited                          | 64            | 22                             | 37                | (27)                                  | 15                                   |
| Lochrise Limited                                  | -             | -                              | 10                | 10                                    | 10                                   |
| Fubar Stirling Limited                            | 231           | 208                            | 217               | (14)                                  | 9                                    |
| Cedarville Trading Limited                        | -             | -                              | 2                 | 2                                     | 2                                    |
| Brownfields Trading Limited                       | 2,500         | 2,500                          | 2,501             | 1                                     | 1                                    |
| Vectis Alpha Limited                              | 2,500         | 2,500                          | 2,501             | 1                                     | 1                                    |
| Mosaic Spa and Health Clubs Limited               | 2,023         | 1,393                          | 1,393             | (630)                                 | -                                    |
| Rhodes Solutions Limited                          | 2,500         | 2,500                          | 2,500             | -                                     | -                                    |
| Augusta Pub Company Limited                       | 290           | 290                            | 290               | -                                     | -                                    |
| Pabulum Pubs Limited                              | 200           | 200                            | 200               | -                                     | -                                    |
| Fresh Green Power Limited                         | 22            | 22                             | 22                | -                                     | -                                    |
| Future Biogas (Reepham Road) Limited              | 427           | -                              | -                 | (427)                                 | -                                    |
| Future Biogas (SF) Limited                        | 319           | -                              | -                 | (319)                                 | -                                    |
| Gara Rock Resort Limited                          | 672           | 672                            | 672               | -                                     | -                                    |
| Chester (HH) Country Club Limited                 | 2,316         | 250                            | 250               | (2,066)                               | -                                    |
| Other   | 452           | -                              | -                 | (452)                                 | -                                    |
|   | <u>20,066</u> | <u>16,531</u>                  | <u>17,708</u>     | <u>(2,358)</u>                        | <u>1,177</u>                         |
|   | <u>21,438</u> | <u>18,225</u>                  | <u>19,262</u>     | <u>(2,176)</u>                        | <u>1,037</u>                         |

\* Adjusted for purchases in the year where applicable


## REVIEW OF INVESTMENTS (continued)

Further details of the top ten investments held (by value) are as follows:


|   |                          |                       |                 |                             |                                |
|---|--------------------------|-----------------------|-----------------|-----------------------------|--------------------------------|
|  | <b>Doneloans Limited</b> | Cost at 31/03/2018:   | £5,000,000      | Valuation at 31/03/2018:    | £5,000,000                     |
|   |                          | Cost at 31/03/2017:   | £5,000,000      | Valuation at 31/03/2017:    | £5,000,000                     |
|   |                          | Investment comprises: |                 |                             |                                |
|   |                          | Loan note:            | £5,000,000      | Valuation method:           | Cost – reviewed for impairment |
|   |                          | Audited accounts:     | 31/03/17*       | Dividend income:            | £Nil                           |
|   |                          | Turnover:             | n/a             | Loan note income:           | £Nil                           |
|   |                          | Loss before tax:      | n/a             | Proportion of capital held: | 100%                           |
|   | Net assets:              | £0.1m                 | Diluted equity: | 100%                        |                                |

Doneloans Limited is a non-qualifying investment company which makes secured loans.

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

|   |   |                       |                 |                             |            |
|---|---|-----------------------|-----------------|-----------------------------|------------|
|  | <b>Downing Strategic Micro-Cap Investment Trust plc</b> | Cost at 31/03/2018:   | £5,000,000      | Valuation at 31/03/2018:    | £4,600,000 |
|   |   | Cost at 31/03/2017:   | n/a             | Valuation at 31/03/2017:    | n/a        |
|   |   | Investment comprises: |                 |                             |            |
|   |   | Equity shares:        | £5,000,000      | Valuation method:           | Bid price  |
|   |   | Audited accounts:     | None Filed      | Dividend income:            | £Nil       |
|   |   |                       |                 | Loan note income:           | £Nil       |
|   |   |                       |                 | Proportion of capital held: | 9.0%       |
|   |   |                       | Diluted equity: | 9.0%                        |            |

Downing Strategic Micro-Cap Investment Trust plc seeks to provide investors with long term growth through a concentrated portfolio of UK listed companies that typically have a market capitalisation of below £150 million.

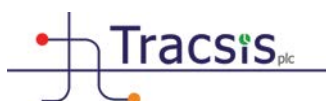
|   |  |                       |                             |                          |            |
|---|--|-----------------------|-----------------------------|--------------------------|------------|
|  | <b>Downing Care Homes Holdings Limited</b>                       | Cost at 31/03/2018:   | £3,881,000                  | Valuation at 31/03/2018: | £4,495,000 |
|   | <a href="http://www.downingcare.co.uk">www.downingcare.co.uk</a> | Cost at 31/03/2017:   | £3,881,000                  | Valuation at 31/03/2017: | £4,250,000 |
|   |  | Investment comprises: |                             |                          |            |
|   |  | Equity shares:        | £1,958,000                  | Valuation method:        | Multiples  |
|   |  | Loan note:            | £1,923,000                  |                          |            |
|   |  | Audited accounts:     | 30/06/17 30/06/16           | Dividend income:         | £Nil       |
|   |  | Turnover:             | £2.8m £2.8m                 | Loan note income:        | £150,000   |
|   | Profit/(loss) before tax:  | (£0.2m) £0.1m         | Proportion of capital held: | 50.0%                    |            |
|   | Net liabilities:   | (£1.0m) (£0.8m)       | Diluted equity:             | 50.0%                    |            |

The company operates four residential care homes providing specialist services for adults with learning and physical disabilities. They are located in Hampshire and Surrey and are managed by an experienced team who have many years of experience in the sector. The homes were either developed from scratch or acquired from other operators.

## REVIEW OF INVESTMENTS (continued)

### Tracsis plc

www.tracsis.com



|                       |            |                          |                             |         |
|-----------------------|------------|--------------------------|-----------------------------|---------|
| Cost at 31/03/2018:   | £1,443,000 | Valuation at 31/03/2018: | £3,930,000                  |         |
| Cost at 31/03/2017:   | £1,443,000 | Valuation at 31/03/2017: | £3,198,000                  |         |
| Investment comprises: |            |                          |                             |         |
| Equity shares:        | £1,443,000 | Valuation method:        | Bid price                   |         |
| Audited accounts:     | 31/07/17   | 31/07/16                 | Dividend income:            | £11,000 |
| Turnover:             | £34.5m     | £32.6m                   | Proportion of capital held: | 2.7%    |
| Profit before tax:    | £4.6m      | £4.0m                    | Diluted equity:             | 2.7%    |
| Net assets:           | £33.6m     | £28.7m                   |                             |         |

The Group specialises in solving a variety of data capture, reporting and resource optimisation problems along with the provision of a range of associated professional services. Tracsis' products and services are used to increase efficiency, reduce cost and improve the operational performance and decision making capabilities for clients and customers.

### Leytonstone Pub Limited

www.theredlionleytonstone.com



|                       |            |                          |                             |         |
|-----------------------|------------|--------------------------|-----------------------------|---------|
| Cost at 31/03/2018:   | £1,911,000 | Valuation at 31/03/2018: | £3,686,000                  |         |
| Cost at 31/03/2017:   | £1,061,000 | Valuation at 31/03/2017: | £2,650,000                  |         |
| Investment comprises: |            |                          |                             |         |
| Equity shares:        | £361,000   | Valuation method:        | Multiples                   |         |
| A Loan note:          | £1,550,000 |                          |                             |         |
| Audited accounts*:    | 31/12/16   | 31/12/15                 | Dividend income:            | £Nil    |
| Turnover:             | n/a        | n/a                      | Loan note income:           | £63,000 |
| Profit before tax:    | n/a        | n/a                      | Proportion of capital held: | 50.0%   |
| Net assets:           | £1.0m      | £0.7m                    | Diluted equity*:            | 50.0%   |

Leytonstone Pub owns a 12,000 sq ft pub called The Red Lion located in Leytonstone, London. The downstairs of the pub was refurbished and since reopening has been building trade satisfactorily. The pub provides both a food and beverage offering.  
\* Turnover and operating profit figures not publicly available as abbreviated small company accounts filed

### Craneware plc

www.craneware.com



|                       |          |                          |                             |         |
|-----------------------|----------|--------------------------|-----------------------------|---------|
| Cost at 31/03/2018:   | £850,000 | Valuation at 31/03/2018: | £3,151,000                  |         |
| Cost at 31/03/2017:   | £850,000 | Valuation at 31/03/2017: | £2,201,000                  |         |
| Investment comprises: |          |                          |                             |         |
| Equity shares:        | £850,000 | Valuation method:        | Bid price                   |         |
| Unaudited accounts:   | 30/06/17 | 30/06/16                 | Dividend income:            | £21,000 |
| Turnover:             | \$57.8m  | \$49.8m                  | Loan note income:           | £Nil    |
| Profit before tax:    | \$16.9m  | \$13.9m                  | Proportion of capital held: | 0.7%    |
| Net assets:           | \$97.2m  | \$93.8m                  | Diluted equity:             | 0.7%    |

Craneware plc provides automated revenue integrity solutions that improve financial performance for US healthcare organisations.

## REVIEW OF INVESTMENTS (continued)

**Cadbury House Holdings Limited**  
www.cadburyhotelbristol.co.uk



|                         |            |                          |                             |         |
|-------------------------|------------|--------------------------|-----------------------------|---------|
| Cost at 31/03/2018:     | £3,081,000 | Valuation at 31/03/2018: | £3,075,000                  |         |
| Cost at 31/03/2017:     | £3,081,000 | Valuation at 31/03/2017: | £3,075,000                  |         |
| Investment comprises:   |            |                          |                             |         |
| Equity shares:          | £847,000   | Valuation method:        | Multiples                   |         |
| Convertible loan note*: | £2,170,000 |                          |                             |         |
| A loan note:            | £64,000    |                          |                             |         |
| Audited accounts:       | 31/03/17   | 31/03/16                 | Dividend income:            | £Nil    |
| Turnover:               | £9.1m      | £8.8m                    | Loan note income:           | £19,000 |
| Profit before tax:      | £0.3m      | £0.4m                    | Proportion of capital held: | 36.2%   |
| Net assets:             | £8.4m      | £7.6m                    | Diluted equity*:            | 66.1%   |

Cadbury House Holdings Limited owns and operates a health club, restaurant and conference centre at Cadbury House, near Bristol. The restaurant trades as a Marco Pierre-White Steakhouse Bar and Grill.

\*Proportion of capital after conversion of loan notes

**Baron House  
Developments LLP**



|                           |              |                          |                                |          |
|---------------------------|--------------|--------------------------|--------------------------------|----------|
| Cost at 31/03/2018:       | £2,695,000   | Valuation at 31/03/2018: | £2,695,000                     |          |
| Cost at 31/03/2017:       | £2,695,000   | Valuation at 31/03/2017: | £2,695,000                     |          |
| Investment comprises:     |              |                          |                                |          |
| Loan note:                | £2,695,000   | Valuation method:        | Cost – reviewed for impairment |          |
| Unaudited accounts:       | 31/03<br>/17 | 31/03/16                 |                                |          |
| Turnover:                 | £nil         | £0.4m                    | Loan note income:              | £489,000 |
| Profit/(loss) before tax: | £0.1m        | (£0.3m)                  | Proportion of capital held:    | -%       |
| Net assets:               | £5.3m        | £4.6m                    | Diluted equity:                | -%       |

Baron House Developments was created to fund the purchase of a property opposite Newcastle station, which qualifies under the Business Premises Renovation Allowance (BPRA) scheme.

**Anpario plc**  
www.anpario.com



|                       |              |                          |                             |         |
|-----------------------|--------------|--------------------------|-----------------------------|---------|
| Cost at 31/03/2018:   | £1,448,000   | Valuation at 31/03/2018: | £2,598,000                  |         |
| Cost at 31/03/2017:   | £1,448,000   | Valuation at 31/03/2017: | £1,886,000                  |         |
| Investment comprises: |              |                          |                             |         |
| Equity shares:        | £1,448,000   | Valuation method:        | Bid price                   |         |
| Audited accounts:     | 31/12/<br>17 | 31/12/16                 | Dividend income:            | £46,000 |
| Turnover:             | £29.2<br>m   | £24.3m                   | Proportion of capital held: | 2.7%    |
| Profit before tax:    | £3.4m        | £2.7m                    | Diluted equity:             | 2.7%    |
| Net assets:           | £37.2<br>m   | £34.0m                   |                             |         |

Anpario plc are a manufacturer and marketer of high performance natural feed additives for global agricultural and aquaculture markets.

## REVIEW OF INVESTMENTS (continued)

**Pilgrim Trading Limited**  
www.bhdaynursery.com



|                        |            |                             |                                |
|------------------------|------------|-----------------------------|--------------------------------|
| Cost at 31/03/2018:    | £2,594,000 | Valuation at 31/03/2018:    | £2,594,000                     |
| Cost at 31/03/2017:    | £2,594,000 | Valuation at 31/03/2017:    | £2,594,000                     |
| Investment comprises:  |            |                             |                                |
| Equity shares:         | £1,816,000 | Valuation method:           | Cost – reviewed for impairment |
| Loan note:             | £778,000   |                             |                                |
| Abbreviated accounts*: | 30/04/16   | Dividend income:            | £Nil                           |
| Turnover:              | n/a        | Loan note income:           | £78,000                        |
| Profit before tax:     | n/a        | Proportion of capital held: | 43.5%                          |
| Net assets:            | £1.4m      | Diluted equity:             | 43.5%                          |

Pilgrim Trading Limited has acquired two vacant properties in London, one in Twickenham and one in Brentford, which it plans to convert into two children’s nurseries, one of which has recently been opened in Twickenham and the other is in the construction stage. The business is led by Sarah Steel, an experienced operator in the nursery sector and will provide high quality childcare offering that focuses on education.

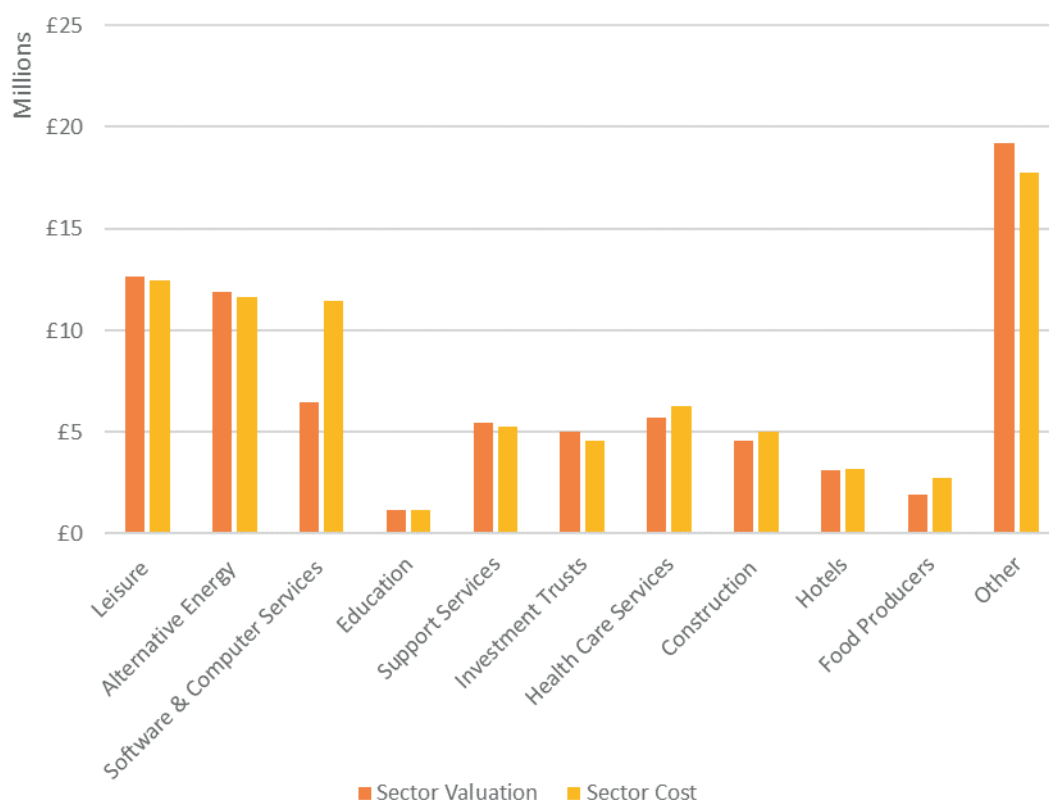
\* Turnover and operating profit figures not publicly available as abbreviated small company accounts filed

### Note:

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

### Analysis of investments by commercial sector

The split of the venture capital investment portfolio by commercial sector (by cost and by value at 31 March 2018) is as follows:





## REVIEW OF INVESTMENTS (continued)

### Portfolio balance

At 31 March 2018, the Company assets employed were broadly in line with the targets within the investment policy. These are summarised as follows:

| Type of Investment<br>(by HMRC valuation rules)        | Actual        | Target      |
|--|---------------|-------------|
| VCT qualifying investments                             | 75.8%         | >70%        |
| Non-qualifying investments<br>(including cash at bank) | 24.2%         | <30%        |
| Total  | <u>100.0%</u> | <u>100%</u> |

### Investment category (by HMRC value)

|                  | Actual      | Target   |
|------------------|-------------|----------|
| Growth           | 41.7%       | 25% -50% |
| Income producing | 34.1%       | 50% -75% |
| Non-qualifying   | 24.2%       | max 30%  |
| Total            | <u>100%</u> |          |

## STRATEGIC REPORT

The Directors present the Strategic Report for the year ended 31 March 2018. The Board have prepared this report in accordance with the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

### Principal objectives and strategy

The Company is a Venture Capital Trust ("VCT") whose principal investment objectives are to:

- provide private investors with attractive returns from a portfolio of investments focused on unquoted and AIM quoted companies; and
- maintain VCT status so that the Company and its shareholders may benefit from the tax reliefs and exemptions available under the VCT legislation.

As a Venture Capital Trust, Investors are required to hold their shares for a minimum period of five years in order to retain their income tax relief.

### Business review and developments

During the year to 31 March 2018, the investments held increased in value by £2.3 million and gains arising on investment realisations totalled £1.0 million.

Income over expenditure for the year resulted in a net gain, after accounting for capital expenses, of £1.5 million (2017: loss £666,000).

The total return for the year was £4.8 million (2017: £2.3 million). Net assets at the year-end were £117.9 million (2017: £91.9 million). Dividends paid during the year totalled £7.9 million (2017: £6.1 million).

The Company's business and developments during the year are reviewed further in the Chairman's Statement, the Investment Adviser's Reports and the Review of Investments on pages 3 to 20.

### Key performance indicators

At each Board meeting, the Directors consider a number of performance measures to assess the Company's level of success in meeting its objectives (as shown on page 2). The Board believes the Company's key performance indicators, for comparison against similar VCTs, are Total Return (NAV plus cumulative dividends paid to date) and dividends per share (as disclosed within the financial summary).

### Principal risks and uncertainties

The principal financial risks faced by the Company, which include interest rate, investment, credit and liquidity risks, are summarised within note 16 to the financial statements.

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

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

### Viability statement

In accordance with C.2.1 and C.2.2 of the 2016 revision of the UK Corporate Governance Code, the Directors have carried out a robust assessment of the principal risks facing the Company over a longer period than the 12 months required by the 'Going Concern' provision. The Board has conducted this review for a period of three years from the accounts approval date as developments are considered to be reasonably foreseeable over this period.

The three year review considers the principal risks facing the Company which are summarised within note 16 as well as the Company's cash flows, dividend cover and VCT monitoring compliance over the period. The three year review makes assumptions about the normal level of capital recycling likely to occur, expenses, dividends and share buybacks.

The Directors believe that the Company is well placed to manage its business risks successfully. Based on the results, the Board believes that, taking into account the Company's current position, and subject to the principal risks faced by the business, the Company will be able to continue in operation and meet its liabilities as they fall due for a period of at least three years from the accounts approval date.

### Business model

The Company operates as a Venture Capital Trust to ensure that its Shareholders can benefit from the tax reliefs available.

The Business of the Company is to act as an investment company, investing in a portfolio which meets the conditions set out within its Investment Policy, as shown on the next page.

## STRATEGIC REPORT (continued)

### Investment policy

Quantitative analysis of how the Company has operated in accordance with its investment policy are shown in the Review of Investments on pages 11 to 20 and in the VCT compliance section of this report on page 25.

The Company's investment policy is as follows:

#### Asset allocation

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

#### VCT qualifying investments

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

| Investment type | Target  | Maximum | Target IRR |
|-----------------|---------|---------|------------|
| Growth          | 25%-50% | 100%    | 15%        |
| Income focused  | 50%-75% | 100%    | 10%        |

**Growth investments** will be in companies with prospects for high capital growth and may include companies quoted on AIM or the NEX Exchange Growth market as well as unquoted companies.

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

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

VCT Qualifying investments made after November 2015 will comply with new VCT regulations which introduced new restrictions including that such investments will, in most cases, be in businesses that are less than 7 years old and funds invested will not be used by the business to make an acquisition.

### Non Qualifying Investments

Non qualifying investments invested after 5 April 2016 will only be made in the following categories:

- Shares or units in an AIF (Alternative Investment Fund) e.g. an investment trust or in a UCITS (undertakings for the collective investment in transferable securities) e.g. an OEIC which may be repurchased or redeemed by the investor on no more than 7 days' notice.
- Ordinary shares or securities in a company which are acquired on a European regulated market e.g. in companies with shares listed on the main market of the London Stock Exchange.

The existing non-qualifying portfolio includes investments made before 5 April 2016 within the following categories:

- Non-qualifying listed investments which are in quoted companies where the holdings can be traded and in companies in which the Investment Adviser has detailed knowledge as a result of VCT qualifying investments made previously
- Secured loans which are secured on assets held by the borrower
- Non-qualifying unquoted investments which will generally not exceed 5% of the overall fund

In addition to the above, the Company may hold non-qualifying funds in cash or bank deposits, which fall within the VCT rules.

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

#### Risk diversification

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

## STRATEGIC REPORT (continued)

### Investment policy (continued)

Further investment restrictions:

Venture Capital Trust Regulations

In continuing to maintain its VCT status, the Company complies with a number of regulations as set out in Part 6 of the Income Tax Act 2007 VCT Rules.

### *Borrowing Limits*

It is not the Company's intention to have any borrowings. The Company does, however, have the ability to borrow a sum equal to no more than 10% of the aggregate of the nominal capital of the Company (being issued and paid up) plus the amounts standing to the credit of the consolidated reserves of the Company.

At 31 March 2018, the maximum amount of borrowings allowed, without the previous sanction at a General Meeting, stood at £11.8 million. There are no plans to utilise this ability at the current time.

### Global greenhouse gas emissions

The Company has no greenhouse emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Director's Reports) Regulations 2013.

### Environmental, social and human rights policy

The Company seeks to conduct its affairs responsibly. Where appropriate, the Board and the Advisers take environmental, social and human rights factors into consideration when making investment decisions.

### Directors and senior management

The Company does not have any employees, including senior management, other than the Board of the three non-executive directors, all of whom are male.

Whilst the Board have delegated the day to day operation of the Company to its advisers, details of which are contained within the Report of the Directors, they retain the responsibility of planning, directing and controlling the activities of the Company.

### Future prospects

The Company's future prospects are set out in the Chairman's Statement and Investment Adviser's Report.

By order of the Board



### Grant Whitehouse

Company Secretary

St. Magnus House

3 Lower Thames Street

London EC3R 6HD

12 July 2018

## REPORT OF THE DIRECTORS

The Directors present the Annual Report and Accounts of the Company for the year ended 31 March 2018.

### Share capital

At the beginning of the year, the Company had 101,583,111 Ordinary Shares of 1p each in issue.

The Company allotted 19,748,392 Ordinary shares at an average price of approximately 90.3p per Ordinary Share under the terms of the Offers for Subscription.

A further 765,309 Ordinary Shares at an average price of 87.2p per Ordinary Share were allotted under the terms of the Dividend Reinvestment Scheme ("DRIS").

At the AGM held on 15 August 2017, Shareholders unconditionally authorised the Company to make market purchases of its own Ordinary shares of 1p each up to a maximum of 15,135,884 Ordinary Shares, representing 14.9% of the share capital in issue at the date of the last annual report. At the date of this report authority remains in place for 13,036,646 Ordinary Shares. A resolution to renew the authority to buy back up to approximately 14.9% of the share capital at the date of this report will be put to Shareholders at the AGM taking place on 22 August 2018.

During the year, the Company repurchased 2,099,238 Ordinary Shares of 1p each for average consideration of 83.8p per share, representing 2.1% of shares in issue at the last annual report. These shares were subsequently cancelled.

At the year end, the Company had 119,997,574 Ordinary Shares in issue. There were no other share classes in issue at the year end.

### Results and dividends

|  | £'000        | Per Share   |
|--|--------------|-------------|
| Return on ordinary activities after tax for the year ended 31 March 2018 | 4,837        | 4.6p        |
| <i>Distributions paid/proposed for the year</i>                          |              |             |
| 23 February 2018 – 2018 Interim  | 3,374        | 3.0p        |
| 24 August 2018 – 2018 Final  | 3,600        | 3.0p        |
|  | <u>6,974</u> | <u>6.0p</u> |

The Company has a stated target for annual dividends of at least 4% of net assets per annum. In respect of the year under review this is equivalent to 3.5p. In view of the number of realisations in the year, the Board is proposing a final dividend of 3.0p per share to be paid, subject to Shareholder approval at the AGM, on 24 August 2018 to Shareholders on the register at 3 August 2018, which will result in total dividends for the financial year of 6.0 pence per share (2017: 7.5 pence per share).

### Investment adviser and administration manager

Downing LLP was appointed on 1 April 2010, as Investment Adviser, for a fee payable quarterly in advance in respect of each quarter, such quarterly fee being equal to one quarter of 1.8% of the Net Asset Value of the Company as at the opening of business on the first business day of that quarter. The agreement is not for a fixed term, and may be terminated by either side giving not less than 12 months' notice in writing. During the year the investment management fees amounted to £1.7 million (2017: £1.8 million).

Downing LLP also receives arrangement and monitoring (non-executive directorship) fees from the investee companies. During the year, Downing LLP was due arrangement fees of £619,000 (2017: £451,000) and monitoring fees of £761,000 (2017: £863,000). These fees also relate to investments made by other funds managed by Downing LLP.

The Board is satisfied with the performance of Downing LLP as Investment Adviser and with its strategy, approach and procedures in providing investment management services to the Company. The Board has concluded that the continuing appointment of Downing LLP, as Investment Adviser, remains in the best interest of Shareholders.

In addition, Downing LLP also provides administration services to the Company for an annual fee which from 12 November 2013 is calculated as follows:

- £40,000 (which is subject to an RPI annual increase, if positive); plus
- 0.125% of the Net Asset Value of the Company in excess of £10 million; plus
- £10,000 per additional share class of the Company (excluding the Ordinary Share class).

During the year fees for administration services amounted to £147,000 (2017: £146,000).

If the Company undertakes any significant corporate actions (including the raising of additional capital) Downing LLP shall be entitled to negotiate an additional fee or increased fee to take account of any significant additional work occasioned for the company secretary and bookkeeper by that corporate action.

## REPORT OF THE DIRECTORS (continued)

### Trail commission

The Company has an agreement to pay trail commission, annually, to Downing LLP, in connection with funds raised under original offers for subscription. Trail commission is calculated between 0.25% and 0.50% of the respective net assets attributable to the original shareholdings at each year end.

### Annual running costs cap

From 12 November 2013, the annual running costs of the Company are capped at 2.75% (including irrecoverable VAT) of the average net asset value of the Company as at the end of the relevant financial period. Any excess running costs above the cap are met by Downing LLP. The Ongoing Charges ratio was 2.17%.

Annual Running Costs are costs incurred by the Company in the ordinary course of its business and include, *inter alia*, Directors' fees, fees for audit and taxation advice, registrar's fees, costs of communicating with Shareholders, annual trail commission and all the annual fees payable to the Company's investment adviser and administrators. Costs incurred on abortive investment proposals are the responsibility of the Investment Adviser. The fees payable by the Company to the Investment Adviser are allocated 50% to revenue and 50% to capital. This allocation may be reviewed in the future as the focus of the portfolio changes.

### Directors

The Directors of the Company during the year were as follows:

Chris Kay  
Barry Dean  
Stuart Goldsmith

Directors generally retire at every third AGM in accordance with the requirement of the Articles of Association. At the forthcoming AGM Barry Dean and Stuart Goldsmith will retire and offer themselves for re-election. In accordance with corporate governance practice, by virtue of serving on the board for more than nine years, Stuart Goldsmith will retire at each Annual General Meeting and being eligible, offers himself for re-election. Each of the Directors has considerable experience in the VCT sector and has continued to perform well. The Board recommends that Shareholders vote in favour of the resolutions to re-appoint each of the Directors at the AGM.

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

Appointments of new Directors to the Board are considered by the Nomination Committee as and when required.

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

### VCT compliance

The Company has reappointed Philip Hare & Associates LLP ("Philip Hare") to advise it on compliance with VCT requirements, reporting directly to the Board. Philip Hare works closely with the Investment Adviser; undertaking reviews of the VCT compliance status of new investment opportunities; providing regular compliance updates on the Company's existing portfolio of investments and providing advice on VCT compliance issues as and when they arise.

A summary of the VCT Regulations is included in the Company's Investment Policy as shown on page 22. Compliance with the main VCT regulations at 31 March 2018, and for the year then ended is summarised as follows:

1. 70.0% of its investments in qualifying companies (Company as a whole); 75.8%
2. At least 30.0% of the Company's qualifying investments in "eligible shares" for funds raised before 5 April 2011, and 70% thereafter; 75.3%
3. At least 10.0% of each investment in a qualifying company held in "eligible shares"; Complied
4. No investment constitutes more than 15.0% of the Company's portfolio; Complied
5. Income for the year ended 31 March 2018 is derived wholly or mainly from shares and securities; and 97.9%
6. The Company distributes sufficient revenue dividends to ensure that not more than 15% of the income from shares and securities in any one year is retained. Complied

## REPORT OF THE DIRECTORS (continued)

### Substantial interests

As at 31 March 2018, and at the date of this report, the Company was not aware of any beneficial interests exceeding three per cent of the issued share capital.

### Auditor

A resolution to re-appoint BDO LLP as the Company's auditor will be proposed at the forthcoming AGM.

### Annual General Meeting

The AGM will be held at St. Magnus House, 3 Lower Thames Street, London, EC3R 6HD at 10.45 a.m. on 22 August 2018. The Notice of the AGM and Form of Proxy are at the end of this document.

### Directors' responsibilities statement

The Directors are responsible for preparing the Strategic Report, the Report of the Directors, the Directors' Remuneration Report, the separate Corporate Governance Statement and the financial statements in accordance with applicable law and regulations. They are also responsible for ensuring that the annual report includes information required by the Listing Rules of the Financial Conduct Authority.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 102, the financial reporting standard applicable in the UK and Republic of Ireland (FRS 102). 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 the financial statements have been prepared in accordance with applicable UK Accounting Standards, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

In addition, each of the Directors considers that the Annual Report, taken as a whole, is fair, balanced and undertakes and provides the information necessary to assess the Company's position, performance, business model and strategy.

### Website publication

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

### Directors' statement pursuant to the Disclosure 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, prepared in accordance with United Kingdom Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the management report, comprising the Chairman's Statement, the Strategic Report, the Investment Adviser's Report, the Review of Investments and the Report of the Directors, 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](http://www.downing.co.uk), a website maintained by the Investment Adviser. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

### Corporate governance

The Company's compliance with, and departures from, the Financial Reporting Council's UK Corporate Governance Code April 2016 ([www.frc.org.uk](http://www.frc.org.uk)), is shown on pages 31 to 34.

### Other matters

Information in respect of financial instruments and future developments which were previously disclosed within the Directors Report has been disclosed within the Strategic Report on pages 21 to 23.

Information in respect of greenhouse gas emissions which is normally disclosed within the Report of the Directors has been disclosed within the Strategic Report on page 23.

### Events after the end of the reporting period

Following the period end, the Company allotted 14,338,614 Ordinary Shares of 1p each under the terms of the offers for subscription dated September 2017. The aggregate consideration of the shares was £12.9 million.

### Statement as to disclosure of information to the Auditor

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

By order of the Board



### Grant Whitehouse

Company Secretary  
St. Magnus House  
3 Lower Thames Street  
London EC3R 6HD

12 July 2018

## DIRECTORS' REMUNERATION REPORT

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

Under the requirements of Section 497, the Company's Auditors are 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.

### Annual statement from the Remuneration Committee

The Committee comprises Chris Kay, Barry Dean and Stuart Goldsmith. The current remuneration levels for the year ended 31 March 2018 were reviewed by the remuneration committee during its meeting in the prior year on 24 February 2017.

### Remuneration policy

Below is the Company's current remuneration policy which is effective for the three years commencing 1 April 2017.

In accordance with regulations, Shareholders must vote on the remuneration policy, for the financial year commencing after the AGM, every three years or sooner if the Company wants to make changes to the policy. Therefore the policy will be put to Shareholders again at the AGM in 2020.

The Company's policy on Directors' remuneration is to seek to remunerate board members at a level appropriate for the time commitment required and degree of responsibility involved for a self-managed Venture Capital Trust, where all investment decisions are made by the Board and where the non-executive Directors are more closely involved with the investee companies than other similar VCTs.

Non-executive Directors are not entitled to any performance related pay or incentive.

Directors' remuneration is guided by the Company's Articles of Association as follows:

- (i) The ordinary remuneration of the Directors shall not in aggregate exceed £150,000 per annum (or such higher sum as may from time to time be determined by an Ordinary Resolution) and shall be divided between the Directors as they may agree or, failing agreement, equally, except that any Director who shall hold office for part only of the period in respect of which such remuneration is payable shall be entitled only to rank in such division for a proportion of remuneration related to the period during which they held office. The Directors shall also be entitled to be paid all travelling, hotel and other expenses properly incurred by them in connection with the business of the Company, or in attending and returning from meetings of the Directors or of committees of the Directors or General Meetings or separate meetings of the holders of any class of shares or debentures of the Company or otherwise in connection with the discharge of their duties.
- (ii) Any Director who serves on any committee or who devotes special attention to the business of the Company, or who otherwise performs services which in the opinion of the Directors are outside the scope of the ordinary duties of a Director, may be paid such extra remuneration by way of salary, lump sum, percentage of profits or otherwise as the Directors may determine.

The Company's policy is that fees payable to Directors should reflect their expertise, responsibilities and time spent on Company matters. In determining the level of remuneration, market equivalents are considered in comparison to the overall activities and size of the Company. There is no performance related pay criteria applicable to Directors.

### Letters of appointment

Each of the Directors on the current Board has a letter of appointment whereby they are required to devote such time to the affairs of the Company as the Board reasonably requires consistent with their role as a non-executive Director. A three month rolling notice period applies.

### Annual report on remuneration (audited)

The following disclosure is required to be audited under the requirements of section 497. The audit opinion thereon is contained within the Auditor's Report on pages 35 to 39.

## DIRECTORS' REMUNERATION REPORT (continued)

### Annual report on remuneration (audited) (continued)

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

|                   | 2018<br>fee<br>£ | 2017<br>fee<br>£ |
|-------------------|------------------|------------------|
| Chris Kay         | 45,000           | 35,000           |
| Barry Dean        | 30,000           | 20,000           |
| Stuart Goldsmith  | 30,000           | 20,000           |
| Andrew Griffiths* | n/a              | 15,000           |
| Helen Sinclair*   | n/a              | 15,000           |
|                   | <u>105,000</u>   | <u>105,000</u>   |

\* Andrew Griffiths and Helen Sinclair resigned as Directors in the prior period on 31 December 2016.

In addition to the above, a £5,000 ex gratia payment was made to Andrew Griffiths following his resignation in the prior year.

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.

### Statement of implementation of remuneration policy in the current financial year

The remuneration levels for the forthcoming year have been agreed, at the following levels:

|                  | Annual<br>fee<br>£ |
|------------------|--------------------|
| Chris Kay        | 45,000             |
| Barry Dean       | 30,000             |
| Stuart Goldsmith | <u>30,000</u>      |
|                  | <u>105,000</u>     |

### Directors share interests (audited)

The Directors of the Company during the year and their beneficial interest in the issued Ordinary Shares at each year end were as follows:

|                  | 31 March<br>2018 | 31 March<br>2017 |
|------------------|------------------|------------------|
| Chris Kay        | 83,300           | 83,300           |
| Barry Dean       | 7,129            | 7,129            |
| Stuart Goldsmith | 7,881            | 7,881            |

There have been no changes in Directors' shareholdings since the year end.

### Statement of voting at AGM

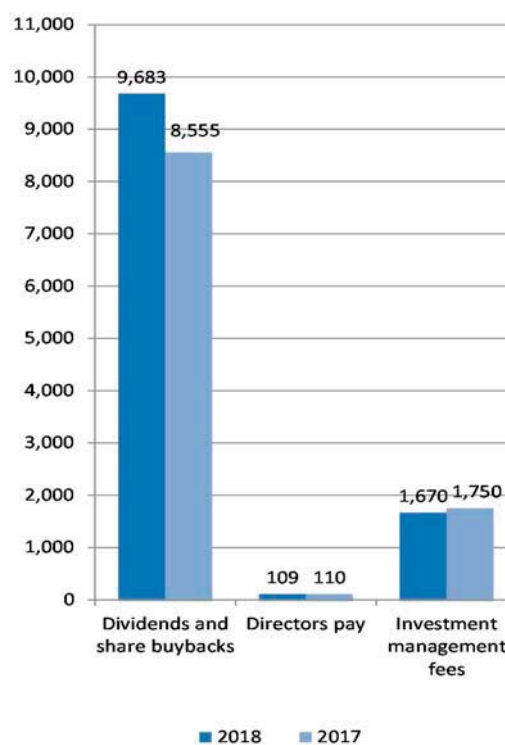
At the AGM on 15 August 2017, the votes in respect of the resolution to approve the Director's Remuneration Report were as follows:

|           |       |
|-----------|-------|
| In favour | 93.3% |
| Against   | 6.7%  |

At the 2017 AGM where the remuneration policy was last put to a Shareholder vote, 93.5% voted for the resolution and 6.5% voted against, showing significant Shareholder support.

### Relative importance of spend on pay

The difference in actual spend between 31 March 2018 and 31 March 2017 on remuneration for all employees in comparison to distributions (dividends and share buybacks) and other significant spending are set out in the tabular graph below.



### Insurance cover

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

### Performance graph

The graph on the next page charts the total cumulative Shareholder return of the Company (assuming all dividends are re-invested) ("NAV Total Return") and total return of the Company's Share Price ("Share Price Total Return") over the past nine years, compared to Numis Smaller Companies Index (Total Return, excluding investment companies), each of which has been rebased to 100 pence. Shareholders should note that the Company has undergone some substantial changes over that period.

## DIRECTORS' REMUNERATION REPORT (continued)

### Performance graph (continued)

The Board believes that NAV Total Return provides Shareholders with a fairer reflection of the Company's long term value than the Company's share price, due to the long term nature of an investment in Venture Capital Trust shares. The Numis Smaller Companies Index ("Numis Index") is not a benchmark for the Company and its components include a much broader range of quoted investments than the Company is able to invest in.

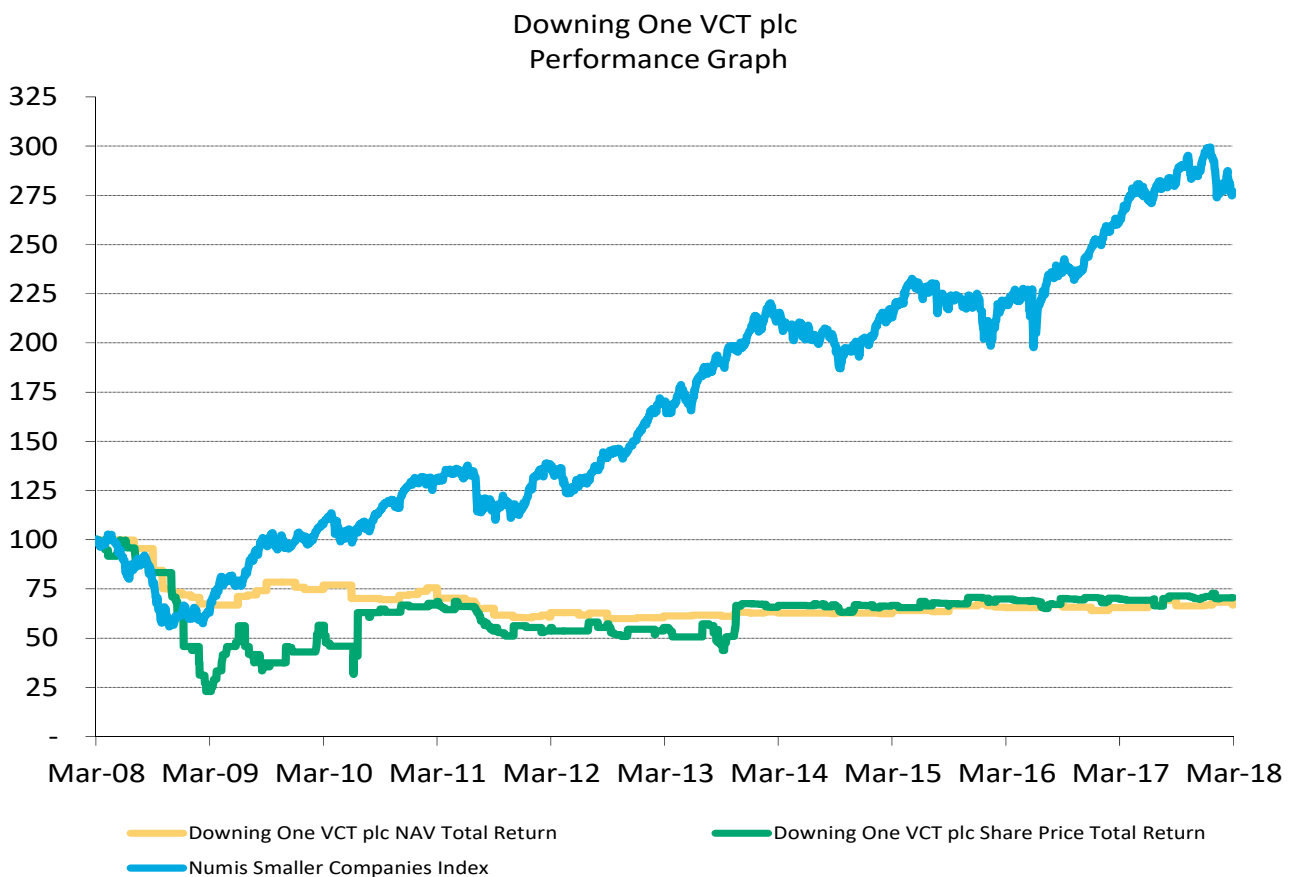
The Numis Index also does not include exposure to unquoted asset-backed investments of which the Company also holds a significant proportion. As a result, the Company's performance is not expected to be closely correlated to the Numis Index. However, of the publicly available indexes that can be used by the Company without incurring disproportionate costs, the Numis Index is considered to be the most appropriate broad equity market index to use for this chart.

By order of the Board



**Grant Whitehouse**  
 Company Secretary  
 St. Magnus House  
 3 Lower Thames Street  
 London EC3R 6HD

12 July 2018



## CORPORATE GOVERNANCE STATEMENT

The Directors support the relevant principles of the UK Corporate Governance Code, maintained by the Financial Reporting Council in April 2016 being the principles of good governance and the code of best practice.

### The Board

At the date of this report, the Company has a Board comprising of three non-executive Directors. The Chairman is Chris Kay. The Company does not have a Senior Independent Director. Biographical details of all current Board members (including the significant commitments of the Chairman) are shown on page 2.

In accordance with Company policy and corporate best practice Barry Dean and Stuart Goldsmith are offering themselves for re-election at the next AGM.

Full Board meetings take place quarterly and the Board meets or communicates more regularly to address specific issues. The Board has a formal schedule of matters specifically reserved for its decision which includes, but is not limited to: considering recommendations from the Investment Adviser; and reviewing, annually, the terms of engagement of all third party advisers (including the Investment Adviser).

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

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

### Share capital

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

The capital structure of the Company is disclosed on page 24.

### Committees to the Board

As the Company has a small Board comprising wholly of non-executive Directors, all Directors sit on the Nomination Committee, Remuneration Committee and Audit Committee.

The Chairman of the Nomination and Remuneration Committees is Barry Dean. The Chairman of the Audit Committee is Stuart Goldsmith.

Committee meetings are held in conjunction with the Board meetings. All committees have defined terms of reference and duties, which are available from [www.downing.co.uk](http://www.downing.co.uk).

### Board and Committee meetings

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

|                  | <b>Board<br/>meetings<br/>attended</b> | <b>Audit Comm.<br/>meetings<br/>attended</b> |
|------------------|--|--|
| Chris Kay        | 5/5                                    | 2/2  |
| Barry Dean       | 5/5                                    | 2/2  |
| Stuart Goldsmith | 5/5                                    | 2/2  |

The Board also meets as and when required during the year to discuss other matters arising.

### Audit Committee

The Audit Committee is responsible for:

- monitoring the Company's financial reporting;
- reviewing internal controls and risk management systems; and
- matters regarding audit and external auditors.

### Financial Reporting

The Committee is responsible for reviewing and agreeing the half-yearly and annual accounts (including those figures presented within) before they are presented to the Board for final approval.

In particular, the Committee reviews, challenges (where appropriate) and agrees the basis for the carrying value of the unquoted investments, as prepared by the Investment Adviser, for presentation within the half-yearly and annual accounts.

The Committee also takes into careful consideration, comments on matters regarding valuation, revenue recognition and disclosures arising from the Auditors Report, to the Audit Committee as part of the finalisation process for the Annual Accounts.

## CORPORATE GOVERNANCE STATEMENT (continued)

### **Internal audit and control**

The Committee has considered the need for an internal audit function and has concluded that at the present time this would not be appropriate for a company of this size and structure. The Committee seeks to satisfy themselves that there is a proper system and allocation of the responsibilities for the day-to-day monitoring of financial controls by receiving representations and information (either upon request or voluntarily) from the Investment Adviser. This is covered more fully under Risk Management and Internal Control.

### **Whistleblowing procedures**

As the Company has no staff, other than directors, there are no procedures in place in respect of C.3.5 of the UK Corporate Governance Code, relating to whistleblowing. The Audit Committee understands that the Investment Adviser has whistleblowing procedures in place.

### **External auditor**

The Committee reviews and agrees the audit strategy paper, presented by the Auditor in advance of the audit, which sets out the key risk areas to be covered during the audit, confirms their status of independence and includes the proposed audit fee. The Committee confirms that the main area of risk for the year under review is valuation of unquoted investments. The Committee also carefully examines the treatment of quoted investments and loan stock interest revenue recognition.

The Committee, after taking into consideration comments from the Investment Adviser, Downing LLP, regarding the effectiveness of the audit process; immediately before the conclusion of the annual audit, will recommend to the Board either re-appointment or removal of the auditors.

Under the Competition and Markets Authority regulations, there is a requirement that an audit tender process be carried out every ten years and mandatory rotation at least every twenty years. The last audit tender took place for the year ended 31 March 2015 and therefore mandatory tender will be required not later than after the year ending 31 March 2024.

Following assurances received from the Investment Adviser at the completion of the audit for the year to 31 March 2018, and taking discussions held with the engagement Partner at BDO LLP into consideration, the Committee has recommended they be re-appointed at the forthcoming AGM.

### **Non audit services**

The Committee will approve the provision of ad-hoc work and maximum expected fee before being undertaken; to ensure the Auditors objectivity and independence are safeguarded.

### **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 the Board composition and balance. The Committee did not meet during the year.

### **Diversity policy**

When considering a new appointment to the Board, the committee's responsibility is to ensure that Shareholders are safeguarded by appointing the most appropriate person for the position, (irrespective of gender) giving due regard to past and present experience in the sectors in which the Company invests. The Company therefore does not have a specific diversity policy in place.

### **Remuneration Committee**

The Remuneration Committee meets as required, to discuss the existing levels of remuneration for the non-executive Directors, and whether they reflect the time commitment and responsibilities of the positions and are comparable with industry standards. Where deemed necessary, they will recommend adjustments to the remuneration levels. The Committee did not meet during the year.

### **Board performance evaluation**

The Company has introduced an annual process for the evaluation of the performance of the Board, each of its Committees and of the non-executive Directors. The evaluation is undertaken using a questionnaire which covers a broad range of topics, including how the Board conducts its business and how it discharges its responsibilities. Further questions address the evaluation of the Chairman's performance.

The responses to the questionnaire were summarised by the Company Secretary and passed to the Chair of the Remuneration Committee. Any matters arising were then discussed with the non-executive directors as appropriate.

### **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 Investment Adviser at [www.downing.co.uk](http://www.downing.co.uk).

## CORPORATE GOVERNANCE STATEMENT (continued)

### 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 Shareholders if so requested. As disclosed in the Report of the Directors, there were no Shareholders with a substantial interest in the Company at the year-end or at the date of this report.

In addition to the formal business of the AGM, representatives of the management team and the Board are available to answer any questions a Shareholder may have.

Separate resolutions are proposed at the AGM on each substantially separate issue. Downing LLP 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, and are published immediately following the AGM. The notice of the next AGM along with the proxy form can be found at the end of these financial statements.

The conditions of appointment of non-executive Directors are available to Shareholders upon request.

### Financial reporting

The Directors' Statement of Responsibilities for preparing the accounts is set out in the Report of the Directors on page 26, and a statement by the Auditor about their reporting responsibilities is set out in the Independent Auditor's Report on page 38.

### Risk Management and Internal control

The Board has adopted an Internal Control Manual ("Manual") for which it is 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 Company's advisers and Directors 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.

### 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 to 4, the Investment Adviser's Report on pages 5 to 10 and the Strategic Report on page 21 to 23. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are shown in the Cash Flow Statement on page 43 and the Strategic Report on page 23. In addition, notes 13 and 16 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives, details of its financial instruments; and its exposures to credit risk and liquidity risk.

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

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, being at least 12 months from the date of approval of the financial statements. For this reason, they believe the Company continues to be a going concern and that it is appropriate to apply the going concern basis in preparing the financial statements.

In addition, the Directors have carried out a robust assessment of the principal risks facing the Company over a longer period than the 12 months required by the 'Going concern' provision as set out in the viability statement on page 21.

### Compliance statement

The Listing Rules require the Board to report on compliance with the UK Corporate Governance Code throughout the accounting period. The preamble to the UK Corporate Governance Code does, however, acknowledge that some provisions may have less relevance for investment companies. With the exception of the limited items outlined below, the Company has complied throughout the accounting year ended 31 March 2018 with the provisions set out in the UK Corporate Governance Code.



## CORPORATE GOVERNANCE STATEMENT (continued)

### Compliance statement (continued)

- a) New Directors do not receive a full, formal and tailored induction on joining the Board, nor does the Chairman review and agree training and development needs. Such matters are addressed on an individual basis as they arise. Also the Company has no major Shareholders, therefore 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) The non-executive Directors do not have service contracts, whereas the recommendation is for fixed term renewable contracts. (B.2.3) The Directors do have letters of appointment in place which the Company considers to be sufficient. In the Directors' opinion, this does not make a substantive difference to the circumstances of the Company.
- c) A senior independent director has not been appointed. (A.4.1)

By order of the Board



**Grant Whitehouse**  
Company Secretary  
St. Magnus House  
3 Lower Thames Street  
London EC3R 6HD

12 July 2018

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

### Opinion

We have audited the financial statements of Downing One VCT plc (the 'Company') for the year ended 31 March 2018 which comprise the Income Statement, Statement of Changes in Equity, Balance Sheet, Statement of Cash Flow and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report that describes the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 33 in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation in the annual report as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DOWNING ONE VCT PLC (continued)

### Key audit matters (continued)

| Key audit matter   | Audit Response  |
|--|---|
| <p><b>Valuation of investments:</b></p> <p>There is a high level of estimation uncertainty involved in determining the unquoted investment valuations.</p> <p>The Investment Manager's fee is based on the value of the net assets of the fund.</p> <p>As the Investment Manager is responsible for valuing investments for the financial statements, there is a potential risk of overstatement of investment valuations. The existence of an expense cap in the management agreement enhances this risk.</p> | <p><b>Quoted</b></p> <p>In respect of equity investments quoted on AIM, we confirmed that bid price has been used and that there were no contra indicators, such as liquidity considerations, to suggest bid price was not the most appropriate indication of fair value.</p> <p><b>Unquoted</b></p> <p>For a risk-weighted sample of debt instruments held at fair value, we performed the following:</p> <ul style="list-style-type: none"> <li>• Vouched security held to documentation and consider recoverability of loans.</li> <li>• Considered the assumption that fair value is not significantly different to cost by challenging the assumption that there is no significant movement in the market interest rate since acquisition and considering the "unit of account" concept.</li> <li>• Reviewed the treatment of accrued redemption premium/other fixed returns in line with the SORP and FRS 102.</li> </ul> <p>We performed preliminary analytical procedures to determine our investment sample and the extent of our work considering the value of individual investments, the nature of the investment and the extent of the fair value movement. In respect of the sample selected for detailed testing we;</p> <ul style="list-style-type: none"> <li>• Considered whether the assumptions and underlying evidence supporting the year end valuations are in line with FRS 102.</li> <li>• Considered whether the valuation methodology is the most appropriate in the circumstances under the International Private Equity and Venture Capital Valuation ("IPEV") Guidelines.</li> <li>• Re-performed the calculation of the investment valuations.</li> <li>• Verified and benchmarked key inputs and estimates to independent information and our own research.</li> <li>• Performed sensitivity analysis on the valuation calculations where there is sufficient evidence to suggest reasonable alternative inputs might exist.</li> <li>• Challenged the Investment Manager regarding significant judgements made.</li> <li>• Considered the economic environment in which the investment operates to identify factors that could impact the investment valuation.</li> </ul> |
| <p><b>Revenue recognition (Note 2 on page 44 and Note 3 on page 46):</b></p> <p>Revenue consists principally of loan stock interest and dividend income. Revenue recognition is considered to be significant audit risk as it is the key driver of dividend returns to investors and there is judgement required in determining whether accrued income should be regarded as recoverable.</p>  | <p>We reviewed accrued fixed rate income and have considered the recoverability of loan stock interest with reference to post year end receipts. We reviewed the accuracy of the accounting for redemption premiums and checked that they have been classified as capital or revenue items appropriately.</p> <p>We recalculated expected income from loan stock investments in line with the underlying agreements from investee companies. We traced interest receipts to bank.</p>   |

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DOWNING ONE VCT PLC (continued)

### Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the Financial Statements. The application of these key considerations gives rise to two levels of materiality, the quantum and purpose of which are tabulated below.

| <b>Materiality measure</b>  | <b>Purpose</b>  | <b>Key considerations and benchmarks</b>   | <b>Quantum (£)</b>                        |
|---|---|--|---|
| <i>Financial statement materiality. (1.75% of gross investments)</i>  | Assessing whether the financial statements as a whole present a true and fair view.   | <ul style="list-style-type: none"> <li>• The value of gross investments</li> <li>• The level of judgement inherent in the valuation</li> <li>• The range of reasonable alternative valuations</li> </ul> | £1,450,000<br>(31 March 2017: £1,500,000) |
| <i>Performance materiality</i>  | Lower level of materiality applied in performance of the audit when determining the nature and extent of testing applied to individual balances and classes of transactions.  | <ul style="list-style-type: none"> <li>• Financial statement materiality</li> <li>• Risk and control environment</li> <li>• History of prior errors (if any)</li> </ul>                                  | £1,100,000<br>(31 March 2017: £1,125,000) |
| <i>Specific materiality – classes of transactions and balances which impact on net realised returns. (5% gross expenditure)</i> | Assessing those classes of transactions, balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. | <ul style="list-style-type: none"> <li>• Level of gross expenditure</li> </ul>   | £120,000<br>(31 March 2017: £120,000)     |

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £30,000 (31 March 2017: £30,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

### An overview of the scope of our audit

Our audit approach was developed by obtaining an understanding of the Company's activities, the key functions undertaken on behalf of the Board by the Investment Manager and Administration Manager and, the overall control environment. Based on this understanding we assessed those aspects of the Company's transactions and balances which were most likely to give rise to a material misstatement. Below are those risks which we considered to have the greatest impact on our audit strategy and our audit response.

### Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DOWNING ONE VCT PLC (continued)

### Other information (continued)

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable [set out on page 26]** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

### Opinions 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.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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.

### Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 18, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DOWNING ONE VCT PLC (continued)**

### **Auditor's responsibilities for the audit of the financial statements (continued)**

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Other matters which we are required to address**

Following the recommendation of the audit committee, we were appointed by the Company on 3 February 2015 to audit the financial statements for the year ending 31 March 2015 and subsequent financial periods. The period of total uninterrupted engagement is four years, covering the years ending 31 March 2015 to 31 March 2018.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

### **Use of our report**

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.

Stuart Collins (Senior Statutory Auditor)  
For and on behalf of BDO LLP, Statutory Auditor  
55 Baker Street  
London  
W1U 7EU  
12 July 2018

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

**INCOME STATEMENT**  
for the year ended 31 March 2018

|   | Note | Year ended 31 March 2018 |                  |                | Year ended 31 March 2017 |                  |                |
|---|------|--------------------------|------------------|----------------|--------------------------|------------------|----------------|
|   |      | Revenue<br>£'000         | Capital<br>£'000 | Total<br>£'000 | Revenue<br>£'000         | Capital<br>£'000 | Total<br>£'000 |
| Income  | 3    | 3,858                    | -                | 3,858          | 1,736                    | 209              | 1,945          |
| Gains on investments                                      | 10   | -                        | 3,336            | 3,336          | -                        | 2,737            | 2,737          |
|   |      | <u>3,858</u>             | <u>3,336</u>     | <u>7,194</u>   | <u>1,736</u>             | <u>2,946</u>     | <u>4,682</u>   |
| Investment management fees                                | 4    | (835)                    | (835)            | (1,670)        | (875)                    | (875)            | (1,750)        |
| Other expenses  | 5    | (687)                    | -                | (687)          | (652)                    | -                | (652)          |
| <b>Return on ordinary activities before tax</b>           |      | <u>2,336</u>             | <u>2,501</u>     | <u>4,837</u>   | <u>209</u>               | <u>2,071</u>     | <u>2,280</u>   |
| Tax on total comprehensive income and ordinary activities | 7    | (238)                    | 238              | -              | (221)                    | 221              | -              |
| <b>Return/(loss) attributable to equity shareholders</b>  | 9    | <u>2,098</u>             | <u>2,739</u>     | <u>4,837</u>   | <u>(12)</u>              | <u>2,292</u>     | <u>2,280</u>   |
| <b>Basic and diluted return per share</b>                 | 9    | 2.0p                     | 2.6p             | 4.6p           | -                        | 2.3p             | 2.3p           |

The total column within the Income Statement represents the Statement of Total Comprehensive Income of the Company prepared in accordance with Financial Reporting Standards ("FRS 102"). There are no other items of comprehensive income. The supplementary revenue and capital return columns are prepared in accordance with the Statement of Recommended Practice issued in November 2014 and updated in January 2017 by the Association of Investment Companies ("AIC SORP").

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

**STATEMENT OF CHANGES IN EQUITY**  
for the year ended 31 March 2018

|   | Called<br>up<br>Share<br>Capital<br>£'000 | Capital<br>redemption<br>reserve<br>£'000 | Share<br>premium<br>account<br>£'000 | Funds<br>held in<br>respect<br>of shares<br>not yet<br>allotted<br>£'000 | Special<br>reserve<br>£'000 | Capital<br>reserve<br>realised<br>£'000 | Revaluation<br>reserve<br>£'000 | Revenue<br>reserve<br>£'000 | Total<br>£'000 |
|---|---|---|--------------------------------------|--|-----------------------------|---|---------------------------------|-----------------------------|----------------|
| <b>For the year ended 31 March 2018</b>             |   |   |                                      |  |                             |   |                                 |                             |                |
| <b>At 1 April 2017</b>                              | 1,016                                     | 1,553                                     | 13,387                               | -  | 77,049                      | -                                       | (1,002)                         | (133)                       | 91,870         |
| Total comprehensive income                          | -   | -   | -                                    | -  | -                           | 440                                     | 2,299                           | 2,098                       | 4,837          |
| Realisation of revaluations<br>from previous years* | -   | -   | -                                    | -  | -                           | (3,213)                                 | 3,213                           | -                           | -              |
| Realisation of impaired<br>valuations               | -   | -   | -                                    | -  | -                           | (399)                                   | 399                             | -                           | -              |
| Transfer between reserves*                          | -   | -   | -                                    | -  | (9,958)                     | 9,958                                   | -                               | -                           | -              |
| <i>Transactions with owners</i>                     |   |   |                                      |  |                             |   |                                 |                             |                |
| Dividends paid                                      | -   | -   | -                                    | -  | -                           | (6,786)                                 | -                               | (1,137)                     | (7,923)        |
| Utilised in share issue                             | -   | -   | -                                    | -  | -                           | -                                       | -                               | -                           | -              |
| Unallotted shares                                   | -   | -   | -                                    | 12,876   | -                           | -                                       | -                               | -                           | 12,876         |
| Issue of new shares                                 | 205                                       | -   | 18,274                               | -  | -                           | -                                       | -                               | -                           | 18,479         |
| Share issue costs                                   | -   | -   | -                                    | -  | (464)                       | -                                       | -                               | -                           | (464)          |
| Purchase of own shares                              | (21)                                      | 21  | -                                    | -  | (1,768)                     | -                                       | -                               | -                           | (1,768)        |
| <b>At 31 March 2018</b>                             | <b>1,200</b>                              | <b>1,574</b>                              | <b>31,661</b>                        | <b>12,876</b>  | <b>64,859</b>               | <b>-</b>                                | <b>4,909</b>                    | <b>828</b>                  | <b>117,907</b> |
| <b>For the year ended 31 March 2017</b>             |   |   |                                      |  |                             |   |                                 |                             |                |
| <b>At 1 April 2016</b>                              | 932                                       | 1,525                                     | 2,792                                | 4,423  | 86,483                      | -                                       | (4,680)                         | 633                         | 92,108         |
| Total comprehensive income                          | -   | -   | -                                    | -  | -                           | 207                                     | 2,085                           | (12)                        | 2,280          |
| Realisation of revaluations<br>from previous years* | -   | -   | -                                    | -  | -                           | (1,593)                                 | 1,593                           | -                           | -              |
| Transfer between reserves*                          | -   | -   | -                                    | -  | (6,716)                     | 6,716                                   | -                               | -                           | -              |
| <i>Transactions with owners</i>                     |   |   |                                      |  |                             |   |                                 |                             |                |
| Dividends paid                                      | -   | -   | -                                    | -  | -                           | (5,330)                                 | -                               | (754)                       | (6,084)        |
| Utilised in share issue                             | -   | -   | -                                    | (4,423)  | -                           | -                                       | -                               | -                           | (4,423)        |
| Issue of new shares                                 | 112                                       | -   | 10,595                               | -  | -                           | -                                       | -                               | -                           | 10,707         |
| Share issue costs                                   | -   | -   | -                                    | -  | (234)                       | -                                       | -                               | -                           | (234)          |
| Purchase of own shares                              | (28)                                      | 28  | -                                    | -  | (2,484)                     | -                                       | -                               | -                           | (2,484)        |
| <b>At 31 March 2017</b>                             | <b>1,016</b>                              | <b>1,553</b>                              | <b>13,387</b>                        | <b>-</b>   | <b>77,049</b>               | <b>-</b>                                | <b>(1,002)</b>                  | <b>(133)</b>                | <b>91,870</b>  |

\* A transfer of £3,213,000 representing previously recognised unrealised losses on disposal of investments during the year ended 31 March 2018 (2017: £1,593,000) has been made from the Capital Reserve realised to the Revaluation reserve. A transfer of £6.3 million representing realised gains on disposal of investments, less capital expenses and capital dividends in the year (2017: £5.1 million) has been made from Capital Reserves – realised to Special reserve.

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



**BALANCE SHEET**  
as at 31 March 2018

|   | Note | 2018<br>£'000  | 2017<br>£'000 |
|---|------|----------------|---------------|
| <b>Fixed assets</b>                                   |      |                |               |
| Investments   | 10   | <u>81,588</u>  | <u>86,397</u> |
| <b>Current assets</b>                                 |      |                |               |
| Debtors   | 11   | 1,574          | 448           |
| Cash at bank and in hand                              |      | <u>35,456</u>  | <u>5,523</u>  |
|   |      | 37,030         | 5,971         |
| <b>Creditors: amounts falling due within one year</b> | 12   | <u>(711)</u>   | <u>(498)</u>  |
| <b>Net current assets</b>                             |      | <u>36,319</u>  | <u>5,473</u>  |
| <b>Net assets</b>                                     |      | <u>117,907</u> | <u>91,870</u> |
| <b>Capital and reserves</b>                           |      |                |               |
| Called up share capital                               | 13   | 1,200          | 1,016         |
| Capital redemption reserve                            | 14   | 1,574          | 1,553         |
| Share premium account                                 | 14   | 31,661         | 13,387        |
| Funds held in respect of shares not yet allotted      | 14   | 12,876         | -             |
| Special reserve                                       | 14   | 64,859         | 77,049        |
| Capital reserve – realised                            | 14   | -              | -             |
| Revaluation reserve                                   | 14   | 4,909          | (1,002)       |
| Revenue reserve                                       | 14   | <u>828</u>     | <u>(133)</u>  |
| <b>Total equity shareholders' funds</b>               | 15   | <u>117,907</u> | <u>91,870</u> |
| <b>Basic and diluted net asset value per share</b>    | 15   | 87.5p          | 90.4p         |

The financial statements on pages 40 to 60 were approved and authorised for issue by the Board of Directors on 12 July 2018 and were signed on its behalf by



**Chris Kay**  
Chairman  
Company number: 3150868

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

**CASH FLOW STATEMENT**  
for the year ended 31 March 2018

|  | Note | 2018<br>£'000        | 2017<br>£'000          |
|--|------|----------------------|------------------------|
| <b>Cash flow from operating activities</b>                 |      |                      |                        |
| Profit on ordinary activities after taxation               |      | 4,837                | 2,280                  |
| Gains on investments                                       |      | (3,336)              | (2,737)                |
| (Increase) in debtors                                      |      | (1,126)              | (156)                  |
| Increase/(decrease) in creditors                           |      | 38                   | (14)                   |
| <b>Cash from operations</b>                                |      |                      |                        |
| Corporation tax paid                                       |      | -                    | -                      |
| <b>Net cash generated from operating activities</b>        |      | <u>413</u>           | <u>(627)</u>           |
| <b>Cash flow from investing activities</b>                 |      |                      |                        |
| Purchase of investments                                    | 10   | (10,627)             | (27,821)               |
| Proceeds from disposal of investments                      | 10   | 18,772               | 9,607                  |
| <b>Net cash inflow/(outflow) from investing activities</b> |      | <u>8,145</u>         | <u>(18,214)</u>        |
| <b>Cash flows from financing activities</b>                |      |                      |                        |
| Proceeds from share issue                                  |      | 18,479               | 10,707                 |
| Funds held in respect of shares not yet allotted           |      | 12,876               | (4,423)                |
| Share issue costs  |      | (464)                | (234)                  |
| Purchase of own shares                                     |      | (1,593)              | (2,315)                |
| Equity dividends paid                                      | 8    | (7,923)              | (6,084)                |
| <b>Net cash inflow/(outflow) from financing activities</b> |      | <u>21,375</u>        | <u>(2,349)</u>         |
| <b>Increase/(decrease) in cash</b>                         |      | <u><u>29,933</u></u> | <u><u>(21,190)</u></u> |
| <b>Net movement in cash</b>                                |      |                      |                        |
| Beginning of year  |      | 5,523                | 26,713                 |
| Net cash (outflow)/inflow                                  |      | <u>29,933</u>        | <u>(21,190)</u>        |
| End of year  |      | <u><u>35,456</u></u> | <u><u>5,523</u></u>    |

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

## **NOTES TO THE ACCOUNTS**

### **for the year ended 31 March 2018**

#### **1. General information**

Downing ONE VCT plc (“the Company”) is a venture capital trust established under the legislation introduced in the Finance Act 1995 and is domiciled in the United Kingdom and incorporated in England and Wales, and its registered office is St. Magnus House, 3 Lower Thames Street, London EC3R 6HD.

#### **2. Accounting policies**

##### **Basis of accounting**

The Company has prepared its financial statements in accordance with the Financial Reporting Standard 102 (“FRS 102”) and in accordance with the Statement of Recommended Practice “Financial Statements of Investment Trust Companies” issued November 2014 and updated January 2017 (“SORP”).

The financial statements are presented in Sterling (£) and rounded to thousands.

##### **Presentation of income statement**

In order to better reflect the activities of a Venture Capital Trust and in accordance with guidance issued by the Association of Investment Companies (“AIC”), supplementary information which analyses the income statement between items of a revenue and capital nature has been presented alongside the income statement. The net revenue is the measure the Directors believe appropriate in assessing the Company’s compliance with certain requirements set out in Part 6 of the Income Tax Act 2007.

##### **Investments**

Venture capital investments are designated as “fair value through profit or loss” assets due to investments being managed and performance evaluated on a fair value basis. A financial asset is designated within this category if it is both acquired and managed on a fair value basis, with a view to selling after a period of time, in accordance with the Company’s documented investment policy.

##### **Judgements in applying accounting policies and key sources of estimation uncertainty**

Of the Company’s assets measured at fair value, it is possible to determine their fair values within a reasonable range of estimates. The fair value of an investment upon acquisition is deemed to be cost. Thereafter, investments are measured at fair value in accordance with FRS 102 sections 11 and 12 together with the International Private Equity and Venture Capital Valuation Guidelines (“IPEV”).

Investments quoted on recognised stock markets are measured using bid prices.

The valuation methodologies for unlisted instruments (comprising equity and loan notes), used by the IPEV to ascertain the fair value of an investment, are as follows:

- Price of recent investment;
- Multiples;
- Net assets;
- Discounted cash flows or earnings (of the 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 as explained in the investment accounting policy above and addressed further in note 10.

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

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

It is not the Company’s policy to exercise significant influence or joint control 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 and FRS 102 sections 14 and 15 that do not require portfolio investments to be accounted for using the equity method of accounting.

## **NOTES TO THE ACCOUNTS (continued)**

### **for the year ended 31 March 2018**

#### **2. Accounting policies (continued)**

In respect of disclosures required by the SORP for the 10 largest investments held by the Company, the most recent publicly available accounts information, either as filed at Companies House, or announced to the London Stock Exchange, is disclosed. In the case of unlisted investments, this may be abbreviated information only.

#### **Income**

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

Loan stock interest is accrued on a time apportioned basis, by reference to the principal outstanding and at the effective interest rate applicable and only where there is reasonable certainty of collection.

Distributions from investments in limited liability partnerships ("LLPs") are recognised as they are paid to the Company. Where such items are considered capital in nature they are recognised as capital profits.

#### **Expenses**

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

- Expenses which are incidental to the acquisition of an investment are deducted from the Capital Account.
- Expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment.
- Expenses are split and presented partly as capital items where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated. Investment management fees are allocated 50% to revenue and 50% to capital, in order to reflect the Directors' expected long-term view of the nature of the investment returns of the Company.

#### **Taxation**

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

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

Deferred taxation is not discounted and 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 the obligations or rights crystallise based on tax rates and law enacted or substantively enacted at the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the accounts. Deferred tax assets are only recognised if it is expected that future taxable profits will be available to utilise such assets and are recognised on a non-discounted basis.

#### **Cash and cash equivalents**

Cash and cash equivalents include cash in hand and deposits held at call with banks with an original maturity of three months or less.

#### **Other debtors and other creditors**

Other debtors (including accrued income) and other creditors are included within the accounts at amortised cost.

#### **Share issue costs**

Share issue costs have been deducted from the special reserve account.

#### **Segmental reporting**

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

#### **Dividends payable**

Dividends payable are recognised as distributions in the financial statements when the company's liability to make payment has been established.

**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 31 March 2018**

**2. Accounting policies (continued)**

**Funds held in respect of shares not yet allotted**

Cash received in respect of applications for new shares that have not yet been allotted is shown as "Funds held in respect of shares not yet allotted" and recorded on the Balance Sheet.

**3. Income**

|                                | Revenue<br>£'000 | Capital<br>£'000 | 2018<br>Total<br>£'000 | 2017<br>Total<br>£'000 |
|--------------------------------|------------------|------------------|------------------------|------------------------|
| <b>Income from investments</b> |                  |                  |                        |                        |
| Loan stock interest            | 3,346            | -                | 3,346                  | 1,165                  |
| Dividend income                | 432              | -                | 432                    | 427                    |
| LLP income                     | -                | -                | -                      | 209                    |
|                                | <u>3,778</u>     | <u>-</u>         | <u>3,778</u>           | <u>1,801</u>           |
| <b>Other income</b>            |                  |                  |                        |                        |
| Other income                   | 45               | -                | 45                     | 126                    |
| Deposit interest               | 35               | -                | 35                     | 18                     |
|                                | <u>3,858</u>     | <u>-</u>         | <u>3,858</u>           | <u>1,945</u>           |

**4. Investment management fees**

|                            | 2018<br>£'000 | 2017<br>£'000 |
|----------------------------|---------------|---------------|
| Investment management fees | <u>1,670</u>  | <u>1,750</u>  |

The annual running costs of the Company for the year were subject to a cap of 2.75% of the Company's net assets. The expense cap has not been breached for the year under review (2016: £nil). Downing LLP also provides administration services. Fees in relation to these services are shown within note 5 below.

**5. Other expenses**

|  | 2018<br>£'000 | 2017<br>£'000 |
|--|---------------|---------------|
| Administration services                                  | 147           | 146           |
| Directors' remuneration                                  | 109           | 110           |
| Social security costs                                    | 5             | 5             |
| Trail commission   | 203           | 159           |
| Auditor's remuneration for statutory audit               | 34            | 33            |
| Auditor's remuneration for non-audit services (taxation) | 4             | 4             |
| Legal and professional fees                              | 9             | 3             |
| Custodian charges  | 27            | 27            |
| Registrars fees  | 56            | 54            |
| Other expenses   | <u>93</u>     | <u>111</u>    |
|  | <u>687</u>    | <u>652</u>    |

**6. Directors' remuneration**

The Directors of the Company are considered to be the only key management personnel. Details of remuneration (excluding employer's NIC) are given in the Directors' Remuneration Report on page 29. The Company had no employees (other than Directors) during the year (2017: none). No other emoluments and pension contributions were paid by the Company to, or on behalf of, any Directors. There were no amounts outstanding at the year end.

**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 31 March 2018**

**7. Tax on ordinary activities**

|  | <b>2018</b>  | <b>2017</b>  |
|--|--------------|--------------|
|  | <b>£'000</b> | <b>£'000</b> |
| <b>a) Tax charge for the year</b>  |              |              |
| Current year:  |              |              |
| UK Corporation tax (charged to the Revenue Account)  | 238          | 221          |
| Tax credited to Capital Account  | <u>(238)</u> | <u>(221)</u> |
|  | <u>-</u>     | <u>-</u>     |
| <b>b) Factors affecting tax charge for the year</b>  |              |              |
| Profit on ordinary activities before taxation  | <u>4,837</u> | <u>2,280</u> |
| Tax charge calculated on return on ordinary activities before taxation at the applicable rate of 19.0% (2017: 20.0%) | 919          | 456          |
| Effects of:  |              |              |
| Gains on investments   | (634)        | (547)        |
| UK dividend income   | (82)         | (85)         |
| Disallowable expenses  | 2            | 1            |
| Excess management fees (utilised)/carried forward on which deferred tax asset is not recognised                      | <u>(205)</u> | <u>175</u>   |
|  | <u>-</u>     | <u>-</u>     |

- c) Excess management fees, which are available to be carried forward and set off against future taxable income, amounted to £2.9 million (2017: £4.0 million). The associated deferred tax asset has not been recognised due to the fact that it is unlikely that the excess management fees will be set off against future taxable profits in the foreseeable future.

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

A deferred tax asset of £172,000 arising from investments in LLP companies has not been recognised as it is uncertain whether the losses carried forward will be set off against future taxable profits of the same trade in the foreseeable future.

**8. Dividends**

|                               | <b>Year ended 31 March 2018</b> |                |              | <b>Year ended 31 March 2017</b> |                |              |
|-------------------------------|---------------------------------|----------------|--------------|---------------------------------|----------------|--------------|
|                               | <b>Revenue</b>                  | <b>Capital</b> | <b>Total</b> | <b>Revenue</b>                  | <b>Capital</b> | <b>Total</b> |
|                               | <b>£'000</b>                    | <b>£'000</b>   | <b>£'000</b> | <b>£'000</b>                    | <b>£'000</b>   | <b>£'000</b> |
| <b>Dividends paid in year</b> |                                 |                |              |                                 |                |              |
| 2018 Interim: 3.0p            | -                               | 3,374          | 3,374        | -                               | -              | -            |
| 2017 Final: 4.5p              | 1,137                           | 3,412          | 4,549        | -                               | -              | -            |
| 2017 Interim: 3.0p            | -                               | -              | -            | -                               | 3,068          | 3,068        |
| 2016 Final: 3.0p              | -                               | -              | -            | 754                             | 2,262          | 3,016        |
|                               | <u>1,137</u>                    | <u>6,786</u>   | <u>7,923</u> | <u>754</u>                      | <u>5,330</u>   | <u>6,084</u> |
| <b>Dividends proposed</b>     |                                 |                |              |                                 |                |              |
| 2018 Final: 3.0p (2017: 4.5p) | <u>1,200</u>                    | <u>2,400</u>   | <u>3,600</u> | <u>761</u>                      | <u>3,810</u>   | <u>4,571</u> |

**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 31 March 2018**

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

|  | <b>2018</b>  | <b>2017</b>  |
|--|--------------|--------------|
|  | <b>£'000</b> | <b>£'000</b> |
| <b>Return per share based on:</b>                |              |              |
| Net revenue return/(loss) for the financial year | 2,098        | (12)         |
| Net capital gain for the financial year          | 2,739        | 2,292        |
|  | <hr/>        | <hr/>        |
| Total return for the financial year              | 4,837        | 2,280        |
|  | <hr/>        | <hr/>        |
| Weighted average number of shares in issue       | 105,306,924  | 101,137,288  |
|  | <hr/>        | <hr/>        |

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

**10. Investments**

|  | <b>Unquoted<br/>investments<br/>£'000</b> | <b>Quoted<br/>on NEX<br/>Growth<br/>Market<br/>£'000</b> | <b>Quoted<br/>on Main<br/>Market<br/>£'000</b> | <b>Quoted<br/>on<br/>AIM<br/>£'000</b> | <b>Total<br/>£'000</b> |
|--|---|--|--|--|------------------------|
| <b>Opening cost at 1 April 2017</b>        | 68,241                                    | 48   | -  | 19,108                                 | 87,397                 |
| Unrealised (losses)/gains at 1 April 2017  | (6,332)                                   | (18)   | -  | 5,350                                  | (1,000)                |
| <b>Opening fair value at 1 April 2017</b>  | 61,909                                    | 30   | -  | 24,458                                 | 86,397                 |
| <b>Movement in the year:</b>               |   |  |  |  |                        |
| Purchased at cost                          | 5,100                                     | -  | 6,017  | -                                      | 11,117                 |
| Disposal proceeds                          | (17,708)                                  | -  | -  | (1,554)                                | (19,262)               |
| Realised gains in the income statement     | 1,177                                     | -  | -  | (140)                                  | 1,037                  |
| Unrealised gains in the income statement   | 1,091                                     | (1)  | (417)  | 1,626                                  | 2,299                  |
|  | <hr/>                                     | <hr/>  | <hr/>  | <hr/>                                  | <hr/>                  |
| <b>Closing fair value at 31 March 2018</b> | 51,569                                    | 29   | 5,600  | 24,390                                 | 81,588                 |
|  | <hr/>                                     | <hr/>  | <hr/>  | <hr/>                                  | <hr/>                  |
| Closing cost at 31 March 2018              | 53,278                                    | 48   | 6,017  | 17,735                                 | 77,078                 |
| Unrealised (losses)/gains at 31 March 2018 | (1,310)                                   | (19)   | (417)  | 6,655                                  | 4,909                  |
| Realised losses arising on impairment      | (399)                                     | -  | -  | -                                      | (399)                  |
|  | <hr/>                                     | <hr/>  | <hr/>  | <hr/>                                  | <hr/>                  |
| <b>Closing fair value at 31 March 2018</b> | 51,569                                    | 29   | 5,600  | 24,390                                 | 81,588                 |
|  | <hr/>                                     | <hr/>  | <hr/>  | <hr/>                                  | <hr/>                  |

A schedule disclosing the additions and disposals during the year and other information on investments can be found within the Review of Investments on pages 14 to 15.

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

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

In the current year the designation of the levels has changed from levels a – c to levels 1 – 3, with no fundamental change in the description of each level i.e. level a corresponded with level 1, and so forth.

**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 31 March 2018**

**10. Investments (continued)**

|                       | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 | 2018<br>£'000 | Level 1<br>£'000 | Level 2<br>£'000 | Level 3<br>£'000 | 2017<br>£'000 |
|-----------------------|------------------|------------------|------------------|---------------|------------------|------------------|------------------|---------------|
| Quoted on AIM         | 24,390           | -                | -                | 24,390        | 24,458           | -                | -                | 24,458        |
| Quoted on NEX         | 29               | -                | -                | 29            | 30               | -                | -                | 30            |
| Quoted on Main market | 5,600            | -                | -                | 5,600         | -                | -                | -                | -             |
| Loan notes            | -                | -                | 22,477           | 22,477        | -                | -                | 26,858           | 26,858        |
| Unquoted              | -                | -                | 29,092           | 29,092        | -                | -                | 35,051           | 35,051        |
|                       | <u>30,019</u>    | <u>-</u>         | <u>51,569</u>    | <u>81,588</u> | <u>24,488</u>    | <u>-</u>         | <u>61,909</u>    | <u>86,397</u> |

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

|   | Unquoted<br>shares<br>£'000 | Loan<br>notes<br>£'000 | Total<br>£'000 |
|---|-----------------------------|------------------------|----------------|
| Balance at 31 March 2017                          | 35,051                      | 26,858                 | 61,909         |
| <i>Movements in the income statement:</i>         |                             |                        |                |
| Unrealised gains/(losses) in the income statement | 1,157                       | (66)                   | 1,091          |
| Realised gains in the income statement            | 979                         | 198                    | 1,177          |
|   | <u>2,136</u>                | <u>132</u>             | <u>2,268</u>   |
| Purchases at cost                                 | 3,465                       | 1,635                  | 5,100          |
| Disposal proceeds                                 | (11,560)                    | (6,148)                | (17,708)       |
| Balance at 31 March 2018                          | <u>29,092</u>               | <u>22,477</u>          | <u>51,569</u>  |

Changing one or more of the inputs to reasonable possible alternative valuation assumptions could result in a significant change in the fair value of the Level 3 investments. There is an element of judgement in the choice of assumptions for unquoted investments and it is possible that, if different assumptions were used, different valuations could have been attributed to some of the Company's investments.

The Board and the Investment Manager believe that the valuations as at 31 March 2018 reflect the most appropriate assumptions at that 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 16.



**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 31 March 2018**

**10. Investments (continued)**

**Significant interests**

Details of shareholdings in those companies where the company's holding at 31 March 2018 represents greater than 20% of the nominal value of any class of the allotted shares in the portfolio company are included within the review of investments on pages 16 to 19. Relevant companies which are not included within the review of investments are disclosed below. All of the companies named are incorporated in Great Britain. The percentage holding does not reflect the percentage voting right in the Company as a whole.

| <b>Company</b>                     | <b>Class of shares</b> | <b>Number held</b> | <b>Proportion of class held</b> |
|------------------------------------|------------------------|--------------------|---------------------------------|
| Jito Trading Limited               | Ordinary 'B' Shares    | 2,551,020          | 50.0%                           |
| Yamuna Renewables Limited          | Ordinary 'B' Shares    | 2,551,020          | 50.0%                           |
| Xupes Limited                      | Ordinary 'A' Shares    | 128,536            | 75.0%                           |
| Xupes Limited                      | Ordinary 'B' Shares    | 1,124,212          | 75.0%                           |
| Pantheon Trading Limited           | Ordinary 'A' Shares    | 1,500,000          | 100%                            |
| Quadrate Catering Limited          | Ordinary 'A' Shares    | 257                | 25.7%                           |
| Quadrate Catering Limited          | Ordinary 'B' Shares    | 1,049,654          | 39.5%                           |
| Quadrate Spa Limited               | Ordinary 'A' Shares    | 257                | 25.7%                           |
| Quadrate Spa Limited               | Ordinary 'B' Shares    | 1,049,654          | 39.5%                           |
| Pearce and Saunders Limited        | Ordinary 'A' Shares    | 950,400            | 37.1%                           |
| Data Centre Response Limited       | Ordinary 'A' Shares    | 1,477              | 100%                            |
| Data Centre Response Limited       | Ordinary 'B' Shares    | 181,048            | 100%                            |
| Curo Compensation Limited          | Ordinary 'A' Shares    | 462,315            | 42.5%                           |
| Empiribox Holdings Limited         | Ordinary 'A' Shares    | 988,048            | 39.8%                           |
| Empiribox Holdings Limited         | Ordinary 'B' Shares    | 594,444            | 41.5%                           |
| Kimbolton Lodge Limited            | Ordinary 'A' Shares    | 603,500            | 50.0%                           |
| Tramps Night Club Limited          | Ordinary 'A' Shares    | 450,000            | 50.0%                           |
| E-Fundamentals (Group) Limited     | Ordinary 'A' Shares    | 183,110            | 33.3%                           |
| Mosaic Spa and Health Club Limited | Ordinary 'A' Shares    | 743,030            | 38.8%                           |
| Gatewales Limited                  | Ordinary 'A' Shares    | 219,000            | 23.1%                           |
| Pearce and Saunders DevCo Limited  | Ordinary 'A' Shares    | 83,600             | 37.1%                           |
| Leytonstone Pub No1 Limited        | Ordinary 'A' Shares    | 1                  | 100%                            |

**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 31 March 2018**

**11. Debtors**

|                                | <b>2018</b>  | <b>2017</b>  |
|--------------------------------|--------------|--------------|
|                                | <b>£'000</b> | <b>£'000</b> |
| Other debtors                  | 250          | -            |
| Income tax recoverable         | 3            | 3            |
| Prepayments and accrued income | 1,321        | 445          |
|                                | <u>1,574</u> | <u>448</u>   |

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

|                              | <b>2018</b>  | <b>2017</b>  |
|------------------------------|--------------|--------------|
|                              | <b>£'000</b> | <b>£'000</b> |
| Taxation and social security | 12           | 11           |
| Other creditors              | 410          | 241          |
| Accruals and deferred income | 289          | 246          |
|                              | <u>711</u>   | <u>498</u>   |

**13. Called up share capital**

|  | <b>2018</b>  | <b>2017</b>  |
|--|--------------|--------------|
|  | <b>£'000</b> | <b>£'000</b> |
| <b>Issued, allotted, called up and fully paid:</b>         |              |              |
| 119,997,574 (2017: 101,583,111) Ordinary Shares of 1p each | <u>1,200</u> | <u>1,016</u> |

The Company allotted 19,748,392 Ordinary Shares of 1p each at an average price of 90.3p per Ordinary Share under the terms of the offers for subscription dated September 2017. The aggregate consideration of the shares was £17.8 million which excludes costs of £464,000.

Under the terms of the Company's Dividend Reinvestment option, the Company allotted 765,309 Ordinary Shares of 1p each at an average price of 87.2p, to subscribing shareholders in respect of the dividends paid on the 18 August 2017 and 23 February 2018 respectively.

During the year, the Company repurchased 2,099,238 Ordinary Shares of 1p each for an average consideration of 83.8p per share, representing 2.1% of those shares in issue at the last annual report. These shares were subsequently cancelled.

**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 31 March 2018**

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

*Management of capital*

The Company's capital is managed in accordance with its investment policy, as shown in the Strategic Report on pages 22 to 23, in pursuit of its principal investment objectives as stated on page 2. The Company has the authority to buy back shares as described in the Corporate Governance Statement on page 31.

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

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

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

There is a single class of Ordinary Shares. There are no restrictions on the distribution of dividends and the repayment of capital.

**14. Reserves**

|  | <b>2018</b>    | <b>2017</b>   |
|--|----------------|---------------|
|  | <b>£'000</b>   | <b>£'000</b>  |
| Capital redemption reserve                       | 1,574          | 1,553         |
| Share premium account                            | 31,661         | 13,387        |
| Funds held in respect of shares not yet allotted | 12,876         | -             |
| Special reserve                                  | 64,859         | 77,049        |
| Capital reserve – realised                       | -              | -             |
| Revaluation reserve                              | 4,909          | (1,002)       |
| Revenue reserve                                  | 828            | (133)         |
|  | <u>116,707</u> | <u>90,854</u> |

Distributable reserves are calculated as follows:

|   | <b>2018</b>   | <b>2017</b>   |
|---|---------------|---------------|
|   | <b>£'000</b>  | <b>£'000</b>  |
| Special reserve   | 64,859        | 77,049        |
| Revenue reserve   | 828           | (133)         |
| Unrealised gains/losses (excluding unrealised unquoted gains) | 523           | (4,354)       |
|   | <u>66,210</u> | <u>72,562</u> |

## **NOTES TO THE ACCOUNTS (continued)**

### **for the year ended 31 March 2018**

#### **14. Reserves (continued)**

##### *Capital redemption reserve*

This reserve accounts for amounts by which the issued share capital is diminished through the repurchase and cancellation of the Company's own shares.

##### *Share premium account*

This reserve accounts for the difference between the price paid for shares and the nominal value of the shares, less issue costs and transfers to the other distributable reserves.

##### *Funds held in respect of shares not yet allotted*

This reserve accounts for cash received in respect of applications for new shares that have not yet been allotted and is recorded on the Balance Sheet.

##### *Special reserve*

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. Share issue costs are also charged to the special reserve.

##### *Capital reserve - realised*

The following are disclosed in this reserve:

- gains and losses compared to cost on the realisation of investments;
- expenses, together with the related taxation effect, charged in accordance with the above accounting policies; and
- dividends paid to equity holders.

##### *Revaluation reserve*

Increases and decreases in the valuation of investments held at the year-end against cost are included in this reserve.

##### *Revenue reserve*

This reserve accounts for movements from the revenue column of the Income statement, the payment of dividends and other non-capital realised movements.

**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 31 March 2018**

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

|                            | Shares<br>in issue | Net<br>assets<br>£'000 | NAV<br>per<br>share<br>pence |
|----------------------------|--------------------|------------------------|------------------------------|
| <b>As at 31 March 2018</b> |                    |                        |                              |
| Ordinary Shares            | 119,997,574        | <u>117,907</u>         | 87.5                         |
|                            |                    | <u>117,907</u>         |                              |
| <b>As at 31 March 2017</b> |                    |                        |                              |
| Ordinary Shares            | 101,583,111        | <u>91,870</u>          | 90.4                         |
|                            |                    | <u>91,870</u>          |                              |

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

The Company's net assets as at 31 March 2018 included funds held in respect of shares not yet allotted of £12,876,000.

**16. Financial instruments**

The Company's financial instruments comprise investments held at fair value through profit and loss, being equity and loan stock investments in quoted companies and unquoted companies, 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 cashflows, 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 2. The composition of the investments is set out in note 10. The fair value of cash deposits and short-term debtors and creditors equates to their carrying value in the balance sheet.

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

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

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

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:

**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 31 March 2018**

**16. Financial instruments (continued)**

**Market risks**

As a VCT, the Company is exposed to investment risks in the form of potential losses and gains that may arise on the investments it holds in accordance with its investment policy. The management of these investment risks is a fundamental part of the investment activities undertaken by the Investment Adviser and overseen by the Board. The Investment Adviser 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 Investment Adviser to manage the investment risk in respect of individual investments. Investment risk is also mitigated by holding a diversified portfolio spread across various business sectors and asset classes.

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

- Investment price risk; and
- Interest rate risk.

The Company has undertaken sensitivity analysis on its financial instruments, split into the relevant component parts, taking into consideration the economic climate at the time of review in order to ascertain the appropriate risk allocation.

**Investment price risk**

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

*Quoted investments*

The Company's sensitivity to fluctuations in the share prices of its quoted investments, excluding fixed interest bonds, is summarised below. A 25% movement in the share price in each of the quoted stocks held by the Company which is considered to be a reasonable maximum movement in a year would have an effect as follows:

| Sensitivity | 2018<br>25% movement   |  |                                  | 2017<br>25% movement   |  |                                  |
|-------------|------------------------|--|----------------------------------|------------------------|--|----------------------------------|
|             | Risk exposure<br>£'000 | Impact on net assets/<br>return<br>£'000 | Impact on NAV per share<br>Pence | Risk exposure<br>£'000 | Impact on net assets/<br>return<br>£'000 | Impact on NAV per share<br>Pence |
|             | Quoted shares          | 30,019                                   | 7,505                            | 6.3                    | 24,488                                   | 6,122                            |

*Unquoted investments*

At 31 March 2018, the unquoted portfolio was valued at £51,569,000 (31 March 2017: £61,909,000). A breakdown of the unquoted portfolio by valuation method used is as follows:

|  | 2018<br>£'000 |
|--|---------------|
| Price of recent investment                                 | 31,394        |
| Multiples  | 15,312        |
| Discounted cash flows or earnings (of underlying business) | 2,867         |
| Discounted cash flows (from the investment)                | 1,598         |
| Industry valuation benchmarks                              | 398           |
|  | 51,569        |

**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 31 March 2018**

**16. Financial instruments (continued)**

***Investment price risk (continued)***

As many of the Company's unquoted investments are valued using revenue or earnings multiples of comparable companies or sectors, a change in the relevant market sectors could impact on the valuation of the equity investments held in the unquoted portfolio. As unquoted investments are typically structured as partly equity and partly loan notes, investment price risk of the unquoted investments is considered as a whole. A 10% movement in the price of these investments is considered to be a reasonable maximum level in a year and would have an effect as shown below:

| Sensitivity          | 2018<br>10% movement   |  |                                  | 2017<br>10% movement   |  |                                  |
|----------------------|------------------------|--|----------------------------------|------------------------|--|----------------------------------|
|                      | Risk exposure<br>£'000 | Impact on net assets/<br>return<br>£'000 | Impact on NAV per share<br>Pence | Risk exposure<br>£'000 | Impact on net assets/<br>return<br>£'000 | Impact on NAV per share<br>Pence |
| Unquoted investments | 51,569                 | 5,157                                    | 4.3                              | 61,909                 | 6,190                                    | 6.1                              |

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 investment price risk in isolation.

***Interest 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 and fixed interest securities attract interest predominately at fixed rates. A summary of the interest rate profile of the Company's investments is shown below.

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

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

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

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

|                  | Weighted average interest rate | Weighted average period until maturity | 2018<br>£'000  | 2017<br>£'000 |
|------------------|--------------------------------|--|----------------|---------------|
| Fixed rate       | 14.9%                          | 963 days                               | 22,477         | 24,792        |
| Floating rate    | 0.25%                          |  | 35,456         | 5,524         |
| No interest rate |                                |  | 59,974         | 61,554        |
|                  |                                |  | <u>117,907</u> | <u>91,870</u> |



**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 31 March 2018**

**16. Financial instruments (continued)**

***Interest risk (continued)***

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

The Bank of England base rate increased from 0.25% per annum to 0.5% per annum in November 2017. Any potential change in the base rate at the current level wouldn't have a material impact on the net assets and total return of the Company.

**Credit risk**

Credit risk is the risk that the counterparty to a financial instrument is unable to discharge a commitment to the Company made under that instrument. The Company is exposed to credit risk through its holdings of loan stock in investee companies, investments in fixed interest securities, cash deposits and debtors.

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

|  | <b>2018</b>   | <b>2017</b>   |
|--|---------------|---------------|
|  | <b>£'000</b>  | <b>£'000</b>  |
| <i>Fair value through profit or loss assets:</i> |               |               |
| Investments in loan stocks                       | 22,477        | 26,858        |
| <i>Loans and receivables:</i>                    |               |               |
| Cash and cash equivalents                        | 35,456        | 5,523         |
| Interest, dividends and other receivables        | <u>1,558</u>  | <u>448</u>    |
|  | <u>59,491</u> | <u>32,829</u> |

## **NOTES TO THE ACCOUNTS (continued)**

### **for the year ended 31 March 2018**

#### **16. Financial instruments (continued)**

##### **Credit risk (continued)**

The Investment Adviser manages credit risk in respect of loan notes with a similar approach as described under investment risks above. In addition the credit risk is mitigated by registering floating charges, covering the full par value of the loan stock in the form of fixed and floating charges over the assets of the investee companies. The strength of this security in each case is dependent on the nature of the investee company's business and its identifiable assets. The level of security is a key means of managing credit risk. Similarly, the management of credit risk associated with interest, dividends and other receivables is covered within the investment management procedures referred to on page 54.

Cash is mainly held at Bank of Scotland plc, with a balance also maintained at Royal Bank of Scotland plc, both of which are A-rated financial institutions and 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 can be directly attributable to changes in credit risk.

As at 31 March 2018, of the loan stock classified as "past due" on the next page, £5,848,000 relates to the principal of loan notes where, although the principal remains within the term, the investee company is not fully servicing the interest obligations under the loan note and is in arrears. 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.

As at 31 March 2018, of the loan stock classified as "past due" on the next page, £2,690,000 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 principal is past its maturity date, the total falls within the banding of nil to 2 years past due. Notwithstanding this information, the Directors do not consider the loan notes to be impaired at the current time or that maturity dates of the principal have altered.

As at 31 March 2017, of the loan stock classified as "past due" on the next page, £9,848,000 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 in arrears. 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.

As at 31 March 2017, of the loan stock classified as "past due" on the next page, £2,101,000 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 principal is past its maturity date, £1.4 million falls within the banding of nil to 2 years past due and £700,000 is 3 to 4 years past due. Notwithstanding this information, the Directors do not consider the loan notes to be impaired at the current time or that the maturity dates of the principals have altered.

**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 31 March 2018**

**16. Financial instruments (continued)**

**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. The Company normally has a relatively low level of creditors (2018: £711,000, 2017: £498,000) and has no borrowings. Also most 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 Adviser in line with guidance agreed with the Board and is reviewed by the Board at regular intervals.

The carrying value of loan stock investments held at fair value through the profit and loss account at 31 March 2018, as analysed by expected maturity date, is as follows:

| <b>As at 31 March 2018</b>  | <b>Not later<br/>than 1<br/>year</b> | <b>Between<br/>1 and 2<br/>years</b> | <b>Between<br/>2 and 3<br/>years</b> | <b>Between<br/>3 and 5<br/>years</b> | <b>Over<br/>5<br/>years</b> | <b>Passed<br/>maturity<br/>date</b> | <b>Total</b>  |
|-----------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|-----------------------------|-------------------------------------|---------------|
|                             | <b>£'000</b>                         | <b>£'000</b>                         | <b>£'000</b>                         | <b>£'000</b>                         | <b>£'000</b>                | <b>£'000</b>                        | <b>£'000</b>  |
| Fully performing loan stock | 1,689                                | 2,673                                | 960                                  | 3,853                                | 5,000                       | 2,454                               | 16,629        |
| Past due loan stock         | 463                                  | 2,695                                | -                                    | -                                    | -                           | 2,690                               | 5,848         |
|                             | <b>2,152</b>                         | <b>5,368</b>                         | <b>960</b>                           | <b>3,853</b>                         | <b>5,000</b>                | <b>5,144</b>                        | <b>22,477</b> |

| <b>As at 31 March 2017</b>  | <b>Not later<br/>than 1<br/>year</b> | <b>Between<br/>1 and 2<br/>years</b> | <b>Between<br/>2 and 3<br/>years</b> | <b>Between<br/>3 and 5<br/>years</b> | <b>Over<br/>5<br/>years</b> | <b>Passed<br/>maturity<br/>date</b> | <b>Total</b>  |
|-----------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|-----------------------------|-------------------------------------|---------------|
|                             | <b>£'000</b>                         | <b>£'000</b>                         | <b>£'000</b>                         | <b>£'000</b>                         | <b>£'000</b>                | <b>£'000</b>                        | <b>£'000</b>  |
| Fully performing loan stock | 2,044                                | 989                                  | 607                                  | 3,178                                | 5,000                       | 5,192                               | 17,010        |
| Past due loan stock         | 4,682                                | 370                                  | 2,695                                | -                                    | -                           | 2,101                               | 9,848         |
|                             | <b>6,726</b>                         | <b>1,359</b>                         | <b>3,302</b>                         | <b>3,178</b>                         | <b>5,000</b>                | <b>7,293</b>                        | <b>26,858</b> |

**NOTES TO THE ACCOUNTS (continued)**  
**for the year ended 31 March 2018**

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

There were no contingencies, guarantees or financial commitments of the Company at the year-end (2017: nil).

**18. Controlling party**

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

**19. Events after the end of the reporting period**

Since the year end, the Company allotted 14,338,614 Ordinary Shares of 1p each at an average price of 89.1p per Ordinary Share under the terms of the offers for subscription dated September 2017. The aggregate consideration for the shares was £12.9 million.

## UNAUDITED PERFORMANCE SUMMARY FOR VARIOUS INVESTOR GROUPS

The Company undertook a merger with five other VCTs followed by a share reorganisation on 12 November 2013. Full details, including share conversion ratios, can be found on Downing's website, [www.downing.co.uk](http://www.downing.co.uk).

The figures in the table below show the performance of the various groups of investors who make up the Company's current shareholder base and grouped by the VCTs that participated in the merger in November 2013.

| Share issue                                       | Year of launch | Initial income tax relief | Equivalent dividends received | Equivalent NAV | (Loss)/gain (ignoring income tax relief) | Gain/(loss) (after initial income tax relief) (note 1) | Gain/(loss) (after initial and SRRP tax relief) (note 2) |
|---|----------------|---------------------------|-------------------------------|----------------|--|--|--|
|   | (pence)        | (%)                       | (pence)                       | (pence)        | (%)                                      | (%)  | (%)  |
| <b>Downing ONE VCT plc ("DDV1")</b>               |                |                           |                               |                |  |  |  |
| AIM Distribution Trust plc                        | 1996           | 20%                       | 68.15p                        | 22.5p          | -9.3%                                    | 13.4%  | 23.1%  |
| AIM Distribution Trust plc - top up               | 2005           | 40%                       | 18.35p                        | 22.5p          | -44.4%                                   | -7.4%  | 10.3%  |
| Pennine AIM VCT 5 plc                             | 2005           | 40%                       | 40.24p                        | 19.6p          | -40.1%                                   | -0.2%  | 11.1%  |
| Pennine AIM VCT 6 plc                             | 2006           | 40%                       | 42.30p                        | 26.1p          | -31.5%                                   | 14.1%  | 29.2%  |
| Downing Distribution VCT 1 plc - top up           | 2010           | 30%                       | 30.33p                        | 64.5p          | -9.6%                                    | 29.1%  | n/a  |
| Downing Distribution VCT 1 plc - top up           | 2012           | 30%                       | 20.33p                        | 64.5p          | 8.8%                                     | 55.6%  | n/a  |
| Downing ONE VCT plc                               | Feb 2014       | 30%                       | 18.00p                        | 90.4p          | 7.9%                                     | 54.0%  | n/a  |
| Downing ONE VCT plc                               | Mar-Jul 2014   | 30%                       | 16.00p                        | 90.4p          | 8.0%                                     | 54.2%  | n/a  |
| Downing ONE VCT plc                               | Sep 2014       | 30%                       | 14.00p                        | 90.4p          | 7.3%                                     | 53.3%  | n/a  |
| Downing ONE VCT plc                               | Jan 2015       | 30%                       | 14.00p                        | 90.4p          | 8.2%                                     | 54.4%  | n/a  |
| Downing ONE VCT plc                               | Mar-May 2015   | 30%                       | 14.00p                        | 90.4p          | 10.5%                                    | 57.7%  | n/a  |
| Downing ONE VCT plc                               | Jul-2015       | 30%                       | 14.00p                        | 90.4p          | 7.7%                                     | 54.0%  | n/a  |
| Downing ONE VCT plc                               | Sep-Nov-2015   | 30%                       | 12.00p                        | 90.4p          | 9.1%                                     | 55.9%  | n/a  |
| Downing ONE VCT plc                               | Feb-2016       | 30%                       | 9.00p                         | 90.4p          | 1.3%                                     | 44.7%  | n/a  |
| Downing ONE VCT plc                               | Mar-Apr 2016   | 30%                       | 6.00p                         | 90.4p          | 1.4%                                     | 44.7%  | n/a  |
| Downing ONE VCT plc                               | Jul 2016       | 30%                       | 6.00p                         | 90.4p          | 4.8%                                     | 49.7%  | n/a  |
| Downing ONE VCT plc                               | Sep 2016       | 30%                       | 6.00p                         | 90.4p          | 8.3%                                     | 54.7%  | n/a  |
| Downing ONE VCT plc                               | Oct 2016       | 30%                       | 6.00p                         | 90.4p          | 4.2%                                     | 48.8%  | n/a  |
| <b>Downing Income VCT 3 plc ("DI3")</b>           |                |                           |                               |                |  |  |  |
| Pennine AIM VCT plc                               | 1996           | 20%                       | 100.68p                       | 29.1p          | 29.8%                                    | 62.3%  | 72.5%  |
| Pennine AIM VCT II plc                            | 1997           | 20%                       | 60.88p                        | 19.4p          | -19.7%                                   | 0.4%   | 7.2%   |
| Pennine Downing AIM VCT plc                       | 1998           | 20%                       | 44.66p                        | 25.7p          | -29.7%                                   | -12.1%   | -3.1%  |
| The Ethical AIM VCT plc                           | 1999           | 20%                       | 27.19p                        | 16.5p          | -56.3%                                   | -45.3%   | -39.5%   |
| Pennine Downing AIM VCT 2 plc                     | 2001           | 20%                       | 38.44p                        | 26.1p          | -35.4%                                   | -19.3%   | -10.1%   |
| Pennine AIM VCT plc (C share)                     | 2002           | 20%                       | 35.84p                        | 40.9p          | -23.3%                                   | -4.1%  | 10.3%  |
| Pennine AIM VCT plc (D share)                     | 2006           | 30%                       | 42.50p                        | 48.2p          | -9.3%                                    | 29.5%  | 48.9%  |
| Downing Distribution VCT 2 plc - top up           | 2010           | 30%                       | 31.49p                        | 82.8p          | 5.4%                                     | 50.6%  | n/a  |
| Downing Income VCT 3 plc - top up                 | 2013           | 30%                       | 18.99p                        | 82.8p          | 12.3%                                    | 60.5%  | n/a  |
| Downing Income VCT 3 plc (E share)                | 2011           | 30%                       | 23.16p                        | 78.6p          | 1.8%                                     | 45.4%  | n/a  |
| <b>Downing Income VCT plc ("DI")</b>              |                |                           |                               |                |  |  |  |
| Framlington AIM VCT 2 plc                         | 2006           | 40%                       | 34.35p                        | 31.9p          | -33.7%                                   | 10.4%  | 25.3%  |
| Downing Income VCT plc                            | 2013           | 30%                       | 6.35p                         | 31.9p          | 10.8%                                    | 58.3%  | n/a  |
| <b>Downing Income VCT 4 plc ("DI4")</b>           |                |                           |                               |                |  |  |  |
| Framlington AIM VCT plc                           | 2005           | 40%                       | 40.47p                        | 35.0p          | -24.5%                                   | 25.8%  | 41.2%  |
| Downing Income VCT 4 plc                          | 2013           | 30%                       | 6.97p                         | 35.0p          | 16.2%                                    | 66.0%  | n/a  |
| <b>Downing Absolute Income VCT 1 plc ("DAI1")</b> |                |                           |                               |                |  |  |  |
| Downing Healthcare Protected VCT plc              | 1996           | 20%                       | 83.56p                        | 76.1p          | 59.7%                                    | 99.6%  | 129.6%   |
| Downing Protected VCT 1 plc - top up              | 2010           | 30%                       | 26.16p                        | 76.1p          | 12.1%                                    | 60.2%  | n/a  |
| Downing Absolute Income VCT 1 plc - top up        | 2010           | 30%                       | 26.16p                        | 76.1p          | 11.9%                                    | 59.9%  | n/a  |
| Downing Absolute Income VCT 1 plc - top up        | 2012           | 30%                       | 20.16p                        | 76.1p          | 4.2%                                     | 48.8%  | n/a  |
| Downing Absolute Income VCT 1 plc (C share)       | 2010           | 30%                       | 25.19p                        | 63.7p          | -11.1%                                   | 27.0%  | n/a  |
| <b>Downing Absolute Income VCT 2 plc ("DAI2")</b> |                |                           |                               |                |  |  |  |
| Downing Absolute Income VCT 2 plc                 | 2010           | 30%                       | 29.88p                        | 62.2p          | -7.9%                                    | 31.5%  | n/a  |

### Note 1

Initial income tax relief has been netted off against original cost for the purpose of calculating the percentage net gain/(loss).

### Note 2

Between April 2012 and 2013, a number of VCTs which subsequently merged to form Downing ONE VCT plc offered a Share Realisation and Reinvestment Programme ("SRRP"), which allowed Shareholders who had held their shares for more than five years to sell their shares and reinvest the proceeds, receiving additional income tax relief at the rate of 30% on the new issue. The income tax relief obtained on the SRRPs has been treated as additional income for the purpose of calculating the percentage net gain/(loss).

## COMPANY INFORMATION

### Directors

Chris Kay (Chairman)  
Barry Dean  
Stuart Goldsmith  
all of  
St. Magnus House  
3 Lower Thames Street  
London EC3R 6HD

### Company number

03150868

### Secretary and Registered Office

Grant Whitehouse  
St. Magnus House  
3 Lower Thames Street  
London EC3R 6HD  
Tel No: 020 7416 7780

### Investment Adviser and Administration Manager

Downing LLP  
St. Magnus House  
3 Lower Thames Street  
London EC3R 6HD  
Tel No: 020 7416 7780  
[www.downing.co.uk](http://www.downing.co.uk)

### Auditor

BDO LLP  
55 Baker Street  
London W1U 7EU

### VCT status advisers

Philip Hare & Associates LLP  
Suite C – First Floor  
4-6 Staple Inn  
London WC1V 7QH

### Registrar

Link Asset Services  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU  
Tel No: 0871 664 0324  
(calls cost 10p per minute plus network extras  
lines open Mon-Fri from 8.30am to 5.30pm)  
[www.linkassetservices.com](http://www.linkassetservices.com)

### Bankers

Royal Bank of Scotland plc  
119-121 Victoria Street  
London SW1E 6RA

Bank of Scotland plc  
33 Old Broad Street  
London BX2 1LB

### Corporate Broker

Panmure Gordon (UK) Limited  
Chris Lloyd  
0207 886 2716  
[chris.lloyd@panmure.com](mailto:chris.lloyd@panmure.com)  
Paul Nolan  
0207 886 2717  
[paul.nolan@panmure.com](mailto:paul.nolan@panmure.com)

## **NOTICE OF ANNUAL GENERAL MEETING OF DOWNING ONE VCT PLC**

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of Downing ONE VCT plc will be held at **St. Magnus House, 3 Lower Thames Street, London EC3R 6HD** at 10.45 a.m. on 22 August 2018 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 2018 together with the Independent Auditors' Report thereon.
2. To approve the Directors' Remuneration Report.
3. To approve a final dividend of 3.0p per Ordinary Share.
4. To re-appoint BDO LLP as Auditor of the Company to hold office until the conclusion of the next Annual General Meeting at which the accounts of the Company are presented and to authorise the Directors to determine their remuneration.
5. To re-elect as Director, Barry Dean, who retires and, being eligible, offers himself for re-election.
6. To re-elect as Director, Stuart Goldsmith, who retires and, being eligible, offers himself for re-election.

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

### **Ordinary Resolution**

7. That, in addition to existing authorities, the Directors of the Company be and hereby are generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 ("CA 2006") to exercise all the powers of the Company to allot and issue shares in the capital of the Company and to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £480,000 (representing approximately 40% of the share capital in issue at today's date, provided that the authority conferred by this resolution shall expire on the conclusion of the next Annual General Meeting of the Company held after the passing of this resolution (unless renewed, varied or revoked by the Company in a general meeting) but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require shares to be allotted or rights to be granted after such expiry.

### **Special Resolutions**

8. That, the Directors of the Company be and hereby are empowered pursuant to Sections 570(1) of the CA 2006 to allot or make offers to or agreements to allot equity securities (which expression shall have the meaning ascribed to it in Section 560(1) of the CA 2006) for cash pursuant to the authority given pursuant to resolution 7 above, as if Section 561(1) of the CA 2006 (pre-emption rights) did not apply to such allotment, provided that the power provided by this resolution shall expire on the conclusion of the next Annual General Meeting of the Company held after the passing of this resolution (unless renewed, varied or revoked by the Company in general meeting) but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require equity securities to be allotted after such expiry.



## **NOTICE OF ANNUAL GENERAL MEETING OF DOWNING ONE VCT PLC (continued)**

### **Special resolutions (continued)**

9. That, the Company be and is hereby generally and unconditionally authorised for the purpose of section 701 of the CA2006 to make one or more market purchases (as defined in section 693(4) of the Act) of shares provided that:

- (a) the maximum number of shares hereby authorised to be purchased is 17,879,639 representing approximately 14.9% of the present issued share capital of the Company;
- (b) the minimum price (exclusive of expenses) which may be paid for such shares is 1p the nominal amount thereof;
- (c) the maximum price (exclusive of expenses) which may be paid for such shares shall be an amount equal to 5 per cent. above the average of the middle market quotations for such class of the Company's shares, as derived from the Daily Official List of the London Stock Exchange, for the five business days immediately preceding the day on which the purchase was made;
- (d) the Company may make a contract to purchase its own shares under this authority prior to the expiry of this authority, and such contract will or may be executed wholly or partly after the expiry of this authority, and the Company may make a purchase of its own shares in pursuance of any such contract;

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

By order of the Board



**Grant Whitehouse**  
Company Secretary  
St. Magnus House  
3 Lower Thames Street  
London EC3R 6HD

12 July 2018

### **Note:**

Information regarding the Annual General Meeting, including the information required by section 311A of the CA2006, is available from [www.downing.co.uk](http://www.downing.co.uk).

## NOTICE OF THE ANNUAL GENERAL MEETING OF DOWNING ONE VCT PLC (continued)

### Notes

- (a) Any member of the Company entitled to attend and vote at the Annual General Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the Annual General Meeting in order to represent his appointer. A member entitled to attend and vote at the Annual General Meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person. If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in these Notes. Please read Note (h) below. Under section 319A of the CA2006, 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, St. Magnus House, 3 Lower Thames Street, London EC3R 6HD 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, St. Magnus House, 3 Lower Thames Street, London EC3R 6HD. 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 Ordinary 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 10:45 a.m. on 22 August 2018 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 10.45 a.m. on 20 August 2018 or, in the event that the Annual General Meeting is adjourned, on the Register of Members less than 48 hours before the time of any adjourned meeting, shall be disregarded in determining the right of any person to attend and vote at the Annual General Meeting.
- (g) As at 9:00 a.m. on 12 July 2018, the Company's issued share capital comprised 134,373,795 Ordinary Shares and the total number of voting rights in the Company was 134,373,795. The Company website, www.downing.co.uk 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 CA2006 to enjoy information rights ("Nominated Person"):
- You may have a right under an agreement between you and the member of the Company who has nominated you to have information rights ("Relevant Member") to be appointed or to have someone else appointed as a proxy for the Annual General Meeting;
  - If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights;
  - Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.
- (i) A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.
- (j) A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, the proxy will vote or abstain from voting at his or her discretion. The proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Annual General Meeting.
- (k) Except as provided above, members who have general queries about the Annual General Meeting should write to the Chairman at the registered office set out above.
- (l) Members may not use any electronic address provided either in this notice of Annual General Meeting, or any related documents (including the Chairman's letter and Form of Proxy), to communicate with the Company for any purposes other than those expressly stated.

**DOWNING ONE VCT PLC**  
**FORM OF PROXY**

For use at the Annual General Meeting of the above named Company to be held on 22 August 2018 at St. Magnus House, 3 Lower Thames Street, London EC3R 6HD at 10.45 a.m.

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

of .....  
 being the holder(s)\* of Ordinary Shares of 1p each in the above-named Company, hereby appoint the Chairman of the meeting (see note 1)

or .....

of .....  
 as my/our\* proxy to attend for me/us\* on my/our\* behalf at the Annual General Meeting of the Company to be held at St. Magnus House, 3 Lower Thames Street, London EC3R 6HD on 22 August 2018 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**

|   | <b>FOR</b>               | <b>AGAINST</b>           | <b>WITHHELD</b>          |
|---|--------------------------|--------------------------|--------------------------|
| 1. To receive and adopt the Report of the Directors 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 a final dividend of 3.0p per Ordinary 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 Barry Dean as a Director.  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. To re-elect Stuart Goldsmith as a Director.  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

**SPECIAL BUSINESS**

|   |                          |                          |                          |
|---|--------------------------|--------------------------|--------------------------|
| 7. To authorise the Directors to allot shares.                      | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. To authorise the Directors to disapply pre-emption rights.       | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 9. To authorise the Company to make market purchases of its shares. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Signature(s)\* ..... Date.....2018

\* 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 appointer. A member entitled to attend and vote at the Meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person.
2. Delete "the Chairman of the meeting" if it is desired to appoint any other person and insert his or her name and address. If no name is inserted, the proxy will be deemed to have been given in favour of the Chairman of the meeting. If this Form of Proxy is returned without stating how the proxy shall vote on any particular matter the proxy will exercise his discretion as to whether, and if so how, he votes.
3. Any alterations to the Form of Proxy should be initialled.
4. To be valid, a Form of Proxy and the power of attorney or other written authority, if any, under which it is signed or an office or notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority, must be delivered to Downing LLP, St. Magnus House, 3 Lower Thames Street, London EC3R 6HD or electronically at [proxy@downing.co.uk](mailto:proxy@downing.co.uk), in each case not less than 48 hours (excluding weekends and public holidays) before the time appointed for holding the Annual General Meeting or adjourned meeting at which the person named in the Form of Proxy proposes to vote. In the case of a poll taken more than 48 hours (excluding weekends and public holidays) after it is demanded, the document(s) must be delivered as aforesaid not less than 24 hours (excluding weekends and public holidays) before the time appointed for taking the poll, or where the poll is taken not more than 48 hours (excluding weekends and public holidays) after it was demanded, be delivered at the meeting at which the demand is made.
5. In the case of a corporation, this form must be under its common seal or under the hand of some officer or attorney duly authorised on that behalf.
6. In the case of joint holders, the vote of the senior holder tendering a vote will be accepted to the exclusion of the votes of the other joint holders. Seniority depends on the order in which the names stand in the register of members.
7. The completion and return of this Form of Proxy will not preclude you from attending and voting at the Annual General Meeting should you subsequently decide to do so. If a member appoints a proxy and that member attends the Annual General Meeting in person, the proxy appointment will automatically be terminated.
8. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, the proxy will vote or abstain from voting at his or her discretion. The proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Annual General Meeting.





St Magnus House  
3 Lower Thames Street  
London EC3R 6HD

020 7416 7780  
contact@downing.co.uk  
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