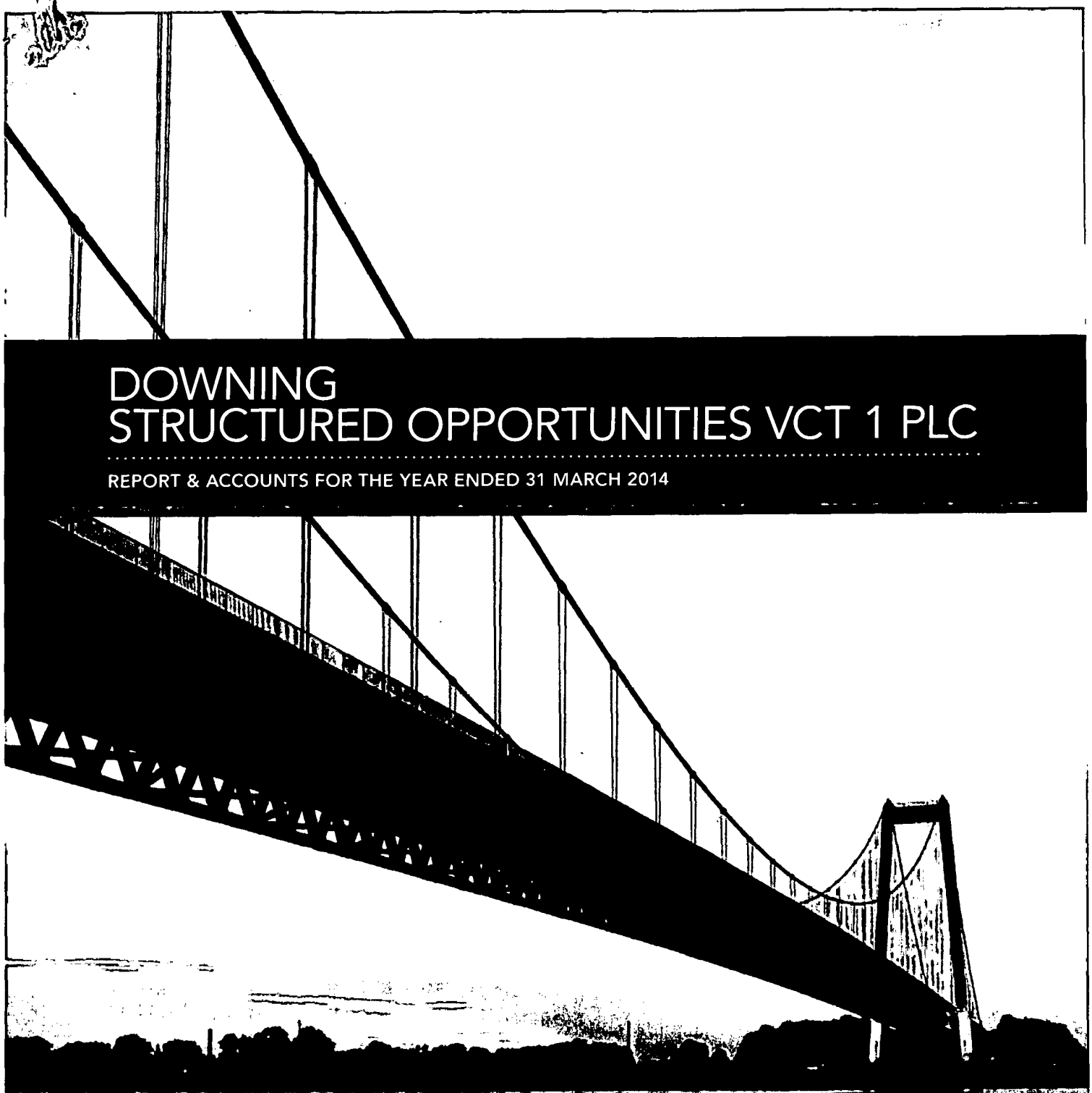

# DOWNING STRUCTURED OPPORTUNITIES VCT 1 PLC

REPORT & ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2014

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COMPANIES HOUSE

Downing

Managed by Downing LLP

## SHAREHOLDER INFORMATION

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

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

**Financial calendar**

| | |
|---|---|
| 25 September 2014 | Annual General Meeting |
| 30 September 2014 | Payment of final dividends |
| November 2014 | Announcement of half yearly financial results |

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

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

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

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

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

**www.downing.co.uk**

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

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## COMPANY INFORMATION

| | |
|---|---|
| **Registered number** | 6789187 |
| **Directors** | Lord Flight (Chairman)<br>Robin Chamberlayne<br>Mark Mathias |
| **Secretary and registered office** | Grant Whitehouse<br>Ergon House<br>Horseferry Road<br>London SW1P 2AL |
| **Investment and Administration Manager** | Downing LLP<br>Ergon House<br>Horseferry Road<br>London SW1P 2AL<br>www.downing.co.uk |
| **Structured Product Manager** | Brewin Dolphin Limited<br>9 Colmore Row<br>Birmingham B3 2BJ |
| **Auditor** | BDO LLP<br>55 Baker Street<br>London<br>W1U 7EU |
| **VCT status advisers** | PricewaterhouseCoopers LLP<br>1 Embankment Place<br>London WC2N 6RH |
| **Registrars** | Capita Asset Services<br>The Registry<br>34 Beckenham Road<br>Beckenham<br>Kent BR3 4TU<br>Tel: 0871 664 0324<br>(calls cost 10p per minute plus network extras, lines open 8:30am to 5:30pm Monday to Friday)<br>www.capitaassetservices.com |
| **Bankers** | Bank of Scotland plc<br>33 Old Broad Street<br>London EC2N 1HZ<br><br>Royal Bank of Scotland plc<br>London Victoria Branch<br>119/121 Victoria Street<br>London SW1E 6RA |

## FINANCIAL HIGHLIGHTS

| | 31 March 2014 pence | 31 March 2013 pence |
|---|---|---|
| **Ordinary Share pool** | | |
| Net asset value per Ordinary Share | 92.2 | 104.8 |
| Net asset value per 'A' Share | 0.1 | 0.1 |
| Cumulative distributions | 37.5 | 20.0 |
| Total Return per Ordinary Share and 'A' Share | 129.8 | 124.9 |
| | | |
| **'B' Share pool** | | |
| Net asset value per 'B' Share | 82.3 | 84.9 |
| Net asset value per 'C' Share | 0.1 | 0.1 |
| Cumulative distributions | 20.0 | 15.0 |
| Total return per 'B' Share and 'C' Share | 102.4 | 100.0 |
| | | |
| **'D' Share pool** | | |
| Net asset value per 'D' Share | 83.0 | 87.7 |
| Cumulative distributions | 10.0 | 5.0 |
| Total return per 'D' Share | 93.0 | 92.7 |

## INVESTMENT OBJECTIVES

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

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

The detailed investment policy adopted to achieve the investment objectives is set out in the Strategic Report on pages 37 to 38.

## DIRECTORS

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

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

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

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

## CHAIRMAN'S STATEMENT

**Introduction**
I am pleased to present the Company's Annual Report for the year ended 31 March 2014. Overall, the Company has continued to make satisfactory progress with each of the Company's three share pools reporting an increase in Total Return for the year.

**Ordinary Share pool**
The net asset value ("NAV") of a combined holding of one Ordinary Share and one 'A' Share stood at 82.2p at the year end, an increase of 4.9p (4.7%) over the year after adjusting for the dividend paid during the year. Total Return (NAV plus cumulative dividends paid to date) stood at 129.8p at the year end, compared to the cost for most Shareholders who invested in the original share offer, net of income tax relief, of 70.0p.

The Venture Capital investments are generally performing well and the pool no longer holds any Structured Product investments as these all matured some time ago. As many of the Ordinary Shareholders have now held their investment for the minimum five year term to retain the upfront VCT income tax relief, the Manager's focus is now on progressing realisation plans which will secure exits at optimal values. Shareholders should note that the task of realising the investments will involve a significant number of transactions and it is difficult to predict accurately when investment exits will be achieved, however the Manager is hopeful that a number will complete during the latter part of this year such that a significant return of capital could be paid early in 2015. It is then likely that one or more further dividends will be paid as more investments are realised. Shareholders should note that the process of exiting from the whole portfolio is likely to take some time, however the Manager is optimistic that many of the largest investments can be realised at an early stage.

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

**'B' Share pool**
The NAV of a combined holding of one 'B' Share and one 'C' Share stood at 82.4p at the year end, an increase of 2.4p (2.8%) over the year after adjusting for the dividend paid during the year. Total Return stood at 102.4p at the year end, compared to the cost for Shareholders who invested in the 'B' Share offer, net of income tax relief, of 70.0p.

The 'B' Share pool still holds a small portfolio of Structured Products, however most of the funds are now invested in Venture Capital investments. As with the Ordinary Share pool, the majority of investments have continued to make satisfactory progress and have potential to deliver further growth before the planned exit date of 2015. Two investments have experienced weaker trading than had been anticipated resulting in small provisions, however there appears to be some prospects for recovery.

A significant number of the original Structured Product investments have now matured and the pool has cumulated £1.7 million of released gains (equivalent to 8.6p per 'B' Share). With opportunities to reinvest in new Structure Products with appropriate time horizons being limited, the Board has decided that it is appropriate to distribute 7.5p per 'B' Share of these realised gains to 'B' Shareholders now and, as a result, will propose an increased year end dividend of 10.0p per 'B' Share.

The 'B' Share pool will start the process of seeking to exit from its investments in summer 2015, following the fifth anniversary of the close of the 'B' Share fundraising. Plans for realisations are still in their very early stages, however it appears that there are possibilities for reasonably early exits from a number of the investments.

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

**'D' Share pool**
The 'D' Share NAV stood at 83.0p at the year end, an increase of 0.3p per share or 0.3% over the year after adjusting for the dividends of 2.5p per share paid in the year. Total Return now stands at 93.0p per share, compared to the cost for Shareholders who invested in the 'D' Share offer, net of income tax relief, of 70.0p.

A number of new Structured Product investments were made during the year when potential returns started to improve. The enlarged portfolio generated satisfactory returns over the year.

Several further Venture Capital investments were also completed during the year as work continues on building the Venture Capital portfolio. Generally performance has been satisfactory however there was negative news, in the form of weak trading results, from two investments which have resulted in write downs.

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

**Dividends**
In the initial years of each share pool it is the Company's intention to pay dividends of at least 5.0p per annum on a twice yearly basis.

Final dividends for the year ended 31 March 2014 are proposed as follows:

| | |
|---|---|
| Ordinary Shares | 2.5p |
| 'B' Shares | 10.0p |
| 'D' Shares | 2.5p |

## CHAIRMAN'S STATEMENT (continued)

The Ordinary and 'D' Share dividend are in line with the standard policy. As mentioned above, the Board is proposing to pay a higher dividend to 'B' Shareholders on this occasion, partly comprising the historic realised gains on the Structured Product investments.

Subject to approval at the forthcoming AGM, the proposed dividends will be paid on 30 September 2014 to Shareholders on the register at the close of business on 22 August 2014.

**Share buybacks**

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

Shares purchased in the year to 31 March 2014 are summarised as follows:

| Share class | Number | Average price |
|---|---|---|
| Ordinary Shares | 72,870 | 90.5p |
| 'A' Shares | 40,600 | 0.1p |
| 'B' Shares | 25,300 | 81.5p |
| 'D' Shares | 10,000 | 83.0p |

All of these shares were subsequently cancelled.

Now that the Ordinary Share pool is about to commence realisations to return funds to Shareholders, the Board does not intend to undertake any further share buybacks in respect of the Ordinary Shares and 'A' Shares. The Board believes it is more appropriate to distribute proceeds from the investment realisations to all Ordinary and 'A' Shareholders by way of dividends, rather than setting aside sums to fund share buybacks.

**Investment policy**

The Board has reviewed the Company's Investment Policy and has made an immaterial adjustment such that, in future, the Company will be able to invest up to 5% of its funds in investments, such as gilts, fixed deposits and secured loans. This will give the Manager some additional flexibility which may help the Company to maintain investment yields particularly as the planned exit date of the various share pools approach and shorter term investments may be sought.

The Board expects to adopt a similar approach for the 'B' Share pool with effect from December 2014. It is expected that standard share buyback policy will operate in respect of the 'D' Share pool throughout the forthcoming year.

**Annual General Meeting**

The Company's fifth AGM will be held at Fifth floor, Ergon House, Horseferry Road, London, SW1P 2AL at 10:30 a.m. on 25 September 2014.

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

**Outlook**

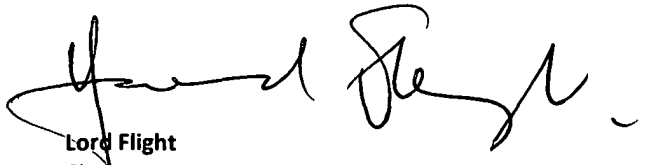
During the coming year, the Board is optimistic that a significant number of investment realisations from the Ordinary Share pool will be achieved and a good start made in returning funds to Shareholders. We expect to see realisations at full value and believe that the Ordinary Share pool will ultimately deliver an excellent outcome for investors.

The 'B' Share pool will not start seeking to exit from Venture Capital investments until approximately this time next year. Investment activity is therefore expected to be at a low level until then, with the Manager's focus being on building further growth before the planned exit date.

The 'D' Share pool will continue to build its Venture Capital portfolio over the next year, funds for which will be provided from existing cash plus redemptions or disposals of Structured Product investments. The Manager continues to report a flow of attractive investment opportunities, which, along with existing portfolio companies, can deliver growth over the next three years.

The Board is conscious that as the various pools return funds to Shareholders, the size of the Company will reduce and, as a result, running costs per share may increase. The Board is looking at means by which this effect might be reduced or limited, including the possibility of considering a merger with one or more other VCTs. Naturally, I will report to Shareholders any significant such developments as they arise.

In any event, I look forward to updating Shareholders on developments with the various share pools in my statement with the Half-Yearly Report.



**Lord Flight**
Chairman

25 July 2014

## ORDINARY SHARE POOL SUMMARY

### Financial highlights

| | 31 March 2014 pence | 31 March 2013 pence |
|---|---|---|
| Net asset value per Ordinary Share | 92.2 | 104.8 |
| Net asset value per 'A' Share | 0.1 | 0.1 |
| Cumulative distributions | 37.5 | 20.0 |
| Total Return per Ordinary Share and 'A' Share | 129.8 | 124.9 |

### Dividend history

| Period end | Date paid | Pence per share |
|---|---|---|
| 2010 First Interim | 25 September 2009 | 2.5 |
| 2010 Second Interim | 29 January 2010 | 2.5 |
| 2010 Final | 30 September 2010 | 2.5 |
| 2011 Interim | 28 January 2011 | 2.5 |
| 2011 Final | 30 September 2011 | 2.5 |
| 2012 Interim | 27 January 2012 | 2.5 |
| 2012 Final | 28 September 2012 | 2.5 |
| 2013 Interim | 25 January 2013 | 2.5 |
| 2013 Final | 19 July 2013 | 15.0 |
| 2014 Interim | 24 January 2014 | 2.5 |
| | | 37.5 |

### Share prices

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

| | Ordinary Shares | 'A' Shares |
|---|---|---|
| TIDM/EPIC codes | DO1O | DO1A |
| Latest share price (25 July 2014) | 87.50p per share | 5.025p per share |

### Structure of shareholdings

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

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

### Target exit date

It is intended that the Ordinary Share pool will start the process of seeking to realise its investments around September 2014. It is anticipated that the first significant distribution will be made to Shareholders in early 2015. Shareholders should note that the process of realising the share pool's investments may take some time to complete.

## INVESTMENT MANAGER'S REPORT – ORDINARY SHARE POOL

**Introduction**
The Ordinary Share pool held 18 Venture Capital investments at the year end and continues to be effectively fully invested. The majority of the Ordinary Share pool's investments are performing well and we are pleased to report realised and unrealised gains in the pool's investments of £225,000 over the year as the pool moves towards its realisation phase.

**Net asset value and results**
The net asset value ("NAV") per Ordinary Share at 31 March 2014 stood at 92.2p and NAV per 'A' Share at 0.1p, an increase of 4.9p for a combined holding of one Ordinary Share and one 'A' Share (after adjusting for dividends paid in the year). Total Return (combined NAV plus cumulative dividends) stood at 129.8p for a holding of one Ordinary Share and one 'A' Share.

The return on ordinary activities after taxation for the year was £499,000 (2013: £1,158,000), comprising a revenue return of £351,000 (2013: £547,000) and a capital profit of £148,000 (2013: £611,000).

**Venture Capital investments**
***Investment activity***
At 31 March 2014, the pool held a Venture Capital portfolio with a total valuation of £8.3m, comprising 18 investments, spread across a number of sectors. During the year, the share pool made further investments totalling £100,000, which were offset by divestments of £900,000 and a net increase in value of £183,000.

The pool made one follow-on investment during the year for £100,000 in to Future Biogas (Spring Farm) Limited. No new investments were made in the year.

Bijou Wedding Venues Limited, the owner of Chertsey based exclusive wedding venue Botleys Mansion, was sold during the year generating proceeds of £934,000.

***Portfolio valuation***
The majority of the investments within the Ordinary Share portfolio performed well throughout the year with a net valuation uplift of £183,000 recognised at the year end for the Venture Capital investments. The largest valuation movements are discussed below.

Westow House Limited owns the Westow House, a pub in Crystal Palace, South London. A £79,000 increase in the valuation was recognised at the year end to reflect that the pub continues to perform beyond the original business plan.

The 3D Pub Co Limited owns two pubs in Surrey: The Jolly Farmers in Reigate; and The Fox Revived in Horley. Recent performance has been encouraging and the valuation has been increased by £77,000.

Atlantic Dogstar Limited owns two pubs in London, The Dogstar in Brixton and The Clapton Hart in Clapton. The Dogstar's performance in particular has led to an increase in value of £44,000.

The East Dulwich Tavern Limited owns a pub of the same name in East Dulwich, South London. The business is performing in line with the original business plan and an uplift in value of £32,000 has been recognised.

A strong performance in the period from Quadrate Catering Limited, the Marco Pierre White restaurant on the top floor of the Commercial Street Hotel, resulted in an uplift of £26,000.

An increase in value of £19,000 in Future Biogas (Spring Farm) Limited was recognised to reflect that the operational issues that were initially experienced have been resolved and performance has significantly improved.

Mosaic Spa and Health Clubs Limited, owns and manages two health clubs: The Shrewsbury Club, in Shrewsbury; and Holmer Park, in Hereford. It also provides gym and spa management services to hotels, universities and corporate clients. Both Holmer Park and The Shrewsbury Club have underperformed throughout the period against budget and the value has been reduced by £39,000.

The Chapel Street Companies consist of three separate investments in Liverpool: Chapel Street Food and Beverage Limited; Chapel Street Hotel Limited; and Chapel Street Services Limited. In light of an independent valuation, the value of these companies was reduced by a total of £39,000.

Redmed Limited owns and operates two bars in Lincoln city centre: Home; and Craft. As part of a new investment by other Downing VCT funds, Craft was purchased in May 2013. The slight fall in value of £10,000 is due to transaction costs incurred on the deal.

A small reduction of £6,000 was made in the value of Camandale Limited, the owner of The Riverbank pub in Kilmarnock, Scotland.

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

**Structured products**

There are no longer any Structured Products within the Ordinary Share pool.

The last Structured Product in the portfolio was redeemed in the year providing proceeds of £622,000, representing a profit over cost of £209,000. Over the life of the portfolio, the Structured Product investments produced total gains of £1.8 million. No further Structured Product investments are planned for the Ordinary Share Pool.

**Outlook**

The Ordinary Share pool remains fully invested with a reasonably well diversified qualifying portfolio that is continuing to deliver satisfactory performance. Our focus is now on developing exit plans with the target of achieving sufficient realisations to enable the Company to pay a significant dividend to Ordinary Shareholders early in 2015.

**Downing LLP**

25 July 2014

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

### Portfolio of investments

The following investments were held at 31 March 2014:

| | Cost £'000 | Valuation £'000 | Valuation movement in year £'000 | % of portfolio |
|---|---|---|---|---|
| **Venture Capital investments** | | | | |
| Redmed Limited* | 914 | 1,159 | (10) | 12.1% |
| Future Biogas (Spring Farm) Limited* | 1,009 | 1,137 | 19 | 11.9% |
| Domestic Solar Limited | 1,000 | 1,120 | - | 11.7% |
| Atlantic Dogstar Limited | 585 | 1,015 | 44 | 10.6% |
| Westow House Limited | 405 | 636 | 79 | 6.7% |
| Quadrate Spa Limited* | 635 | 635 | - | 6.7% |
| Quadrate Catering Limited | 577 | 629 | 26 | 6.6% |
| The 3D Pub Company Limited* | 627 | 549 | 77 | 5.7% |
| East Dulwich Tavern Limited | 459 | 546 | 32 | 5.7% |
| Ecossol Limited | 500 | 425 | - | 4.4% |
| Mosaic Spa and Health Clubs Limited* | 250 | 211 | (39) | 2.2% |
| Slopingtactic Limited | 102 | 102 | - | 1.1% |
| Fenkle Street LLP** | 58 | 58 | - | 0.6% |
| Camandale Limited* | 269 | 24 | (6) | 0.3% |
| Kilmarnock Monkey Bar Limited** | 22 | 22 | - | 0.3% |
| Chapel Street Services Limited | 75 | 19 | (19) | 0.2% |
| Chapel Street Food and Beverage Limited | 75 | 19 | (19) | 0.2% |
| Chapel Street Hotel Limited** | 3 | 1 | (1) | 0.0% |
| | 7,565 | 8,307 | 183 | 87.0% |
| Cash at bank and in hand | | 1,245 | | 13.0% |
| Total investments | | 9,552 | | 100.0% |

* partially qualifying investment
** non-qualifying investment

All Venture Capital investments are incorporated in England and Wales.

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

### Investment movements for the year ended 31 March 2014

**ADDITIONS**

| | £'000 |
|---|---|
| **Venture Capital investments** | |
| Future Biogas (Spring Farm) Limited | 100 |

**DISPOSALS**

| | Cost £'000 | Valuation ~ at 31/03/13 £'000 | Proceeds £'000 | Profit vs. cost £'000 | Realised gain/(loss) £'000 |
|---|---|---|---|---|---|
| **Structured Product investments** | | | | | |
| Elders Capital Accumulator VIII (29A) | 486 | 613 | 622 | 209 | 9 |
| | 486 | 613 | 622 | 209 | 9 |
| **Venture Capital investments** | | | | | |
| Bijou Wedding Venues Limited | 815 | 901 | 934 | 119 | 33 |
| Redmed Limited | 85 | 85 | 85 | - | - |
| | 900 | 986 | 1,019 | 119 | 33 |
| | 1,386 | 1,599 | 1,641 | 328 | 42 |

~ adjusted for purchases during the year

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

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

Redmed Limited
www.homelincoln.co.uk

| | | | |
|---|---|---|---|
| Cost at 31/03/14: | £913,750 | Valuation at 31/03/14: | £1,158,815 |
| Cost at 31/03/13: | £998,750 | Valuation at 31/03/13: | £1,253,750 |
| Date of first investment: | May 11 | Valuation method: | Multiples |
| Investment comprises: | | | |
| A ordinary shares: | £127,500 | Proportion of equity held: | 10.3% |
| B ordinary shares: | £127,500 | Proportion of equity held: | 10.3% |
| A loan stock: | £63,750 | Proportion of loan stock held: | 3.0% |
| B loan stock: | £595,000 | Proportion of loan stock held: | 28.3% |

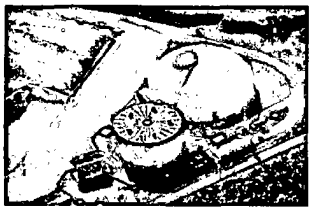
Summary financial information from statutory accounts to 30 April

| | 2013 | 2012 |
|---|---|---|
| Turnover: | n/a* | n/a* |
| Operating profit: | n/a* | n/a* |
| Net assets: | £1,152,240 | £735,537 |

Redmed Limited owns and operates Home a large entertainment venue with a restaurant, roof terrace and night club with six themed rooms and the Craft Bar, both in Lincoln city centre.

---

Future Biogas (SF) Limited
www.futurebiogas.com



| | | | |
|---|---|---|---|
| Cost at 31/03/14: | £1,008,727 | Valuation at 31/03/14: | £1,137,018 |
| Cost at 31/03/13: | £908,727 | Valuation at 31/03/13: | £1,017,774 |
| Date of first investment: | May 10 | Valuation method: | Multiples |
| Investment comprises: | | | |
| Ordinary shares: | £320,727 | Proportion of equity held: | 15.3% |
| A loan stock: | £588,000 | Proportion of loan stock held: | 17.7% |
| B loan stock: | £100,000 | Proportion of loan stock held: | 3.0% |

Summary financial information from statutory accounts to 31 May

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

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

---

Domestic Solar Limited

| | | | |
|---|---|---|---|
| Cost at 31/03/14: | £1,000,000 | Valuation at 31/03/14: | £1,120,000 |
| Cost at 31/03/13: | £1,000,000 | Valuation at 31/03/13: | £1,120,000 |
| Date of first investment: | Mar 11 | Valuation method: | Discounted cash flow |
| Investment comprises: | | | |
| A ordinary shares: | £150,000 | Proportion of equity held: | 10.0% |
| A loan stock: | £350,000 | Proportion of loan stock held: | 20.0% |
| B loan stock: | £500,000 | Proportion of loan stock held: | 25.0% |

Summary financial information from statutory accounts to 31 March

| | 2013 | 2012 |
|---|---|---|
| Turnover: | n/a* | n/a* |
| Operating profit: | n/a* | n/a* |
| Net assets: | £767,596 | £304,711 |

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

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

Atlantic Dogstar Limited
www.dogstarbrixton.com

| | | | |
|---|---|---|---|
| Cost at 31/03/14: | £584,643 | Valuation at 31/03/14: | £1,014,615 |
| Cost at 31/03/13: | £584,643 | Valuation at 31/03/13: | £970,743 |
| Date of first investment: | Sep 09 | Valuation method: | Multiples |
| Investment comprises: | | | |
| A ordinary shares: | £184,243 | Proportion of equity held: | 16.0% |
| B loan stock: | £400,400 | Proportion of loan stock held: | 40.0% |

Summary financial information from statutory accounts to 31 December

| | 2012 | 2011 |
|---|---|---|
| Turnover: | n/a* | n/a* |
| Operating profit: | n/a* | n/a* |
| Net assets: | £942,321 | £908,690 |

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

---

Westow House Limited
www.westowhouse.com

| | | | |
|---|---|---|---|
| Cost at 31/03/14: | £405,000 | Valuation at 31/03/14: | £635,850 |
| Cost at 31/03/13: | £405,000 | Valuation at 31/03/13: | £556,875 |
| Date of first investment: | Sep 09 | Valuation method: | Multiples |
| Investment comprises: | | | |
| A ordinary shares: | £121,500 | Proportion of equity held: | 16.0% |
| B loan stock: | £283,500 | Proportion of loan stock held: | 21.9% |

Summary financial information from statutory accounts to 31 December

| | 2012 | 2011 |
|---|---|---|
| Turnover: | n/a* | n/a* |
| Operating profit: | n/a* | n/a* |
| Net assets: | £723,765 | £601,404 |

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

---

Quadrate Spa Limited
www.theclubandspabirmingham.co.uk

| | | | |
|---|---|---|---|
| Cost at 31/03/14: | £635,554 | Valuation at 31/03/14: | £635,554 |
| Cost at 31/03/13: | £635,554 | Valuation at 31/03/13: | £635,554 |
| Date of first investment: | Aug 10 | Valuation method: | Multiples |
| Investment comprises: | | | |
| A ordinary shares: | £183,960 | Proportion of equity held: | 7.4% |
| Secured loan stock: | £380,240 | Proportion of loan stock held: | 12.5% |
| Loan stock: | £49,000 | Proportion of loan stock held: | 1.6% |
| Short term loan stock: | £22,354 | Proportion of loan stock held: | 0.7% |

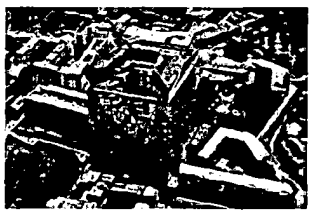
Summary financial information from statutory accounts to 31 March

| | 2013 | 2012 |
|---|---|---|
| Turnover: | £1,252,745 | £224,365 |
| Operating loss: | (£743,982) | (£577,040) |
| Net (liabilities)/assets: | (£905,264) | £130,560 |

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

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

Quadrate Catering Limited
www.mpwsteakhousebrimingham.co.uk



| | | | |
|---|---|---|---|
| Cost at 31/03/14: | £576,800 | Valuation at 31/03/14: | £628,712 |
| Cost at 31/03/13: | £576,800 | Valuation at 31/03/13: | £602,756 |
| Date of first investment: | Aug 10 | Valuation method: | Multiples |
| Investment comprises: | | | |
| A ordinary shares: | £173,040 | Proportion of equity held: | 7.6% |
| Secured loan stock: | £403,760 | Proportion of loan stock held: | 15.0% |

Summary financial information from statutory accounts to 31 March

| | 2013 | 2012 |
|---|---|---|
| Turnover: | £4,620,292 | £1,035,382 |
| Operating profit/(loss): | £307,199 | (£276,926) |
| Net assets: | £228,489 | £459,310 |

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

---

The 3D Pub Company Limited
www.thejollyfarmersreigate.co.uk
www.thefoxrevived.co.uk

| | | | |
|---|---|---|---|
| Cost at 31/03/14: | £626,667 | Valuation at 31/03/14: | £549,167 |
| Cost at 31/03/13: | £626,667 | Valuation at 31/03/13: | £471,667 |
| Date of first investment: | Sep 10 | Valuation method: | Multiples |
| Investment comprises: | | | |
| A ordinary shares: | £155,000 | Proportion of equity held: | 13% |
| B loan stock: | £110,000 | Proportion of loan stock held: | 6.6% |
| Secured loan stock: | £361,667 | Proportion of loan stock held: | 21.7% |

Summary financial information from statutory accounts to 30 September

| | 2012 | 2011 |
|---|---|---|
| Turnover: | £165,996 | £166,000 |
| Operating profit: | £137,855 | £85,697 |
| Net assets: | £840,164 | £862,545 |

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

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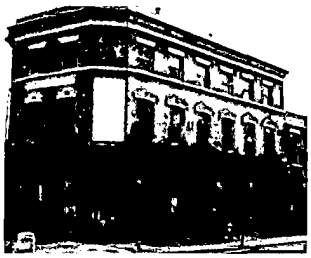
East Dulwich Tavern Limited
www.eastdulwichtavern.com



| | | | |
|---|---|---|---|
| Cost at 31/03/14: | £459,000 | Valuation at 31/03/14: | £545,751 |
| Cost at 31/03/13: | £459,000 | Valuation at 31/03/13: | £514,080 |
| Date of first investment: | Sep 09 | Valuation method: | Multiples |
| Investment comprises: | | | |
| A ordinary shares: | £137,700 | Proportion of equity held: | 16.0% |
| B loan stock: | £321,300 | Proportion of loan stock held: | 21.0% |

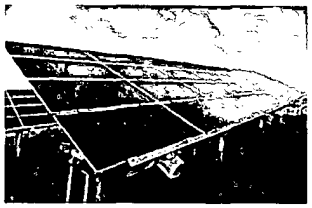
Summary financial information from statutory accounts to 31 December

| | 2012 | 2011 |
|---|---|---|
| Turnover: | n/a* | n/a* |
| Operating profit: | n/a* | n/a* |
| Net assets: | £701,676 | £648,834 |

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

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

Ecossol Limited



| | | | |
|---|---|---|---|
| Cost at 31/03/14: | £500,000 | Valuation at 31/03/14: | £425,000 |
| Cost at 31/03/13: | £500,000 | Valuation at 31/03/13: | £425,000 |
| Date of first investment: | Jun 11 | Valuation method: | Discounted cash flow |
| Investment comprises: | | | |
| Ordinary shares: | £150,000 | Proportion of equity held: | 13.0% |
| A loan stock: | £350,000 | Proportion of loan stock held: | 25.0% |

Summary financial information from statutory accounts to 30 September

| | 2012 | 2011 |
|---|---|---|
| Turnover: | n/a* | None filed |
| Operating profit: | n/a* | None filed |
| Net assets: | £430,655 | None filed |

Ecossol owns a portfolio of commercial solar PV installations and benefits from the receipt of Feed In Tariffs ("FITs") from electricity generated by the solar panels.

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

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

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

**Summary of loan stock interest income**

| | £'000 |
|---|---|
| **Loan stock interest receivable in the year** | |
| Redmed Limited | 74 |
| Future Biogas (Spring Farm) Limited | 73 |
| Domestic Solar Limited | 87 |
| Atlantic Dogstar Limited | 48 |
| Westow House Limited | 34 |
| Quadrate Spa Limited | 63 |
| Quadrate Catering Limited | 52 |
| The 3D Pub Company Limited | 30 |
| East Dulwich Tavern Limited | 39 |
| Ecossol Limited | 32 |
| | 532 |
| Receivable from other investments | 84 |
| | 616 |

**Analysis of investments by type**

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

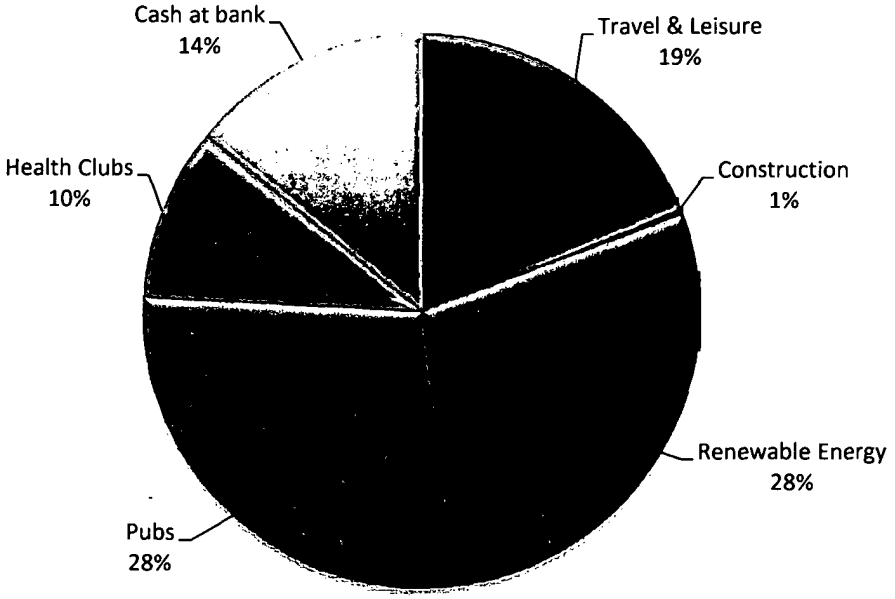
| | Actual portfolio split at 31 March 2014 | Target portfolio split |
|---|---|---|
| **VCT qualifying investments** | | |
| Qualifying loan stock | 54% | 50% |
| Ordinary shares | 26% | 25% |
| **Total** | 80% | 75% |
| **Non-qualifying investments** | | |
| Non-qualifying loan stock | 6% | - |
| Structured Products | - | 25% |
| **Total** | 6% | 25% |
| **Cash** | 14% | - |
| | 100% | 100% |

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

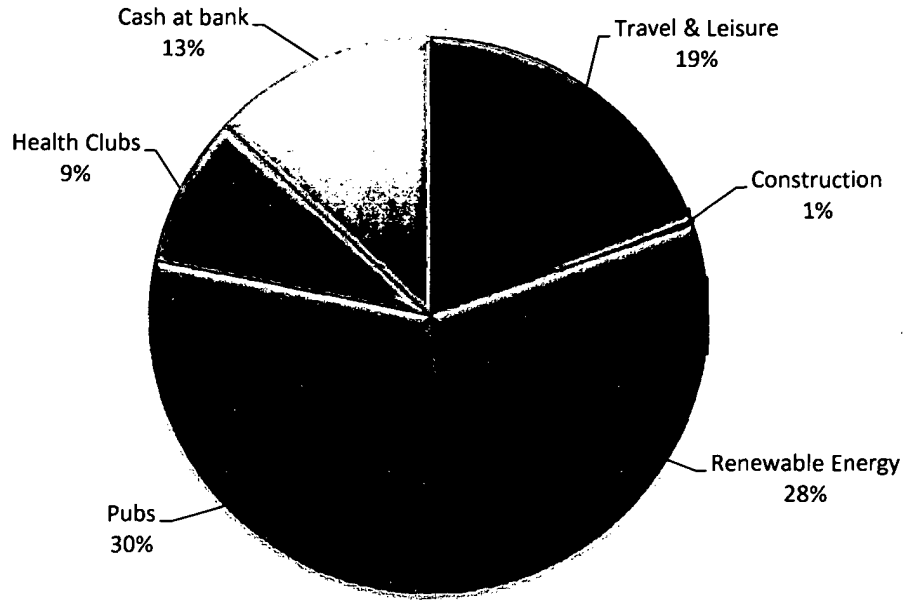
**Analysis of investments by commercial sector**

The split of the Ordinary Share pool investment portfolio by commercial sector (by cost and by value at 31 March 2014) is as follows:

**Ordinary Share Pool**
**Analysis of investments by sector based on cost**




**Ordinary Share Pool**
**Analysis of investments by sector based on valuation**



## 'B' SHARE POOL SUMMARY

**Financial highlights**

| | 31 March 2014 pence | 31 March 2013 pence |
|---|---|---|
| Net asset value per 'B' Share | 82.3 | 84.9 |
| Net asset value per 'C' Share | 0.1 | 0.1 |
| Cumulative distributions | 20.0 | 15.0 |
| Total return per 'B' Share and 'C' Share | 102.4 | 100.0 |

**Dividend history**

| Period end | Date paid | Pence per share |
|---|---|---|
| 2010 Final | 30 September 2010 | 2.5 |
| 2011 Interim | 28 January 2011 | 2.5 |
| 2011 Final | 30 September 2011 | 2.5 |
| 2012 Interim | 27 January 2012 | 2.5 |
| 2012 Final | 28 September 2012 | 2.5 |
| 2013 Interim | 25 January 2013 | 2.5 |
| 2013 Final | 13 September 2013 | 2.5 |
| 2014 Interim | 24 January 2014 | 2.5 |
| | | 20.0 |
| Proposed 2014 Final | (Payable 30 September 2014) | 10.0 |

**Share prices**

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

| | 'B' Shares | 'C' Shares |
|---|---|---|
| TIDM/EPIC codes | DO1B | DO1C |
| Latest share price (25 July 2014) | 80.0p per share | 0.1p per share |

**Structure of shareholdings**

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

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

**Target exit date**

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

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

**Introduction**
The 'B' Share pool held 21 Venture Capital investments and three Structured Product investments at the year end and is fully invested. The majority of the 'B' Share pool's investments are performing well, resulting in an increase to net asset value ("NAV") over the year. Overall the pool had a net increase in value of its investments held of £126,000 over the year (including Structured Products valuation increase of £61,000).

**Net asset value and results**
The NAV per 'B' Share at 31 March 2014 stood at 82.3p and per 'C' Share at 0.1p, a rise of 2.3p for a combined holding of one 'B' Share and one 'C' Share over the year after adjusting for dividends. Total Return (combined NAV plus cumulative dividends) stood at 102.4p for a combined holding.

The return on ordinary activities after taxation for the year was £472,000 (2013: £1,004,000), comprising a revenue return of £480,000 (2013: £472,000) and a capital loss of £8,000 (2013: profit £532,000).

**Venture Capital investments**
***Investment activity***
At 31 March 2014, the 'B' Share pool held a Venture Capital portfolio with a valuation of £11.9 million comprising investments in 21 companies. During the year, the Company made one further investment of £186,000 in to Future Biogas (Reepham Road) Limited; this was partially offset by divestments of £144,000.

***Portfolio valuation***
The majority of the 'B' Share pool continued to make progress. The portfolio delivered a net gain of £65,000. An overview of the most significant movements is shown below.

Kidspace Adventure Holdings Limited is the holding company of Kidspace Adventures Limited which owns two indoor children's play centres in Croydon and Romford as well as an adventure park called Hobbledown, located in Surrey. An increase in value of £112,000 is reflective of continued good performance at all three sites.

Green Electricity Generation Limited has installed 198 domestic rooftop solar installations since 2011. Strong performance in the period resulted in an increase in value of £68,000 being recognised.

A strong performance in the year from Quadrate Catering Limited, the Marco Pierre White restaurant on the top floor of the Commercial Street Hotel, resulted in an uplift of £38,000.

Antelope Pub Limited owns The Antelope public house in Tooting, South London. An uplift of £40,000 has been recognised in the year reflecting the pubs performance.

Continued on plan performance at Alpha Schools Holdings Limited, the independent primary school operator, resulted in an uplift of £28,000 in the period.

Mosaic Spa and Health Clubs Limited, owns and manages two health clubs: The Shrewsbury Club, in Shrewsbury; and Holmer Park, in Hereford. It also provides gym and spa management services to hotels, universities and corporate clients. Both Holmer Park and The Shrewsbury Club have underperformed throughout the year against budget and the value has been reduced by £107,000.

A £98,000 reduction in value was recognised for Liverpool Nurseries (Holdings) Limited. This cautionary reduction in value reflects that the business is performing behind budget.

A small reduction of £16,000 was made in the value of Camandale Limited, the owner of The Riverbank pub in Kilmarnock, Scotland.

**Structured Products**
The Structured Product portfolio was valued at £2.6m as at 31 March 2014. During the year, sales and redemptions realised £3.3m, and £1.2m was reinvested into new Structured Products.

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

Since the 'B' Share pool was launched, the Structured Product portfolio has recorded gains of £610,000. The defensive approach to Structured Product investing has delivered what was expected of it. Most of the uplift has now been recognised, and more modest returns are expected in the coming year or so as the remaining products are redeemed or sold.

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

**Outlook**

Many of the Venture Capital investments are making satisfactory progress, however a small number have shown some deviation from plan and will continue to receive close attention in an effort to bring them back on track. We believe that there are prospects for growth from this portfolio, along with a continued steady flow of investment income, before the task of exiting the investments commences in 2015. We also expect the remaining Structured Products to redeem within the next 15 months at a small uplift over current values.

**Downing LLP**

25 July 2014

## REVIEW OF INVESTMENTS - 'B' SHARE POOL

### Portfolio of investments

The following investments were held at 31 March 2014:

| | Cost £'000 | Valuation £'000 | Valuation movement in year £'000 | % of portfolio |
|---|---|---|---|---|
| **Structured Product investments** | | | | |
| Barclays 5Y Synthetic Zero | 1,003 | 1,365 | 37 | 8.2% |
| HSBC 5.67% Defensive Worst Of Auto Call | 952 | 962 | 10 | 5.8% |
| UBS 7.3% Defensive Worst Of Auto Call | 251 | 265 | 14 | 1.6% |
| | 2,206 | 2,592 | 61 | 15.6% |
| **Venture Capital investments** | | | | |
| Future Biogas (Reepham Road) Limited | 1,662 | 1,662 | - | 10.0% |
| Quadrate Spa Limited* | 954 | 954 | - | 5.7% |
| Quadrate Catering Limited | 850 | 926 | 38 | 5.6% |
| Kidspace Adventures Holdings Limited | 750 | 896 | 112 | 5.4% |
| Domestic Solar Limited | 800 | 896 | - | 5.4% |
| Antelope Pub Limited | 750 | 869 | 40 | 5.2% |
| Alpha Schools Holdings Limited | 733 | 805 | 28 | 4.8% |
| Liverpool Nurseries (Holdings) Limited | 870 | 772 | (98) | 4.6% |
| Green Electricity Generation Limited | 500 | 605 | 68 | 3.6% |
| Westcountry Solar Solutions Limited | 500 | 500 | - | 3.0% |
| West Tower Property Limited | 500 | 500 | - | 3.0% |
| Mosaic Spa and Health Clubs Limited* | 600 | 493 | (107) | 3.0% |
| Ecossol Limited | 500 | 425 | - | 2.6% |
| Avon Solar Energy Limited | 420 | 420 | - | 2.5% |
| Progressive Energies Limited | 340 | 340 | - | 2.0% |
| Slopingtactic Limited | 277 | 277 | - | 1.7% |
| Commercial Street Hotel Limited** | 185 | 185 | - | 1.1% |
| Fenkle Street LLP** | 154 | 154 | - | 0.9% |
| Ridgeway Pub Company Limited | 136 | 126 | - | 0.8% |
| Camandale Limited* | 732 | 65 | (16) | 0.5% |
| Kilmarnock Monkey Bar Limited** | 60 | 60 | - | 0.5% |
| | 12,273 | 11,930 | 65 | 71.9% |
| | 14,479 | 14,522 | 126 | 87.5% |
| Cash at bank and in hand | | 2,083 | | 12.5% |
| Total investments | | 16,605 | | 100.0% |

* partially qualifying investment
** non-qualifying investment

All Venture Capital investments are incorporated in England and Wales.

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

### Investment movements for the year ended 31 March 2014

**ADDITIONS**

| | £'000 |
|---|---|
| **Structured Product investments** | |
| HSBC 5.67% Defensive Worst Of Auto Call | 952 |
| UBS 7.3% Defensive Worst Of Auto Call | 251 |
| | 1,203 |
| **Venture Capital investments** | |
| Future Biogas (Reepham Road) Limited | 186 |
| | 1,389 |

**DISPOSALS**

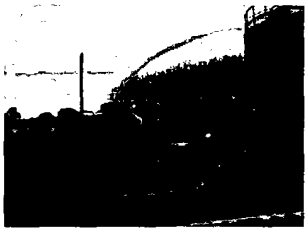
| | Cost £'000 | Valuation at 31/3/13 ~ £'000 | Proceeds £'000 | Profit vs. cost £'000 | Realised gain/(loss) £'000 |
|---|---|---|---|---|---|
| **Structured Product investments** | | | | | |
| Goldman Sachs 6YR Phoenix Autocall 3 | 1,003 | 1,108 | 1,135 | 132 | 27 |
| Elders Capital Accumulator VIII | 970 | 1,226 | 1,244 | 274 | 18 |
| HSBC Trade Range | 752 | 1,011 | 957 | 205 | (54) |
| | 2,725 | 3,345 | 3,336 | 611 | (9) |
| **Venture Capital investments** | | | | | |
| Avon Solar Energy Limited | 80 | 80 | 80 | - | - |
| Liverpool Nurseries (Holdings) Limited | 64 | 64 | 64 | - | - |
| | 144 | 144 | 144 | - | - |
| | 2,869 | 3,489 | 3,480 | 611 | (9) |

~ adjusted for purchases during the year

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

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

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



| | | | |
|---|---|---|---|
| Cost at 31/03/14: | £1,661,867 | Valuation at 31/03/14: | £1,661,867 |
| Cost at 31/03/13: | £1,475,934 | Valuation at 31/03/13: | £1,475,934 |
| Date of first investment: | Mar 11 | Valuation method: | Multiples |
| Investment comprises: | | | |
| B ordinary shares: | £632,171 | Proportion of equity held: | 18.6% |
| A loan stock: | £1,029,696 | Proportion of loan stock held: | 37.2% |

Summary financial information from statutory accounts to 30 September

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

Future Biogas (Reepham Road) is the second renewable energy investment with our partner Future Biogas. The site is located in Norfolk. Through an Anaerobic Digestion process, biogas is produced which is used to generate electricity. The company benefits from the receipt of Feed-in Tariffs and payments for electricity exported to the National Grid.

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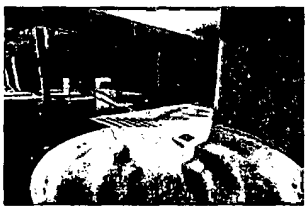
Quadrate Spa Limited
www.theclubandspabirmingham.co.uk



| | | | |
|---|---|---|---|
| Cost at 31/03/14: | £953,596 | Valuation at 31/03/14: | £953,596 |
| Cost at 31/03/13: | £953,596 | Valuation at 31/03/13: | £953,596 |
| Date of first investment: | Aug 10 | Valuation method: | Multiples |
| Investment comprises: | | | |
| A ordinary shares: | £276,135 | Proportion of equity held: | 11.1% |
| Secured loan stock: | £563,815 | Proportion of loan stock held: | 18.5% |
| Loan stock: | £80,500 | Proportion of loan stock held: | 2.6% |
| Short term loan stock: | £33,146 | Proportion of loan stock held: | 1.1% |

Summary financial information from statutory accounts to 31 March

| | 2013 | 2012 |
|---|---|---|
| Turnover: | £1,252,745 | £224,365 |
| Operating loss: | (£743,982) | (£577,040) |
| Net (liabilities)/assets: | (£905,264) | £130,560 |

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

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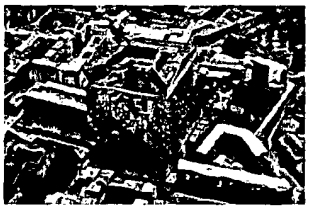
Quadrate Catering Limited
www.mpwsteakhousebirmingham.co.uk



| | | | |
|---|---|---|---|
| Cost at 31/03/14: | £849,550 | Valuation at 31/03/14: | £926,010 |
| Cost at 31/03/13: | £849,550 | Valuation at 31/03/13: | £887,780 |
| Date of first investment: | Aug 10 | Valuation method: | Multiples |
| Investment comprises: | | | |
| A ordinary shares: | £254,865 | Proportion of equity held: | 11.2% |
| Secured loan stock: | £594,685 | Proportion of loan stock held: | 22.0% |

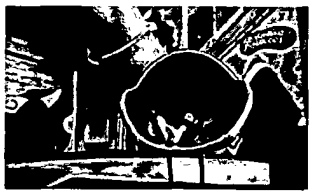
Summary financial information from statutory accounts to 31 March

| | 2013 | 2012 |
|---|---|---|
| Turnover: | £4,620,292 | £1,035,382 |
| Operating profit/(loss): | £307,199 | (£276,926) |
| Net assets: | £228,489 | £459,310 |

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

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

Kidspace Adventures Holdings Limited
www.kidspaceadventures.com



| | | | |
|---|---|---|---|
| Cost at 31/03/14: | £750,000 | Valuation at 31/03/14: | £896,250 |
| Cost at 31/03/13: | £750,000 | Valuation at 31/03/13: | £783,750 |
| Date of first investment: | Mar 12 | Valuation method: | Multiples |

Investment comprises:

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

Summary financial information from the consolidated statutory accounts to 31 January

| | 2013 | 2012 |
|---|---|---|
| Turnover: | £4,305,765 | None filed |
| Operating profit: | £144,245 | None filed |
| Net assets: | £1,968,284 | None filed |

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

---

Domestic Solar limited

| | | | |
|---|---|---|---|
| Cost at 31/03/14: | £800,000 | Valuation at 31/03/14: | £896,000 |
| Cost at 31/03/13: | £800,000 | Valuation at 31/03/13: | £896,000 |
| Date of first investment: | Mar 11 | Valuation method: | Discounted cash flow |

Investment comprises:

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

Summary financial information from statutory accounts to 31 March

| | 2013 | 2012 |
|---|---|---|
| Turnover: | n/a* | n/a* |
| Operating profit: | n/a* | n/a* |
| Net assets: | £767,596 | £304,711 |

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

---

Antelope Pub Limited
www.theantelopepub.com

| | | | |
|---|---|---|---|
| Cost at 31/03/14: | £750,000 | Valuation at 31/03/14: | £869,250 |
| Cost at 31/03/13: | £750,000 | Valuation at 31/03/13: | £828,750 |
| Date of first investment: | Jun 10 | Valuation method: | Multiples |

Investment comprises:

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

Summary financial information from statutory accounts to 31 December

| | 2012 | 2011 |
|---|---|---|
| Turnover: | n/a* | n/a* |
| Operating profit: | n/a* | n/a* |
| Net assets: | £1,104,523 | £1,012,765 |

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

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

Alpha Schools Holdings Limited

| | | | |
|---|---|---|---|
| Cost at 31/03/14: | £733,333 | Valuation at 31/03/14: | £804,833 |
| Cost at 31/03/13: | £733,333 | Valuation at 31/03/13: | £777,333 |
| Date of first investment: | Jun 11 | Valuation method: | Multiples |
| Investment comprises: | | | |
| A ordinary shares: | £110,000 | Proportion of equity held: | 4.0% |
| B ordinary shares: | £110,000 | Proportion of equity held: | 4.0% |
| A loan stock: | £513,000 | Proportion of loan stock held: | 36.7% |

Summary financial information from statutory accounts to 31 August

| | 2013 | 2012 |
|---|---|---|
| Turnover: | £4,080,506 | £3,614,379 |
| Operating profit: | £909,783 | £586,417 |
| Net assets: | £1,226,105 | £908,073 |

Alpha Schools is an independent primary school operator, which owns and operates five preparatory schools.

---

Liverpool Nurseries (Holdings) Limited

www.greenbankparkdaynursery.com
www.thecottagedaynursery.com
www.thehousedaynursery.com

| | | | |
|---|---|---|---|
| Cost at 31/03/14: | £869,773 | Valuation at 31/03/14: | £771,743 |
| Cost at 31/03/13: | £933,625 | Valuation at 31/03/13: | £933,625 |
| Date of first investment: | Feb 12 | Valuation method: | Multiples |
| Investment comprises: | | | |
| Ordinary shares: | £260,932 | Proportion of equity held: | 30.9% |
| B loan stock: | £608,841 | Proportion of loan stock held: | 38.5% |

Summary financial information from statutory accounts to 31 December

| | 2012 | 2011 |
|---|---|---|
| Turnover: | n/a* | None filed |
| Operating profit: | n/a* | None filed |
| Net assets: | £599,998 | None filed |

Liverpool Nurseries operates three Children's Day Nurseries based in Liverpool; 'The Cottage Day Nursery' in Fazakerley, 'The House Day Nursery' in Crosby and 'Greenbank Park Day Nursery' near Mossley Hill in Liverpool.

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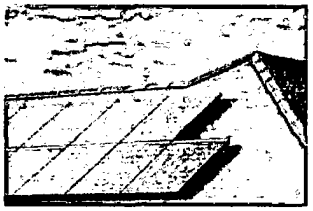
Green Electricity Generation Limited

www.freesolarinstallations.net



| | | | |
|---|---|---|---|
| Cost at 31/03/14: | £500,000 | Valuation at 31/03/14: | £605,000 |
| Cost at 31/03/13: | £500,000 | Valuation at 31/03/13: | £537,000 |
| Date of first investment: | May 11 | Valuation method: | Discounted cash flow |
| Investment comprises: | | | |
| A ordinary shares: | £150,000 | Proportion of equity held: | 15.0% |
| Secured loan stock: | £350,000 | Proportion of loan stock held: | 25.0% |

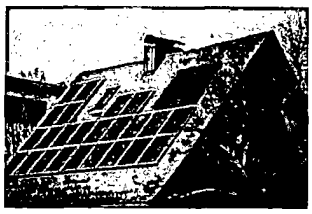
Summary financial information from statutory accounts to 30 June

| | 2013 | 2012 |
|---|---|---|
| Turnover: | n/a* | n/a* |
| Operating profit: | n/a* | n/a* |
| Net assets: | £412,194 | £450,735 |

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

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

Westcountry Solar Solutions Limited
www.ethical-power.com



| | | | |
|---|---|---|---|
| Cost at 31/03/14: | £500,000 | Valuation at 31/03/14: | £500,000 |
| Cost at 31/03/13: | £500,000 | Valuation at 31/03/13: | £500,000 |
| Date of first investment: | Aug 11 | Valuation method: | Discounted cash flow |

Investment comprises:

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

Summary financial information from statutory accounts to 31 July

| | 2013 | 2012 |
|---|---|---|
| Turnover: | n/a* | n/a* |
| Operating profit: | n/a* | n/a* |
| Net assets: | £168,711 | £271,193 |

Westcountry Solar Solutions has installed solar panels on the roof tops of commercial buildings in South West England, typically offering free or discounted electricity to the occupiers of the buildings, whilst retaining the right to collect 'Feed-in Tariffs' ("FITs") for its own account.

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

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

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

**Summary of loan stock interest income**

| | £'000 |
|---|---|
| **Loan stock interest receivable in the year** | |
| Future Biogas (Reepham Road) Limited | - |
| Quadrate Spa Limited | 95 |
| Quadrate Catering Limited | 76 |
| Kidspace Adventures Holdings Limited | 63 |
| Domestic Solar Limited | 70 |
| Antelope Pub Limited | 63 |
| Alpha Schools Holdings Limited | 41 |
| Liverpool (Holdings) Nurseries Limited | 69 |
| Green Electricity Generation Limited | 60 |
| Westcountry Solar Solutions Limited | 45 |
| | 582 |
| **Receivable from other investments** | 301 |
| | 883 |

**Analysis of investments by type**

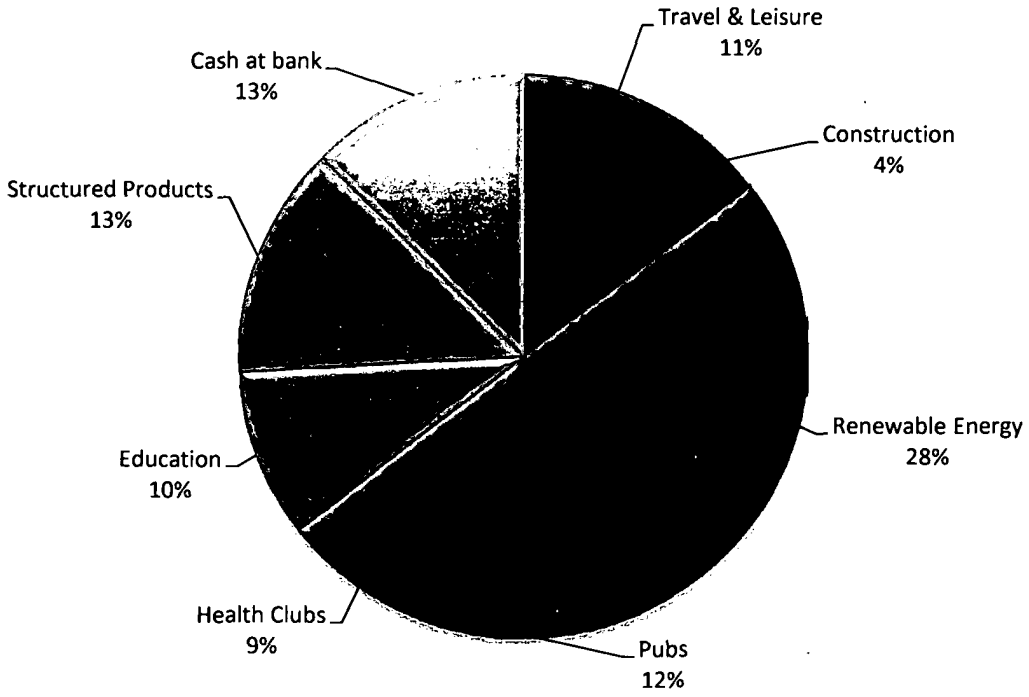
The allocation of the 'B' Share funds compared to the target split based on cost is summarised as follows:

| | Actual portfolio split at 31 March 2014 | Target portfolio split at 31 March 2014 |
|---|---|---|
| **VCT qualifying investments** | | |
| Qualifying loan stock | 48% | 50% |
| Ordinary shares | 22% | 25% |
| **Total** | 70% | 75% |
| **Non-qualifying investments** | | |
| Non-qualifying loan stock | 4% | - |
| Structured Products | 13% | 25% |
| **Total** | 17% | 25% |
| **Cash** | 13% | - |
| | 100% | 100% |

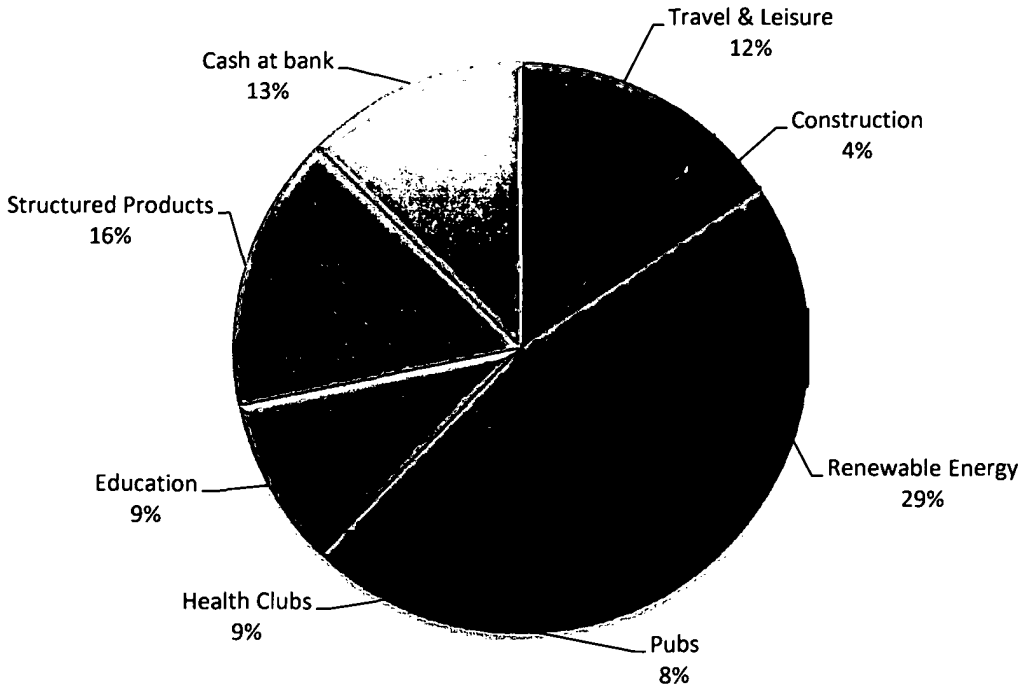
## REVIEW OF INVESTMENTS - 'B' SHARE POOL (continued)

The split of the 'B' Share pool investment portfolio by commercial sector (by cost and by value at 31 March 2014) is as follows:

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




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



## 'D' SHARE POOL SUMMARY

**Financial highlights**

| | 31 March 2014 pence | 31 March 2013 pence |
|---|---|---|
| Net asset value per 'D' Share | 83.0 | 87.7 |
| Cumulative distributions | 10.0 | 5.0 |
| Total return per 'D' Share | 93.0 | 92.7 |

**Dividend history**

| Period end | Date paid | Pence per share |
|---|---|---|
| 2012 Final | 28 September 2012 | 2.5 |
| 2013 Interim | 25 January 2013 | 2.5 |
| 2013 Final | 13 September 2013 | 2.5 |
| 2014 Interim | 24 January 2014 | 2.5 |
| | | 10.0 |
| Proposed 2014 Final | (Payable 30 September 2014) | 2.5 |

**Share prices**

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

| | 'D' Shares |
|---|---|
| TIDM/EPIC codes | DO1D |
| Latest share price (25 July 2014) | 81.0p per share |

**Structure of shareholdings**

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

**Target exit date**

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

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

**Introduction**

A steady performance from the Structured Product portfolio within the 'D' Share pool has offset poor performance from two related Venture Capital investments (City Falkirk and Cheers Dumbarton) and resulted in small overall gain in net asset value for the year (after adjusting for dividend paid).

The 'D' share pool began the year with £2.2 million of Venture Capital investments and ended the year with £3.0 million. Structured Product investments were £1.7 million at the start of the year and ended at £2.4 million. There were no disposals of Venture Capital investments in the year.

**Net asset value and results**

The net asset value ("NAV") per 'D' Share at 31 March 2014 stood at 83.0p, an increase of 0.3p or 0.3% after adjusting for the dividend paid in the year. Total Return stands at 93.0p per share compared to initial cost to Shareholders, net of income tax relief, of 70.0p per share.

The profit on ordinary activities after taxation for the year was £26,000 (2013: loss £143,000), comprising a revenue profit of £34,000 (2013: loss £60,000) and a capital loss of £8,000 (2013: loss £83,000).

**Venture Capital investments**

***Investment activity***

During the year, two new investments were made in the Venture Capital portfolio. £570,000 was invested in Goonhilly Earth Station Limited. The company is based in Cornwall and provides satellite communications services. £280,000 was invested in Pearce and Saunders Limited. The company was set up to purchase the freehold of three South London pubs: Jam Circus in Brockley; Old Post Office in Eltham; and John Jakson in Wallington. One follow on investment of £28,000 was made in Vulcan Renewables Limited, the developer of a Biogas plant near Doncaster.

***Portfolio valuation***

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

City Falkirk Limited owns a large nightclub in Falkirk, Scotland. This business has traded disappointingly since it was bought out of administration in March 2012 and a further reduction of £50,000 was made at the year end.

A reduction of £42,000 has been made to Cheers Dumbarton Limited following a period of below budget trading. The company was set up to purchase the freehold trade and assets of Cheers nightclub in Dumbarton, Scotland.

In respect of the solar investments (Tor Solar PV, Fresh Green Power and Green Energy Production) progress is satisfactory but we take a relatively prudent view of valuing these type of assets in continuing to hold them at cost. The investments are still young but as they established a reliable record of electricity generation, we believe that there are good prospects for capital uplifts.

**Structured Products**

All three of the Structured Products held at the start of the year were redeemed as a result of the strong stock market performance triggering redemptions. These generated a profit of £143,000 over cost of £1.5 million. A further seven Structured Products were purchased during the year, and at the year-end were showing an uplift of £101,000 on the cost of £2.3m.

**Outlook**

The 'D' Share pool's funds are spread between a portfolio of Structured Products, a portfolio of Venture Capital investments and cash. The remaining cash will be invested into further Venture Capital investments in the current year. A new investment has been made since the year-end in a large Sussex pub, which is a popular wedding venue. A number of promising opportunities are currently being considered in the renewable energy businesses, and this is likely to result in a higher weighting to this sector. We will continue to monitor the portfolio closely, as we work towards the target exit date of 2017.

**Downing LLP**

25 July 2014

## REVIEW OF INVESTMENTS - 'D' SHARE POOL

### Portfolio of investments

The following investments were held at 31 March 2014:

| | Cost £'000 | Valuation £'000 | Valuation movement in year £'000 | % of portfolio |
|---|---|---|---|---|
| **Structured Product investments** | | | | |
| HSBC 5.4% Dual Index Synthetic Zero | 501 | 525 | 24 | 8.4% |
| Barclays 7.75% Defensive Worst Of Auto Call | 401 | 424 | 23 | 6.7% |
| Goldman Sachs 8.5% Defensive Worst Of Auto Call | 351 | 371 | 20 | 5.9% |
| UBS 7.3% Defensive Worst Of Auto Call | 251 | 265 | 14 | 4.2% |
| Credit Suisse 7% Defensive Worst Of Auto Call | 251 | 261 | 10 | 4.2% |
| HSBC 7.1% Defensive Worst Of Auto Call | 251 | 259 | 8 | 4.1% |
| HSBC 5.67% Defensive Worst Of Auto Call | 251 | 253 | 2 | 4.0% |
| | 2,257 | 2,358 | 101 | 37.5% |
| **Venture Capital investments** | | | | |
| Tor Solar PV Limited | 640 | 640 | - | 10.2% |
| Vulcan Renewables Limited | 588 | 588 | - | 9.4% |
| Goonhilly Earth Station Limited | 570 | 570 | - | 9.1% |
| Fubar Stirling Limited | 358 | 358 | - | 5.7% |
| Pearce and Saunders Limited* | 280 | 280 | - | 4.5% |
| City Falkirk Limited | 562 | 275 | (50) | 4.4% |
| Fresh Green Power Limited | 200 | 200 | - | 3.2% |
| Green Energy Production UK Limited | 100 | 100 | - | 1.5% |
| Cheers Dumbarton Limited | 64 | 22 | (42) | 0.3% |
| Lochrise Limited | 17 | - | - | 0.0% |
| | 3,379 | 3,033 | (92) | 48.3% |
| | 5,636 | 5,391 | 9 | 85.8% |
| Cash at bank and in hand | | 892 | | 14.2% |
| Total investments | | 6,283 | | 100.0% |

* partially qualifying investment

All Venture Capital investments are incorporated in England and Wales.

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

### Investment movements for the year ended 31 March 2014

**ADDITIONS**

| **Structured Product investments** | **£'000** |
|---|---|
| HSBC 5.4% Dual Index Synthetic Zero | 501 |
| Barclays 7.75% Defensive Worst Of Auto Call | 401 |
| Goldman Sachs 8.5% Defensive Worst Of Auto Call | 351 |
| UBS 7.3% Defensive Worst Of Auto Call | 251 |
| Credit Suisse 7% Defensive Worst Of Auto Call | 251 |
| HSBC 7.1% Defensive Worst Of Auto Call | 251 |
| HSBC 5.67% Defensive Worst Of Auto Call | 251 |
| | 2,257 |
| **Venture Capital investments** | |
| Goonhilly Earth Station Limited | 570 |
| Pearce and Saunders Limited | 280 |
| Vulcan Renewables Limited | 28 |
| | 3,135 |

* partially qualifying investment

**DISPOSALS**

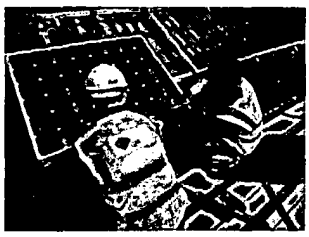
| | **Cost** £'000 | **Valuation at 31/3/13** £'000 | **Proceeds** £'000 | **Profit vs. cost** £'000 | **Realised gain** £'000 |
|---|---|---|---|---|---|
| **Structured Product investments** | | | | | |
| Credit Suisse 7.25% FTSE Autocall | 523 | 565 | 575 | 52 | 10 |
| JPMorgan 7% Defensive FTSE Autocall | 517 | 565 | 570 | 53 | 5 |
| Royal Bank of Canada 8% Worst Of Auto Call | 502 | 524 | 541 | 38 | 17 |
| | 1,542 | 1,654 | 1,686 | 143 | 32 |

~ adjusted for purchases during the year

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

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

Tor Solar PV Limited



| | | | |
|---|---|---|---|
| Cost at 31/03/14: | £640,000 | Valuation at 31/03/14: | £639,968 |
| Cost at 31/03/13: | £640,000 | Valuation at 31/03/13: | £640,000 |
| Date of first investment: | Apr 12 | Valuation method: | Cost as reviewed for impairment |
| Investment comprises: | | | |
| A ordinary shares: | £32 | Proportion of A equity held: | 16% |
| Preference B shares: | £448,000 | Proportion of B equity held: | 32% |
| A loan stock: | £191,968 | Proportion of A loan stock held: | 32% |

Summary financial information from statutory accounts to 31 March

| | 2013 | 2012 |
|---|---|---|
| Turnover: | n/a* | None filed |
| Operating profit: | n/a* | None filed |
| Net assets: | £1,136,307 | None filed |

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

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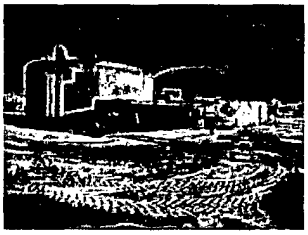
Vulcan Renewables Limited



| | | | |
|---|---|---|---|
| Cost at 31/03/14: | £588,000 | Valuation at 31/03/14: | £588,000 |
| Cost at 31/03/13: | £560,000 | Valuation at 31/03/13: | £560,000 |
| Date of first investment: | Apr 12 | Valuation method: | Cost as reviewed for impairment |
| Investment comprises: | | | |
| A ordinary shares: | £420,000 | Proportion of A equity held: | 5.0% |
| A loan stock: | £168,000 | Proportion of A loan stock held: | 4.4% |

Summary financial information from statutory accounts to 30 November

| | 2012 | 2011 |
|---|---|---|
| Turnover: | n/a* | None filed |
| Operating profit: | n/a* | None filed |
| Net assets: | £2,580,091 | None filed |

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

---

Goonhilly Earth Station Limited
www.goonhilly.org

| | | | |
|---|---|---|---|
| Cost at 31/03/14: | £570,000 | Valuation at 31/03/14: | £570,000 |
| Cost at 31/03/13: | n/a | Valuation at 31/03/13: | n/a |
| Date of first investment: | Jan 14 | Valuation method: | Cost as reviewed for impairment |
| Investment comprises: | | | |
| C ordinary shares: | £5,625 | Proportion of C equity held: | 0.2% |
| D ordinary shares: | £393,375 | Proportion of D equity held: | 14.3% |
| Loan stock: | £171,000 | Proportion of loan stock held: | 15.0% |

Summary financial information from statutory accounts to 31 May

| | 2013 | 2012 |
|---|---|---|
| Turnover: | n/a* | n/a* |
| Operating profit: | n/a* | n/a* |
| Net assets: | £72,135 | £65,886 |

Goonhilly Earth Station Limited ("GES") owns and operates the iconic Goonhilly Satellite Earth Station on the Lizard Peninsula in Cornwall, UK.

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

Fubar Stirling Limited
www.fubarclub.info

| | | | |
|---|---|---|---|
| Cost at 31/03/14: | £357,436 | Valuation at 31/03/14: | £357,436 |
| Cost at 31/03/13: | £357,436 | Valuation at 31/03/13: | £357,436 |
| Date of first investment: | Feb 12 | Valuation method: | Multiples |
| Investment comprises: | | | |
| A ordinary shares: | £nil | Proportion of A equity held: | 17.8% |
| B ordinary shares: | £107,231 | Proportion of B equity held: | 18.2% |
| B loan stock: | £250,205 | Proportion of B loan stock held: | 18.2% |

Summary financial information from statutory accounts to 28 February

| | 2013 | 2012 |
|---|---|---|
| Turnover: | n/a* | None filed |
| Operating profit: | n/a* | None filed |
| Net assets: | £578,674 | None filed |

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

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Pearce and Saunders Limited
www.jamcircus.com
www.wallingtonarms.com
www.elthamgpo.com

| | | | |
|---|---|---|---|
| Cost at 31/03/14: | £280,000 | Valuation at 31/03/14: | £280,000 |
| Cost at 31/03/13: | n/a | Valuation at 31/03/13: | n/a |
| Date of first investment: | Sep 13 | Valuation method: | Cost as reviewed for impairment |
| Investment comprises: | | | |
| Ordinary shares: | £84,000 | Proportion of equity held: | 10.0% |
| A loan stock: | £84,000 | Proportion of A loan stock held: | 4.3% |
| B loan stock: | £112,000 | Proportion of B loan stock held: | 5.7% |

Summary financial information from statutory accounts: None filed

Pearce & Saunders Limited is a new freehold pub company that will be managed by the Antic London team and funded by the Downing VCTs. It was incorporated to acquire the freehold pubs of three South East London sites.

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City Falkirk Limited
www.cityfalkirk.co.uk

| | | | |
|---|---|---|---|
| Cost at 31/03/14: | £562,000 | Valuation at 31/03/14: | £275,371 |
| Cost at 31/03/13: | £562,000 | Valuation at 31/03/13: | £325,613 |
| Date of first investment: | Feb 12 | Valuation method: | Multiples |
| Investment comprises: | | | |
| A ordinary shares: | £18 | Proportion of A equity held: | 18.0% |
| B ordinary shares: | £109,085 | Proportion of B equity held: | 18.2% |
| A loan stock: | £198,365 | Proportion of A loan stock held: | 18.2% |
| B loan stock: | £254,532 | Proportion of B loan stock held: | 18.2% |

Summary financial information from statutory accounts to 28 February

| | 2013 | 2012 |
|---|---|---|
| Turnover: | n/a* | None filed |
| Operating profit: | n/a* | None filed |
| Net assets: | £157,198 | None filed |

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

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

Fresh Green Power Limited

| | | | |
|---|---|---|---|
| Cost at 31/03/14: | £200,000 | Valuation at 31/03/14: | £200,000 |
| Cost at 31/03/13: | £200,000 | Valuation at 31/03/13: | £200,000 |
| Date of first investment: | Apr 12 | Valuation method: | Discounted cash flow |

Investment comprises:

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

Summary financial information from statutory accounts to 30 September

| | 2013 | 2012 |
|---|---|---|
| Turnover: | n/a* | n/a* |
| Operating profit: | n/a* | n/a* |
| Net assets: | £660,838 | £684,723 |

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

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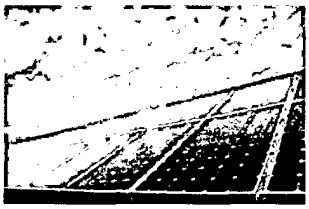
Green Energy Production UK Limited



| | | | |
|---|---|---|---|
| Cost at 31/03/14: | £100,000 | Valuation at 31/03/14: | £100,000 |
| Cost at 31/03/13: | £100,000 | Valuation at 31/03/13: | £100,000 |
| Date of first investment: | Apr 12 | Valuation method: | Cost as reviewed for impairment |

Investment comprises:

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

Summary financial information from statutory accounts to 31 August

| | 2012 | 2011 |
|---|---|---|
| Turnover: | n/a* | None filed |
| Operating profit: | n/a* | None filed |
| Net assets: | £331,574 | None filed |

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

---

Cheers Dumbarton Limited
www.cheersnightclub.info

| | | | |
|---|---|---|---|
| Cost at 31/03/14: | £63,709 | Valuation at 31/03/14: | £22,298 |
| Cost at 31/03/13: | £63,709 | Valuation at 31/03/13: | £63,709 |
| Date of first investment: | Feb 12 | Valuation method: | Multiples |

Investment comprises:

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

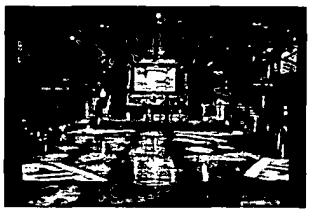
Summary financial information from statutory accounts to 28 February

| | 2013 | 2012 |
|---|---|---|
| Turnover: | n/a* | None filed |
| Operating profit: | n/a* | None filed |
| Net assets: | £54,686 | None filed |

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

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

Lochrise Limited



| | | | |
|---|---|---|---|
| Cost at 31/03/14: | £16,873 | Valuation at 31/03/14: | £nil |
| Cost at 31/03/13: | £16,873 | Valuation at 31/03/13: | £nil |
| Date of first investment: | Feb 12 | Valuation method: | Cost as reviewed for impairment |
| Investment comprises: | | | |
| A ordinary shares: | £nil | Proportion of A equity held: | 17.8% |
| B ordinary shares: | £5,062 | Proportion of B equity held: | 18.2% |
| B loan stock: | £11,811 | Proportion of B loan stock held: | 18.2% |

Summary financial information from statutory accounts to 28 February

| | 2013 | 2012 |
|---|---|---|
| Turnover: | n/a* | n/a* |
| Operating profit: | n/a* | n/a* |
| Net liabilities: | (£179,471) | (£185,310) |

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

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

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

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

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

| | £'000 |
|---|---|
| **Loan stock interest and interest on advances receivable in the year** | |
| Tor Solar PV Limited | - |
| Vulcan Renewables Limited | 31 |
| Goonhilly Earth Station Limited | 6 |
| Fubar Stirling Limited | 30 |
| Pearce and Saunders Limited | 10 |
| City Falkirk Limited | 47 |
| Fresh Green Power Limited | - |
| Green Energy Production UK Limited | - |
| Cheers Dumbarton Limited | 5 |
| Lochrise Limited | 2 |
| | 131 |

**Analysis of investments by type**

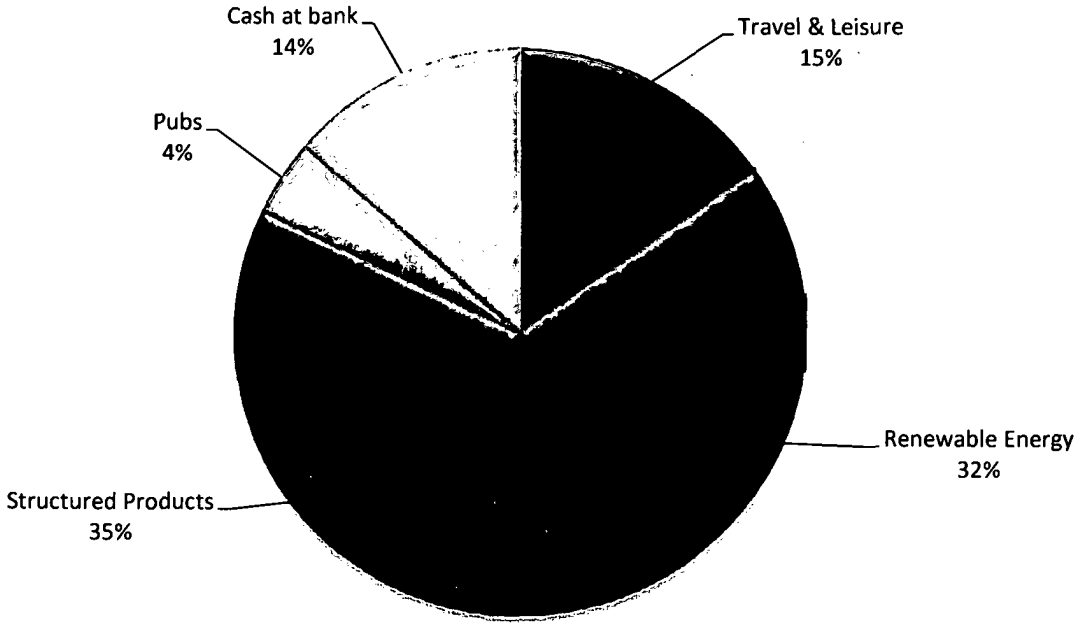
The allocation of the 'D' Share funds compared to the target split is summarised as follows:

| | Actual portfolio split at 31 March 2014 | Target portfolio split at 31 March 2015 |
|---|---|---|
| **VCT qualifying investments** | | |
| Qualifying loan stock | 23% | 50% |
| Ordinary shares | 27% | 25% |
| **Total** | 50% | 75% |
| | | |
| **Non-qualifying investments** | | |
| Non-qualifying loan stock and advances | 1% | - |
| Structured Products | 35% | 25% |
| **Total** | 36% | 25% |
| | | |
| **Cash** | 14% | - |
| | 100% | 100% |

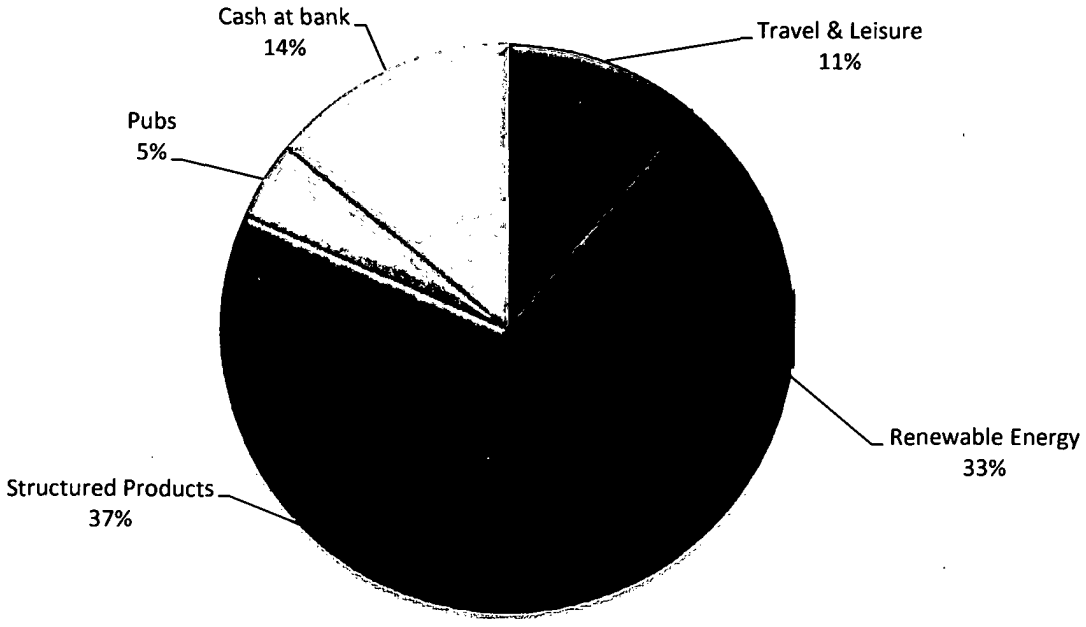
## REVIEW OF INVESTMENTS – 'D' SHARE POOL (continued)

The split of the 'D' share pool investment portfolio by commercial sector (by cost and by value at 31 March 2014) is as follows:

**'D' Share Pool**
**Analysis of investments by sector based on cost**




**'D' Share Pool**
**Analysis of investments by sector based on value**



## STRATEGIC REPORT

The Directors present the Strategic Report for the year ended 31 March 2014. 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's principal objective is to provide shareholders with an attractive level of tax-free capital gains and income generated from a portfolio of investments in a range of different sectors.

The Company's strategy for achieving this objective is to:

- invest in a portfolio of venture capital investments across a range of differing sectors, primarily in the UK and EU and;
- comply with the VCT regulations to enable Shareholders to retain the initial income tax relief and ongoing tax reliefs.

**Business review and developments**
***Ordinary Share pool***
The Ordinary Share pool began the year with £9.6 million of investments and ended with £8.3 million spread across a portfolio of 18 companies. 15 of these investments, with a value of £8.2 million, were VCT qualifying (or part qualifying).

The profit on ordinary activities after taxation for the period was £499,000, comprising a revenue profit of £351,000 and a capital profit of £148,000.

***'B' Share pool***
The 'B' Share pool began the period with £16.5 million of investments and ended with £14.5 million spread across a portfolio of 21 Venture Capital investments and 13 Structured Product investments.

The profit on ordinary activities after taxation for the period was £472,000, comprising a revenue profit of £480,000 and a capital loss of £8,000.

***'D' Share pool***
The 'D' Share pool began the period with £4.0 million of investments and ended with £5.4 million spread across a portfolio of 10 Venture Capital investments and 7 Structured Product investments.

The profit on ordinary activities after taxation for the period was £26,000, comprising a revenue profit of £34,000 and a capital loss of £8,000.

The Company's business and developments during the period are reviewed further within the Chairman's Statement, Investment Managers reports and the Review of Investments for each share pool.

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

**Principal risks and uncertainties**
The principal risks faced by the Company, which include market price risk, interest rate risk, credit risk and liquidity risk (being minimal), are summarised within note 17 to the financial statements.

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

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

**Business model**
The Company operates as a Venture Capital Trust to ensure its shareholders can benefit from tax reliefs available.

The business of the Company is to act as an investment company, investing in a portfolio which meets the conditions set within its investment policy, as shown below.

**Investment policy**
The Board reviewed the investment policy during the year and made an immaterial adjustment by the addition of the "Other Investments" paragraph. The Board believes that this will give the Company added flexibility which may help to maintain investment yields as the planned exit dates for the various share pools approach.

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

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

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

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

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

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

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

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

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

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

***Other Investments***
In addition to the above, up to 5% of the funds may also be invested in other investments, including, but not limited to, gilts, fixed deposit investments and secured loans.

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

***Listing rules***
In accordance with the Listing Rules:

(i) the Company may not invest more than 10% in aggregate, of the value of total assets of the Company at the time an investment is made in other listed closed-ended investment funds except listed closed-ended investment funds which have published investment policies which permit them to invest no more than 15% of their total assets in other closed-ended investment funds;
(ii) the Company must not conduct any trading activity which is significant in the context of the Company; and
(iii) the Company must, at all times, invest and manage its assets in a way which is consistent with its objective of spreading investment risk and in accordance with its published investment policy set out in this document. This investment policy is in line with Chapter 15 of the Listing Rules and Part 6 of the Income Tax Act 2007.

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

1. The Company holds at least 70% of its investments in qualifying companies (as defined by Part 6 of the Income Tax Act 2007) (by 31 March 2012 in respect of the Ordinary Share pool, by 31 March 2013 in respect of the 'B' Share pool, and by 31 March 2015 in respect of the 'D' Share pool);

2. At least 30% of the Company's qualifying investments (by value) are held in "eligible shares" for funds raised before 6 April 2011 and at least 70% in "eligible shares" for funds raised after 6 April 2011 ("eligible shares" generally being ordinary share capital) (by 31 March 2012 in respect of the Ordinary Share pool, by 31 March 2013 in respect of the 'B' Share pool, and by 31 March 2015 in respect of the 'D' Share pool);

3. At least 10% of each investment in a qualifying company is held in "eligible shares" (by cost at time of investment);

4. No investment constitutes more than 15% of the Company's portfolio (by value at time of investment);

5. The Company's income for each financial year is derived wholly or mainly from shares and securities; and

6. The Company distributes sufficient revenue dividends to ensure that not more than 15% of the income from shares and securities in any one year is retained.

**Performance incentive fees**
The structure of 'A' Shares and 'C' Shares enables an incentivisation of the Management Team by way of a distribution of income.

No performance incentive fee will be payable until Shareholders:

i) receive proceeds, by way of dividends/ distributions/share buybacks ("Total Proceeds"), of at least 100.0p per £1 invested; and
ii) achieve a tax-free compound return of at least 7% per annum (after allowing for income tax relief on investment).

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

| | |
|---|---|
| Shareholders | 97% of the first 100.0p of proceeds per £1 invested and 80% thereafter |
| Management | 3% of the first 100.0p of proceeds and 20% thereafter |

If the above distribution would result in Shareholders receiving less than 100.0p per £1 invested or lower than a 7% compound return, then the return to the Management Team will be reduced until Shareholders receive at least 100.0p per £1 invested and a 7% compound return. Management's share of the Total Proceeds will be subject to a cap at 1.25% of net assets of the Company per annum and will only be payable if the hurdle is achieved.

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

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

No performance incentive fee will be payable until

Shareholders:

i) receive proceeds, by way of dividends/ distributions/share buybacks ("Total Proceeds"), of at least 100.0p per £1 invested; and
ii) achieve a tax-free compound return of at least 7% per annum (after allowing for income tax relief on investment).

Subject to these conditions, "the Hurdles", being met, the performance incentive will be 3.0p per 'D' Share plus 20% above 100.0p per 'D' Share of the funds available (for distribution to 'D' Shareholders and the payment of the performance incentive).

The performance incentive will only be paid to the extent that the Hurdles continue to be met and will be subject to a maximum amount over the life of the Company equivalent to 7.0p per 'D' Share (based on the number of 'D' Shares in issue at the close of the Offers). After the Hurdles have been met, the performance incentive will be deducted from any distribution.

As the targets have not been met, no fee is due to be paid for the year ended 31 March 2014. It will be recalculated for the year ended 31 March 2015, and annually thereafter, following approval of the audited accounts by Shareholders.

## STRATEGIC REPORT (continued)

***Borrowings***

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

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

**Environmental and social policy**

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

**Global greenhouse gas emissions**

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

**Directors and senior management**

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

**Future prospects**

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

By order of the Board

**Grant Whitehouse**
Secretary of Downing Structured Opportunities VCT 1 plc

Company number: 6789187

Registered office:
Ergon House
Horseferry Road
London, SW1P 2AL

25 July 2014

## REPORT OF THE DIRECTORS

The Directors present the Annual Report and Accounts of the Company for the year ended 31 March 2014. The Company was incorporated on 12 January 2009 and commenced activities from 21 January 2009.

**Share capital**

At the year end, the Company had in issue 10,288,157 Ordinary Shares, 15,506,488 'A' Shares, 19,911,070 'B' Shares, 29,926,070 'C' Shares, and 7,877,527 'D' Shares. Only the holders of the Ordinary Shares, 'B' Shares, and 'D' Shares have voting rights, except where there are issues in respect of the variation of rights of the 'A' Shares and 'C' Shares. There are no other share classes in issue.

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

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

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

During the year, the Company repurchased 72,870 Ordinary Shares for an aggregate consideration of £65,974 being an average price of 90.5p per share which represented 0.7% of the Company's issued Ordinary Share capital and 40,600 'A' Shares for an aggregate consideration of £40.60 being an average price of 0.001p per share which represented 0.3% of the Company's issued 'A' Share capital. 25,300 'B' Shares were repurchased for an aggregate consideration of £20,620 being an average price of 81.5p per share and which represented 0.13% of the Company's issued 'B' Share capital. In addition, 10,000 'D' Shares were repurchased for an aggregate consideration of £8,250 being an average price of 83.0p per share which represented 0.13% of the Company's issued 'D' Share capital. These shares were subsequently cancelled.

At the AGM that took place on 5 September 2013, the Company was authorised to make market purchases of its Ordinary Shares, 'A' Shares, 'B' Shares, and 'C' Shares up to a limit of 1,543,793 Ordinary Shares, 2,316,516 'A' Shares, 2,970,519 'B' Shares, 4,458,984 'C' Shares and 1,175,242 'D' Shares which represented approximately 14.9% of the issued Ordinary Share capital, 'A' Share capital, 'B' Share capital, 'C' Share capital and 'D' Share capital at the date of the AGM.

At the current date, authority remains for 1,470,923 Ordinary Shares, 2,275,916 'A' Shares, 2,945,219 'B' Shares, 4,458,984 'C' Shares and 1,165,242 'D' Shares. A resolution to renew this authority will be put to Shareholders at the AGM taking place on 25 September 2014.

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

**Results and dividends**

Profit for the year

| | £'000 | Pence per share |
|---|---|---|
| Ordinary Share | 499 | 4.8p |
| 'B' Share | 472 | 2.4p |
| 'D' Share | 26 | 0.3p |

Interim dividend paid in respect of current period

| | £'000 | Pence per share |
|---|---|---|
| Ordinary Share | 257 | 2.5 |
| 'B' Share | 498 | 2.5 |
| 'D' Share | 197 | 2.5 |

Your Board is proposing to pay a final dividend of 2.5p per Ordinary Share, 10.0p per 'B' Share and 2.5p per 'D' Share payable on 30 September 2014 to Shareholders on the register at 22 August 2014.

## REPORT OF THE DIRECTORS (continued)

**Directors**
The Directors of the Company during the year and their beneficial interests (including connected persons) in the issued Ordinary Shares, 'A' Shares, 'B' Shares, 'C' Shares, and 'D' Shares at 31 March 2013 and at 31 March 2014.

**No. of shares at 31/03/13 and at 31/03/14**

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

Between 31/03/14 and the date of this report there has been no movement in Directors' shareholdings.

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

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

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

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

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

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

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

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

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

Compliance with the main VCT regulations (as described in the Investment policy) at 31 March 2014 and for the period under review is summarised as follows:

| | | |
|---|---|---|
| 1. | 70% of its investments held in qualifying companies; | 72.7% |
| 2. | At least 30% of the Company's qualifying investments are held in "eligible shares"; | 35.3% |
| 3. | At least 10% of each investment in a qualifying company is held in eligible shares; | Complied |
| 4. | No investment constitutes more than 15% of the Company's portfolio; | Complied |
| 5. | Income for the year is derived wholly or mainly from shares and securities; and | 96.5% |
| 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 2014, and the date of this report, the Company had not been notified of any beneficial interest exceeding 3 per cent of the issued share capital.

**Auditor**
A resolution proposing the appointment of BDO LLP as the Company's Auditor will be submitted at the Annual General Meeting.

**Annual General Meeting**
The Company's fifth Annual General Meeting ("AGM") will be held at Downing LLP, Fifth floor, Ergon House, Horseferry Road, London, SW1P 2AL at 10.30 a.m. on 25 September 2014. The Notice of the Annual General Meeting and Form of Proxy are at the end of this document.

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

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

In preparing these financial statements the Directors are required to:

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

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

In addition, each of the Directors considers that the Annual Report, 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.

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

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

- the financial statements, which have been prepared in accordance with UK Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and

- the management report included within the Report of the Directors, Chairman's Statement, Investment Manager's Report, and Review of Investments includes a fair review of the development and performance of the business and the position of the company together with a description of the principal risks and uncertainties that it faces.

## REPORT OF THE DIRECTORS (continued)

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

**Corporate governance**
The Company's compliance with, and departures from, the Financial Reporting Council's UK Corporate Governance Code June 2010 (www.frc.org.uk) is shown on page 51.

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

By order of the Board

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

Registered office:
Ergon House
Horseferry Road
London, SW1P 2AL

25 July 2014

## DIRECTORS' REMUNERATION REPORT

The Board has prepared this report in accordance with the requirements of Sections 420 to 422 of the Companies Act 2006. A resolution to approve this report will be put to the Shareholders at the AGM to be held on 25 September 2014.

Under the requirements of Section 497, the Company's Auditor is required to audit certain disclosures contained within the report. These disclosures have been highlighted and the audit opinion thereon is contained within the Auditor's Report on page 52.

**Directors' remuneration policy**

Below is the Company's remuneration policy. Shareholders will be asked to vote on this policy at the AGM on 25 September 2014. In accordance with new 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, subject to Shareholder approval this policy will apply from 1 April 2014.

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 the self-managed Venture Capital Trust, where all investment decisions are made by the Board and the non-executive Directors are more closely involved with the investee companies and other similar VCTs.

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

(i) The Directors shall be paid out of the funds of the Company, by way of fees for their services, an aggregate sum not exceeding £100,000 per annum (excluding any performance incentive fees to which the Directors may be entitled from time to time). The Directors shall also receive by way of additional fees such further sums (if any) as the Company in General Meeting may from time to time determine. Such fees and additional fees shall be divided among the Directors in such proportion and manner as they may determine and in default of the determination equally.

(ii) The Directors shall be entitled to be repaid all reasonable travelling, hotel and other expenses incurred by them respectively in or about the performance of their duties as Directors. This includes any expenses incurred in attending meetings of the Board, Committees of the Board or General Meetings. If in the opinion of the Directors it is desirable that any of their number should make any special journeys or perform any special services on behalf of the Company or its business, such Director or Directors may be paid reasonable additional remuneration and expenses as the Directors may from time to time determine.

**Service contracts**

Each of the Directors has entered into a consultancy agreement for the fixed term of three years from the date of their appointment and thereafter on a three month rolling notice.

**Directors' remuneration (audited)**

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

| | Current annual fee £ | Year ended 31/03/14 £ | Year ended 31/03/13 £ |
|---|---|---|---|
| Lord Flight | 18,000 | 18,000 | 18,000 |
| Robin Chamberlayne | 12,500 | 12,500 | 12,500 |
| Mark Mathias | 12,500 | 12,500 | 12,500 |
| | 43,000 | 43,000 | 43,000 |

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

**Statement of voting at AGM**

At the AGM on 5 September 2013, the votes in respect of the resolution to approve the Directors' Remuneration Report were as follows:

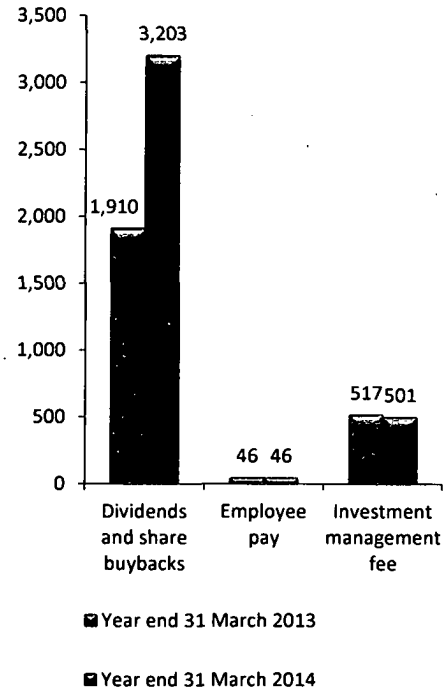
| | |
|---|---|
| In favour | 96.9% |
| Against | 3.1% |
| Withheld | 10,425 votes |

## DIRECTORS' REMUNERATION REPORT (continued)

**Relative importance of spend on pay**

The difference in actual spend between the year ended 31 March 2013 and the year ended 31 March 2014 on remunerations for all employees in comparison to distributions (dividends and share buybacks) and other significant spend are set out in the tabular graph below:

**Relative spend on pay (£'000)**




**Insurance cover**

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

**Performance graph**

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

As there is no publicly available VCT index, we have selected the Numis Smaller Companies Index as a comparison as it is a publicly available broad equity index which focuses on smaller companies and is more relevant than most other publicly available indices.

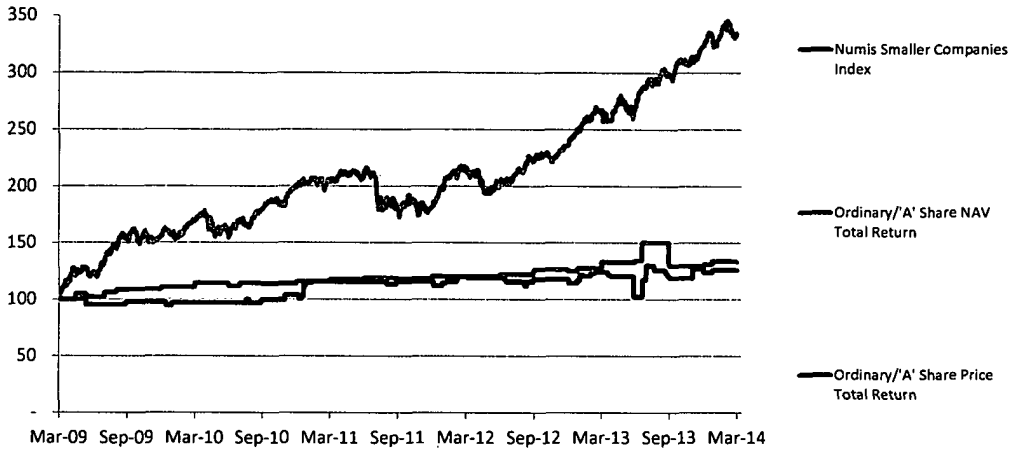
By order of the Board

**Grant Whitehouse**
Company Secretary
Ergon House
Horseferry Road
London, SW1P 2AL

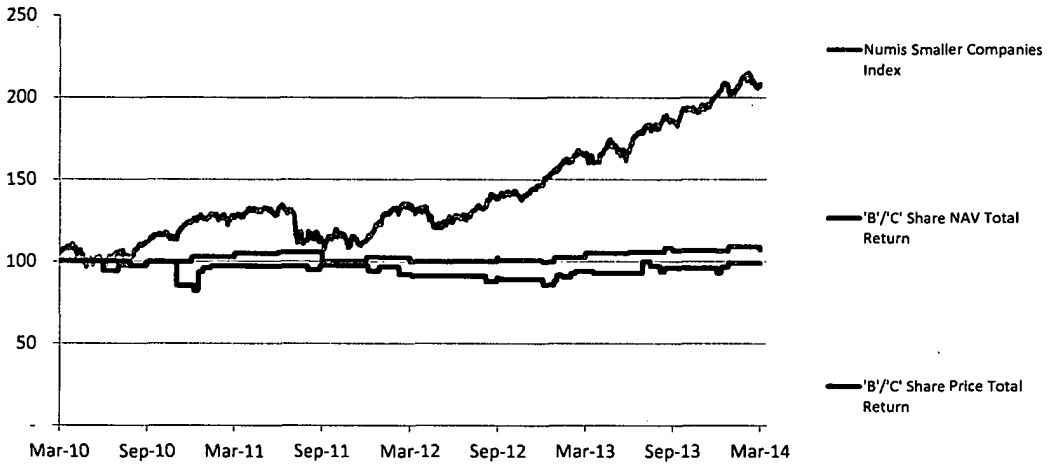
25 July 2014

## DIRECTORS' REMUNERATION REPORT (continued)

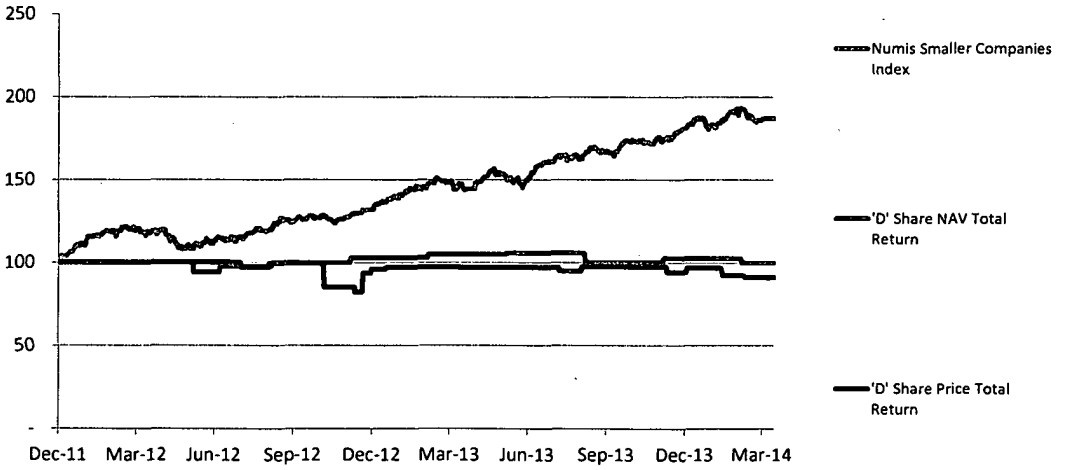
### Ordinary/'A' Share performance chart




### 'B'/'C' Share performance chart




### 'D' Share performance chart



## CORPORATE GOVERNANCE

The Directors support the relevant principles of the UK Corporate Governance Code issued in September 2012, being the principles of good governance and the code of best practice, as set out in Section 1 of the UK Corporate Governance Code annexed to the Listing Rules of the Financial Conduct Authority.

**The Board**

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

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

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

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

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

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

The Board has authority to make market purchases of the Company's own shares. This authority for up to 14.9% of the Company's issued share capital was granted at the AGM on 5 September 2013. 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 41.

**Audit Committee**

The Company has an Audit Committee comprising of Lord Flight (Chairman), Robin Chamberlayne and Mark Mathias. This Committee has defined terms of reference and duties.

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

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 Manager, for presentation within the half-yearly and annual accounts.

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

Any non-audit services provided by the Auditor are reviewed and approved by the Committee prior to being undertaken (such services being undertaken by a separate department to the Auditor), to ensure that the Auditor's objectivity and independence is safeguarded. In addition the Auditor confirms their independent status on an annual basis.

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

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

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

## CORPORATE GOVERNANCE (continued)

**External auditor**
The Committee reviews and agrees the audit strategy paper, presented by the Auditor in advance of the audit and confirms their status on independence.

The Committee confirms that the two main areas of risk for the year under review are the carrying value of the investments and revenue recognition. The Committee's consideration of these matters is set out in this report on page 48.

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

Following assurances received from the Managers at completion of the audit for the year ended 31 March 2014, 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.

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

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

No Nomination Committee meetings were held in the year.

**Remuneration Committee**
The Committee meets as and when required to review the levels of Directors' remuneration. Details of the specific levels of remuneration to each Director are set out in the Directors' Remuneration Report on page 45, and this is subject to Shareholder approval.

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

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

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

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

**Financial reporting**
The Directors' responsibilities for preparing the accounts are set out in the Report of the Directors on page 43, and a statement by the Auditor about their reporting responsibilities is set out in the Independent Auditor's report on page 53.

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

## CORPORATE GOVERNANCE (continued)

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

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

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

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

**Anti-bribery policy**

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

**Going concern**

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on pages 3 and 4, the Investment Manager's Report on pages 6, 17 and 28, the Strategic Report on page 37 and the Report of the Directors on page 41. The financial position of the Company, its cash flows, liquidity position, and borrowing facilities are shown in the Balance Sheet on page 58, Cash Flow statement on page 59, the Strategic Report on page 40 and the Report of the Directors on page 41. In addition, note 17 to the financial statements includes the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments, and its exposures to credit risk and liquidity risk.

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

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

**Share capital**

The company has five classes of share capital: Ordinary Shares, 'A' Shares, 'B' Shares, 'C' Shares, and 'D' Shares. The rights and obligations attached to those shares, including the power of the Company to buy back shares and details of any significant shareholdings, are set out on page 42 of the Report of the Directors.

## CORPORATE GOVERNANCE (continued)

**Compliance statement**

The Listing Rules require the Board to report on compliance with the 52 UK Corporate Governance Code provisions throughout the accounting period. With the exception of the limited items outlined below, the Company has complied throughout the accounting year ended 31 March 2014 with the provisions set out in Section 1 of the UK Corporate Governance Code.

a) New Directors do not receive a full, formal and tailored induction on joining the Board. Such matters are addressed on an individual basis as they arise. Also, the Company has no major Shareholders so Shareholders are not given the opportunity to meet any new non-executive Directors at a specific meeting other than the AGM. (B.4.1, B.4.2, E.1.1)

b) Due to the size of the Board and the nature of the Company's business, a formal performance evaluation of the Board, its Committees, the individual Directors and the Chairman has not been undertaken. Specific performance issues are dealt with as they arise. Similarly, a senior independent director has not been appointed. (A.4.1, A.4.2, B.6.1, B.6.3, B.7.2)

c) Non-executive Directors' contracts are on a three month rolling notice, following an initial three year fixed term, whereas the recommendation is for fixed term renewable contracts. In the Directors' opinion this does not make a substantive difference to the circumstances of the Company. (B.2.3)

d) As the Company has had no staff, other than Directors, there are no procedures in place relating to whistleblowing. (C.3.4)

**Grant Whitehouse**
Company Secretary
Ergon House
Horseferry Road
London, SWP 2AL

25 July 2014

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

We have audited the financial statements of Downing Structured Opportunities VCT 1 PLC (the Company) for the year ended 31 March 2014 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

**Opinion on financial statements**
In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2014 and of its return 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.

**Our assessment of risks of material misstatement**
We identified the following risks that we believe have had the greatest impact on our audit strategy and scope:

- The carrying value of unquoted investments, which is a key accounting estimate which requires the exercise of considerable judgement. This is a key accounting estimate where there is an inherent risk of management override arising from the investment valuations being prepared by the Investment Manager, who is remunerated based on the net asset value of the company, derived using those valuations.

We challenged the assumptions inherent in the valuation of unquoted investments and we assessed the impact of the estimation uncertainty concerning these assumptions and the disclosure of these uncertainties in the financial statements. Our audit procedures included reviewing the historical financial statements and recent management information available for the unquoted investments used to support assumptions about maintainable earnings used in the valuations, considering the multiples applied by reference to independent market data and challenging the adjustments made to such market data in arriving at the valuations adopted. Where alternative assumptions could reasonably be applied, we developed our own point estimates and considered the overall impact of such sensitisations on the portfolio of investments in determining whether the valuations as a whole are reasonable and unbiased.

Where other valuation approaches were adopted, in addition to challenging the assumptions used, we considered the appropriateness of the valuation techniques adopted by reference to both the circumstances of the investee company and the International Private Equity and Venture Capital Valuation guidelines. We also considered the controls over the valuation of structured products and tested the pricing of these investments to independent sources.

- Revenue recognition, which consists of dividends receivable from investee companies and interest earned on loans to investee companies and other financial assets. Revenue recognition is considered to be a significant risk as it is the key driver of dividend returns to investors. In particular, as the company invests in unquoted companies, dividends receivable can be difficult to predict.

We considered the controls relating to revenue recognition and undertook testing of interest income by comparing actual income to expectations generated using the interest rates in the loan instruments. We also tested dividends receivable by reference to expectations set from independent published data on dividends declared by the investee companies held in the reporting period. We sample tested the categorisation of dividends received from investee companies between revenue and capital.

The Audit Committee's consideration of these judgements is set out on page 48.

**Purpose of this 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.

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

**Respective responsibilities of directors and auditor**
As explained more fully in the Statement of Directors. Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

**Our application of materiality**
We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and on the financial statements. We define planning materiality as 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. We also determine a level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

We determined planning materiality for the financial statements as a whole to be £560,000. In determining this, we based our assessment on a percentage of gross investments which reflects the underlying level of precision within the valuation of the investment portfolio and the range of reasonably possible alternative valuations that could be expected to apply to the unquoted investments. On the basis of our risk assessment, together with our assessment of the Company's control environment, our judgement is that performance materiality for the financial statements should be 75% of planning materiality, namely £420,000. Our objective in adopting this approach is to ensure that total detected and undetected audit differences do not exceed our planning materiality of £560,000 for the financial statements as a whole.

International Standards on Auditing (UK & Ireland) also allow the auditor to set a lower materiality for particular classes of transaction, 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. In this context, we set a lower level of materiality to apply to those classes of transactions and balances which impact on the costs and the net revenue returns of the company. We determined materiality for this area to be £90,000.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £11,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

**Opinion on other matters prescribed by the Companies Act 2006**
In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 49 to 50 of the annual report with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

**Matters on which we are required to report by exception**
Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or
- is otherwise misleading.

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

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.
Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

Under the Listing Rules we are required to review:

- the Directors Statement, set out on page 50, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

We have nothing to report in respect of these matters.

**Rhodri Whitlock (senior statutory auditor)**
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom

25 July 2014

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

## INCOME STATEMENT
## for the year ended 31 March 2014

| | Note | Year ended 31 March 2014 Revenue £'000 | Capital £'000 | Total £'000 | Year ended 31 March 2013 Revenue £'000 | Capital £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| Income | 2 | 1,705 | - | 1,705 | 1,704 | - | 1,704 |
| Net gain on investments | 9 | - | 383 | 383 | - | 1,318 | 1,318 |
| | | 1,705 | 383 | 2,088 | 1,704 | 1,318 | 3,022 |
| Investment management fees | 3 | (250) | (250) | (500) | (258) | (258) | (516) |
| Other expenses | 4 | (367) | (1) | (368) | (375) | - | (375) |
| **Return on ordinary activities before tax** | | 1,088 | 132 | 1,220 | 1,071 | 1,060 | 2,131 |
| Tax on ordinary activities | 6 | (223) | - | (223) | (112) | - | (112) |
| **Return attributable to equity shareholders** | | 865 | 132 | 997 | 959 | 1,060 | 2,019 |
| **Basic and diluted return per share:** | | | | | | | |
| **Ordinary Share** | 8 | 3.4p | 1.4p | 4.8p | 5.3p | 5.9p | 11.2p |
| **'A' Share** | 8 | - | - | - | - | - | - |
| **'B' Share** | 8 | 2.4p | 0.0p | 2.4p | 2.4p | 2.7p | 5.1p |
| **'C' Share** | 8 | - | - | - | - | - | - |
| **'D' Share** | 8 | 0.4p | (0.1p) | 0.3p | (0.8p) | (1.1p) | (1.9p) |

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

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

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

## RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | Note | Year ended 31 March 2014 Ordinary Share pool £'000 | 'B' Share pool £'000 | 'D' Share pool £'000 | Total £'000 | 2013 Total £'000 |
|---|---|---|---|---|---|---|
| Opening Shareholders' funds | | 10,877 | 16,962 | 6,917 | 34,756 | 33,287 |
| Proceeds from share issue | | - | - | - | - | 3,025 |
| Share issue costs | | - | - | - | - | (166) |
| Purchase of own shares | | (66) | (22) | (9) | (97) | (10) |
| Unalloted shares | | - | - | - | - | (1,491) |
| Dividends paid | 7 | (1,811) | (997) | (394) | (3,202) | (1,908) |
| Total return for the year | | 499 | 472 | 26 | 997 | 2,019 |
| Closing Shareholders' funds | | 9,499 | 16,415 | 6,540 | 32,454 | 34,756 |

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

## INCOME STATEMENT
## for the year ended 31 March 2014

**Split as:**

**Ordinary Share pool**

| | Year ended 31 March 2014 | | | Year ended 31 March 2013 | | |
|---|---|---|---|---|---|---|
| | **Revenue £'000** | **Capital £'000** | **Total £'000** | **Revenue £'000** | **Capital £'000** | **Total £'000** |
| Income | 644 | - | 644 | 827 | - | 827 |
| Net gain on investments | - | 225 | 225 | - | 689 | 689 |
| | 644 | 225 | 869 | 827 | 689 | 1,516 |
| Investment management fees | (76) | (76) | (152) | (78) | (78) | (156) |
| Other expenses | (127) | (1) | (128) | (116) | - | (116) |
| **Return on ordinary activities before tax** | 441 | 148 | 589 | 633 | 611 | 1,244 |
| Tax on ordinary activities | (90) | - | (90) | (86) | - | (86) |
| **Return attributable to equity shareholders** | 351 | 148 | 499 | 547 | 611 | 1,158 |

**'B' Share pool**

| | Year ended 31 March 2014 | | | Year ended 31 March 2013 | | |
|---|---|---|---|---|---|---|
| | **Revenue £'000** | **Capital £'000** | **Total £'000** | **Revenue £'000** | **Capital £'000** | **Total £'000** |
| Income | 904 | - | 904 | 808 | - | 808 |
| Net gain on investments | - | 117 | 117 | - | 658 | 658 |
| | 904 | 117 | 1,021 | 808 | 658 | 1,466 |
| Investment management fees | (125) | (125) | (250) | (126) | (126) | (252) |
| Other expenses | (171) | - | (171) | (184) | - | (184) |
| **Return/(loss) on ordinary activities before tax** | 608 | (8) | 600 | 498 | 532 | 1,030 |
| Tax on ordinary activities | (128) | - | (128) | (26) | - | (26) |
| **Return/(loss) attributable to equity shareholders** | 480 | (8) | 472 | 472 | 532 | 1,004 |

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

## INCOME STATEMENT
## for the year ended 31 March 2014

**'D' Share pool**

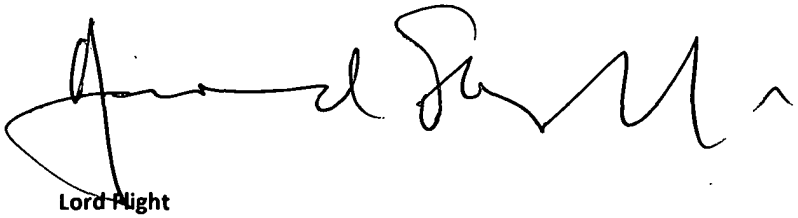
| | Year ended 31 March 2014 | | | Year ended 31 March 2013 | | |
|---|---|---|---|---|---|---|
| | **Revenue £'000** | **Capital £'000** | **Total £'000** | **Revenue £'000** | **Capital £'000** | **Total £'000** |
| Income | 157 | - | 157 | 69 | - | 69 |
| Net gain/(loss) on investments | - | 41 | 41 | - | (29) | (29) |
| | 157 | 41 | 198 | 69 | (29) | 40 |
| Investment management fees | (49) | (49) | (98) | (54) | (54) | (108) |
| Other expenses | (69) | - | (69) | (75) | - | (75) |
| **Return/(loss) on ordinary activities before tax** | 39 | (8) | 31 | (60) | (83) | (143) |
| Tax on ordinary activities | (5) | - | (5) | - | - | - |
| **Return/(loss) attributable to equity shareholders** | 34 | (8) | 26 | (60) | (83) | (143) |

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

## BALANCE SHEET
## as at 31 March 2014

| | Note | 2014 Ordinary Share pool £'000 | 'B' Share pool £'000 | 'D' Share pool £'000 | Total £'000 | 2013 Ordinary Share pool £'000 | 'B' Share pool £'000 | 'D' Share pool £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Fixed assets** | | | | | | | | | |
| Investments | 9 | 8,307 | 14,522 | 5,391 | 28,220 | 9,623 | 16,496 | 3,901 | 30,020 |
| **Current assets** | | | | | | | | | |
| Debtors | 10 | 137 | 124 | 337 | 598 | 134 | 100 | 1 | 235 |
| Cash at bank and in hand | 16 | 1,245 | 2,083 | 892 | 4,220 | 1,316 | 564 | 3,092 | 4,972 |
| | | 1,382 | 2,207 | 1,229 | 4,818 | 1,450 | 664 | 3,093 | 5,207 |
| **Creditors:** amounts falling due within one year | 11 | (190) | (314) | (80) | (584) | (196) | (198) | (77) | (471) |
| **Net current assets** | | 1,192 | 1,893 | 1,149 | 4,234 | 1,254 | 466 | 3,016 | 4,736 |
| **Net assets** | | 9,499 | 16,415 | 6,540 | 32,454 | 10,877 | 16,962 | 6,917 | 34,756 |
| **Capital and reserves** | | | | | | | | | |
| Called up Ordinary/'B'/'D' Share capital | 12 | 10 | 20 | 8 | 38 | 10 | 20 | 8 | 38 |
| Called up 'A'/'C' Share capital | 12 | 16 | 30 | - | 46 | 16 | 30 | - | 46 |
| Capital redemption reserve | 13 | 5 | - | - | 5 | 5 | - | - | 5 |
| Special reserve | 13 | 4,113 | 15,540 | 7,437 | 27,090 | 5,812 | 15,924 | - | 21,736 |
| Share premium account | 13 | 2,794 | - | - | 2,794 | 2,794 | - | 7,446 | 10,240 |
| Revaluation reserve | 13 | 743 | 43 | (243) | 543 | 772 | 536 | (141) | 1,167 |
| Capital reserve – realised | 13 | 1,148 | 344 | (641) | 851 | 1,149 | 345 | (341) | 1,153 |
| Revenue reserve | 13 | 670 | 438 | (21) | 1,087 | 319 | 107 | (55) | 371 |
| **Total equity shareholders' funds** | | 9,499 | 16,415 | 6,540 | 32,454 | 10,877 | 16,962 | 6,917 | 34,756 |
| **Basic and diluted net asset value per:** | | | | | | | | | |
| **Ordinary Share/'B' Share/'D' Share** | 14 | 92.2p | 82.3p | 83.0p | | 104.8p | 84.9p | 87.7p | |
| **'A' Share/'C' Share** | 14 | 0.1p | 0.1p | - | | 0.1p | 0.1p | - | |

The financial statements on pages 55 to 74 were approved and authorised for issue by the Board of Directors on 25 July 2014 and were signed on its behalf by



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

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

## CASH FLOW STATEMENT
## for the year ended 31 March 2014

| | Note | Year ended 31 March 2014 Ordinary Share pool £'000 | 'B' Share pool £'000 | 'D' Share pool £'000 | Total £'000 | Year ended 31 March 2013 Ordinary Share pool £'000 | 'B' Share pool £'000 | 'D' Share pool £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Net cash inflow/(outflow) from operating activities** | 15 | 352 | 473 | (54) | 771 | 488 | 271 | (49) | 710 |
| **Taxation** | | | | | | | | | |
| Corporation tax paid | | (86) | (26) | - | (112) | - | - | - | - |
| **Capital expenditure** | | | | | | | | | |
| Purchase of investments | 9 | (100) | (1,389) | (3,135) | (4,624) | (237) | (1,989) | (3,189) | (5,415) |
| Proceeds from disposal of investments | 9 | 1,641 | 3,480 | 1,686 | 6,807 | 1,148 | 2,857 | 2,051 | 6,056 |
| Movements in deposit held for purchase of investments | 10 | - | - | (294) | (294) | - | - | 640 | 640 |
| **Net cash inflow/(outflow) from capital expenditure** | | 1,541 | 2,091 | (1,743) | 1,889 | 911 | 868 | (498) | 1,281 |
| **Equity dividends paid** | 7 | (1,811) | (997) | (394) | (3,202) | (518) | (996) | (394) | (1,908) |
| **Net cash (outflow)/inflow before financing** | | (4) | 1,541 | (2,191) | (654) | 881 | 143 | (941) | 83 |
| **Financing** | | | | | | | | | |
| Proceeds from 'D' Share issue | | - | - | - | - | - | - | 1,534 | 1,534 |
| Share issue costs | | - | - | - | - | - | - | (166) | (166) |
| Purchase of own shares | | (67) | (22) | (9) | (98) | (10) | - | - | (10) |
| Net cash (outflow)/inflow from financing | | (67) | (22) | (9) | (98) | (10) | - | 1,368 | 1,358 |
| **(Decrease)/increase in cash** | 16 | (71) | 1,519 | (2,200) | (752) | 871 | 143 | 427 | 1,441 |

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

## NOTES TO THE ACCOUNTS
## for the year ended 31 March 2014

1. **Accounting policies**

**Basis of accounting**

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

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

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

**Presentation of Income Statement**

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

**Investments**

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

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

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

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

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

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

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

**Income**

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

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

1. **Accounting policies (continued)**

**Expenses**

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

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

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

**Taxation**

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

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

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

**Other debtors and other creditors**

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

**Issue costs**

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

2. **Income**

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **Income from investments** | | |
| Loan stock interest | 1,630 | 1,562 |
| Dividend income | 16 | 103 |
| **Other income** | | |
| Bank interest | 59 | 39 |
| | 1,705 | 1,704 |

3. **Investment management fees**

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

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Investment management fees | 500 | 516 |

## 4. Other expenses

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Administration services | 73 | 71 |
| Trail commission | 162 | 173 |
| Directors' remuneration | 43 | 43 |
| Social security costs | 4 | 4 |
| Auditor's remuneration for audit | 22 | 18 |
| Auditor's remuneration for non-audit services (taxation) | 2 | 6 |
| Other | 62 | 60 |
| | 368 | 375 |

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

## 5. Directors' remuneration

Details of remuneration (excluding employer's NIC) are given in the audited part of the Directors' Remuneration Report on page 45.

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

## 6. Tax on ordinary activities

| | | 2014 £'000 | 2013 £'000 |
|---|---|---|---|
| (a) | **Tax charge for the year** | | |
| | UK corporation tax at 23.0% (2013: 24.0%) | 223 | 112 |
| | **Charge for the year** | 223 | 112 |
| (b) | **Factors affecting tax charge for the year** | | |
| | Return on ordinary activities before taxation | 1,220 | 2,131 |
| | Tax charge calculated on return on ordinary activities before taxation at the applicable rate of 23.0% (2013: 24.0%) | 281 | 511 |
| | Effects of: | | |
| | Expenses disallowed for tax purposes | 38 | 42 |
| | Gains on investments | (88) | (316) |
| | UK Dividends received | (4) | (25) |
| | Losses utilised in the year | - | (93) |
| | Marginal relief | (4) | (7) |
| | **Current tax charge** | 223 | 112 |

Excess management expenses, which are available to be carried forward and set off against future taxable income, amounted to £nil (2013: £nil).

## 7. Dividends

| | 2014 | 2013 | | | 2014 | | | 2013 |
|---|---|---|---|---|---|---|---|---|
| | Pence per share | Pence per share | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| **Ordinary Shares** | | | | | | | | |
| **Paid** | | | | | | | | |
| 2014 Interim | 2.5 | | - | 257 | 257 | - | - | - |
| 2013 Final | 15.0 | | 259 | 1,295 | 1,554 | - | - | - |
| 2013 Interim | | 2.5 | - | - | - | 259 | - | 259 |
| 2012 Final | | 2.5 | - | - | - | - | 259 | 259 |
| **Total** | 17.5 | 5.0 | 259 | 1,552 | 1,811 | 259 | 259 | 518 |
| **Proposed** | | | | | | | | |
| 2014 Final | 2.5 | | 257 | - | 257 | - | - | - |
| 2013 Final | | 15.0 | - | - | - | 259 | 1,295 | 1,554 |
| **'B' Shares** | | | | | | | | |
| **Paid** | | | | | | | | |
| 2014 Interim | 2.5 | | - | 498 | 498 | - | - | - |
| 2013 Final | 2.5 | | 149 | 350 | 499 | - | - | - |
| 2013 Interim | | 2.5 | - | - | - | 149 | 350 | 499 |
| 2012 Final | | 2.5 | - | - | - | - | 497 | 497 |
| **Total** | 5.0 | 5.0 | 149 | 848 | 997 | 149 | 847 | 996 |
| **Proposed** | | | | | | | | |
| 2014 Final | 10.0 | | - | 1,991 | 1,991 | - | - | - |
| 2013 Final | | 2.5 | - | - | - | 149 | 349 | 498 |
| **'D' Shares** | | | | | | | | |
| **Paid** | | | | | | | | |
| 2014 Interim | 2.5 | | - | 197 | 197 | - | - | - |
| 2013 Final | 2.5 | | - | 197 | 197 | - | - | - |
| 2013 Interim | | 2.5 | - | - | - | - | 197 | 197 |
| 2012 Final | | 2.5 | - | - | - | - | 197 | 197 |
| **Total** | 5.0 | 5.0 | - | 394 | 394 | - | 394 | 394 |
| **Proposed** | | | | | | | | |
| 2014 Final | 2.5 | | - | 197 | 197 | - | - | - |
| 2013 Final | | 2.5 | - | - | - | - | 197 | 197 |

## 8. Basic and diluted return per share

| Return per share is calculated on the following: | | Weighted average number of shares in issue | Revenue Return/(loss) £'000 | Capital gain/(loss) £'000 |
|---|---|---|---|---|
| Year ended 31 March 2014 | Ordinary Shares | 10,329,656 | 351 | 148 |
| | 'A' Shares | 15,532,691 | - | - |
| | 'B' Shares | 19,933,528 | 480 | (8) |
| | 'C' Shares | 29,926,070 | - | - |
| | 'D' Shares | 7,747,890 | 34 | (8) |
| Year ended 31 March 2013 | Ordinary Shares | 10,366,195 | 547 | 611 |
| | 'A' Shares | 15,552,030 | - | - |
| | 'B' Shares | 19,936,370 | 472 | 532 |
| | 'C' Shares | 29,931,291 | - | - |
| | 'D' Shares | 7,749,013 | (60) | (83) |

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

## 9. Fixed assets – investments

| | Structured Products £'000 | Unquoted investments £'000 | Total £'000 |
|---|---|---|---|
| Opening cost at 1 April 2013 | 5,755 | 23,096 | 28,851 |
| Unrealised gains/(losses)/(impairments) at 1 April 2013 | 1,185 | (16) | 1,169 |
| **Opening fair value at 1 April 2013** | 6,940 | 23,080 | 30,020 |
| **Movement in the year:** | | | |
| Purchased at cost | 3,460 | 1,164 | 4,624 |
| Disposals - proceeds | (5,644) | (1,163) | (6,807) |
| - realised gains on disposals | 32 | 33 | 65 |
| Unrealised gains in the Income Statement | 162 | 156 | 318 |
| **Closing value at 31 March 2014** | 4,950 | 23,270 | 28,220 |
| Closing cost at 31 March 2014 | 4,461 | 23,216 | 27,677 |
| Unrealised gains at 31 March 2014 | 489 | 54 | 543 |
| | 4,950 | 23,270 | 28,220 |

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

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

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

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

| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | 2014 £'000 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | 2013 £'000 |
|---|---|---|---|---|---|---|---|---|
| Structured Products | 4,950 | - | - | 4,950 | 6,940 | - | - | 6,940 |
| Unquoted loan notes | - | - | 14,588 | 14,588 | - | - | 15,067 | 15,067 |
| Unquoted equity | - | - | 8,682 | 8,682 | - | - | 8,013 | 8,013 |
| | 4,950 | - | 23,270 | 28,220 | 6,940 | - | 23,080 | 30,020 |

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

| | Unquoted equity £'000 | Unquoted loan notes £'000 | Total £'000 |
|---|---|---|---|
| Balance at 31 March 2013 | 8,013 | 15,067 | 23,080 |
| *Movements in the Income Statement:* | | | |
| Unrealised gains/(losses) in the income statement | 303 | (147) | 156 |
| Realised gains in the income statement | 24 | 9 | 33 |
| | 327 | (189) | 189 |
| Purchases at cost | 697 | 467 | 1,164 |
| Sales proceeds | (355) | (808) | (1,163) |
| Balance at 31 March 2014 | 8,682 | 14,588 | 23,270 |

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

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

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

The Board and the Investment Manager believe that the valuations as at 31 March 2014 reflect the most appropriate assumptions at the date, giving due regard to all information available from each investee company. Valuations are subject to fluctuations in market conditions and the sensitivity of the Company to such changes is shown within note 17.

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

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

| | Company £'000 | Other Downing Funds £'000 | Equity held by Other Downing Funds % | Equity held by Other Funds % |
|---|---|---|---|---|
| Alpha Schools Holdings Limited | 733 | 533 | 6.0 | 8.0 |
| Antelope Pub Limited | 750 | 525 | 15.0 | - |
| Atlantic Dogstar Limited | 585 | - | - | 24.0 |
| Avon Solar Energy Limited | 420 | 1,000 | 25.0 | 13.0 |
| Camandale Limited | 1,001 | 1,483 | 14.1 | 10.6 |
| Chapel Street Food and Beverage Limited | 75 | 387 | 18.8 | 10.0 |
| Chapel Street Hotel Limited | 75 | 15 | 18.6 | 10.9 |
| Chapel Street Services Limited | 3 | 387 | 18.8 | 10.0 |
| Cheers Dumbarton Limited | 64 | 191 | 27.0 | 14.0 |
| City Falkirk Limited | 562 | 1,686 | 27.0 | 14.0 |
| Commercial Street Hotel Limited | 185 | 115 | 23.0 | 40.0 |
| Domestic Solar Limited | 1,800 | 900 | 10.0 | 20.0 |
| East Dulwich Tavern Limited | 459 | - | - | 24.0 |
| Ecossol Limited | 1,000 | - | - | 25.0 |
| Fenkle Street LLP | 212 | 346 | - | - |
| Fresh Green Power Limited | 200 | 400 | 6.2 | 6.2 |
| Fubar Stirling Limited | 357 | 1,072 | 27.0 | 14.0 |
| Future Biogas (Reepham Road) Limited | 1,662 | 1,572 | 12.6 | 18.8 |
| Future Biogas (Spring Farm) Limited | 1,009 | 1,161 | 13.6 | 21.1 |
| Goonhilly Earth Station Limited | 570 | - | - | 25.5 |
| Green Electricity Generation Limited | 500 | 1,000 | 30.0 | 15.0 |
| Green Energy Production UK Limited | 100 | 200 | 6.2 | 6.2 |
| Kidspace Adventures Holdings Limited | 750 | 2,000 | 33.3 | 20.8 |
| Kilmarnock Monkey Bar Limited | 82 | 113 | 40.2 | 30.4 |
| Liverpool Nurseries (Holdings) Limited | 870 | 558 | 23.0 | 38.5 |
| Lochrise Limited | 17 | 51 | 27.0 | 14.0 |
| Mosaic Spa and Health Clubs Limited | 850 | 5,340 | 49.8 | 10.2 |
| Pearce and Saunders Limited | 280 | 739 | 44.0 | 46.0 |
| Progressive Energies Limited | 340 | 1,720 | 39.6 | 10.2 |
| Quadrate Catering Limited | 1,426 | 887 | 11.7 | 20.4 |
| Quadrate Spa Limited | 1,589 | 988 | 11.5 | 20.0 |
| Redmed Limited | 914 | 529 | 11.3 | 17.6 |
| Ridgeway Pub Company Limited | 137 | 137 | 10.0 | 20.0 |
| Slopingtactic Limited | 379 | 379 | 16.5 | 17.0 |
| The 3D Pub Company Limited | 627 | 980 | 23.0 | 14.0 |
| Tor Solar PV Limited | 640 | - | - | 34.0 |
| Vulcan Renewables Limited | 588 | 1,452 | 33.1 | 11.2 |
| Westcountry Solar Solutions Limited | 500 | 1,000 | 25.0 | 12.6 |
| Westow House Limited | 405 | - | - | 24.0 |
| West Tower Property Limited | 500 | - | - | 25.0 |
| | 23,216 | 29,846 | | |

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

## NOTES TO THE ACCOUNTS (continued)
## for the year ended 31 March 2014

### 10. Debtors

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Prepayments and accrued income | 594 | 231 |
| Other debtors | 4 | 4 |
| | 598 | 235 |

Other debtors at 31 March 2014 includes £294,000 (2013: £nil) held on a solicitor's account in respect of a new investment which completed shortly after the year end.

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

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Corporation tax | 222 | 112 |
| Taxation and social security | 1 | 1 |
| Accruals and deferred income | 361 | 358 |
| | 584 | 471 |

### 12. Called up share capital

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **Allotted, called up and fully-paid:** | | |
| 10,288,157 (2013: 10,361,027 ) Ordinary Shares | 10 | 10 |
| 15,506,488 (2013: 15,547,088 ) 'A' Shares | 16 | 16 |
| 19,911,070 (2013:19,936,370) 'B' Shares | 20 | 20 |
| 29,926,070 (2013:29,926,070) 'C' Shares | 30 | 30 |
| 7,877,527 (2013: 7,887,527) 'D' Shares | 8 | 8 |
| | 84 | 84 |

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

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

During the year, the Company repurchased 72,870 Ordinary Shares for an aggregate consideration of £65,974 being an average price of 90.5p per share which represented 0.7% of the Company's issued Ordinary Share capital and 40,600 'A' Shares for an aggregate consideration of £40.60 being an average price of 0.001p per share which represented 0.3% of the Company's issued 'A' Share capital. 25,300 'B' Shares were repurchased for an aggregate consideration of £20,620 being an average price of 81.5p per share and which represented 0.13% of the Company's issued 'B' Share capital. In addition, 10,000 'D' Shares were repurchased for an aggregate consideration of £8,250 being an average price of 83.0p per share which represented 0.13% of the Company's issued 'D' Share capital. These shares were subsequently cancelled.

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

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

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

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

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

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

The Company does not have any externally imposed capital requirements.

**13. Reserves**

| | Capital redemption reserve £'000 | Special reserve £'000 | Share premium account £'000 | Revaluation reserve £'000 | Capital reserve realised £'000 | Revenue reserve £'000 |
|---|---|---|---|---|---|---|
| At 31 March 2013 | 5 | 21,736 | 10,240 | 1,167 | 1,153 | 371 |
| Shares bought back | - | (98) | - | - | - | - |
| Cancellation of share premium | - | 7,446 | (7,446) | - | - | - |
| Dividend paid | - | - | - | - | (3,053) | (149) |
| Gains on investments | - | - | - | 318 | 65 | - |
| Expenses capitalised | - | - | - | - | (250) | - |
| Transfer between reserves | - | (1,994) | - | (942) | 2,936 | - |
| Retained net revenue | - | - | - | - | - | 865 |
| At 31 March 2014 | 5 | 27,090 | 2,794 | 543 | 851 | 1,087 |

**Split as:**

**Ordinary Share pool**

| | Capital redemption reserve £'000 | Special reserve £'000 | Share premium account £'000 | Revaluation reserve £'000 | Capital reserve realised £'000 | Revenue reserve £'000 |
|---|---|---|---|---|---|---|
| At 31 March 2013 | 5 | 5,812 | 2,794 | 772 | 1,149 | 319 |
| Shares bought back | - | (67) | - | - | - | - |
| Dividend paid | - | - | - | - | (1,811) | - |
| Gains on investments | - | - | - | 183 | 42 | - |
| Expenses capitalised | - | - | - | - | (76) | - |
| Transfer between reserves | - | (1,632) | - | (212) | 1,844 | - |
| Retained net revenue | - | - | - | - | - | 351 |
| At 31 March 2014 | 5 | 4,113 | 2,794 | 743 | 1,148 | 670 |

## 13. Reserves (continued)

**'B' Share pool**

| | Capital redemption reserve £'000 | Special reserve £'000 | Share premium account £'000 | Revaluation reserve £'000 | Capital reserve realised £'000 | Revenue reserve £'000 |
|---|---|---|---|---|---|---|
| At 31 March 2013 | - | 15,924 | - | 536 | 345 | 107 |
| Shares bought back | - | (22) | - | - | - | - |
| Dividend paid | - | - | - | - | (848) | (149) |
| Gains on investments | - | - | - | 126 | (9) | - |
| Expenses capitalised | - | - | - | - | (125) | - |
| Transfer between reserves | - | (362) | - | (619) | 981 | - |
| Retained net revenue | - | - | - | - | - | 480 |
| At 31 March 2014 | - | 15,540 | - | 43 | 344 | 438 |

**'D' Share pool**

| | Capital redemption reserve £'000 | Special reserve £'000 | Share premium account £'000 | Revaluation reserve £'000 | Capital reserve realised £'000 | Revenue reserve £'000 |
|---|---|---|---|---|---|---|
| At 31 March 2013 | - | - | 7,446 | (141) | (341) | (55) |
| Shares bought back | - | (9) | - | - | - | - |
| Cancellation of share premium | - | 7,446 | (7,446) | - | - | - |
| Dividends paid | - | - | - | - | (394) | - |
| Gains on investments | - | - | - | 9 | 32 | - |
| Expenses capitalised | - | - | - | - | (49) | - |
| Transfer between reserves | - | - | - | (111) | 111 | - |
| Retained net revenue | - | - | - | - | - | 34 |
| At 31 March 2014 | - | 7,437 | - | (243) | (641) | (21) |

On 26 March 2014, the share premium account was cancelled following the granting of court approval. The Special reserve is available to the Company to enable the purchase of its own shares in the market without affecting its ability to pay capital distributions. The Special reserve, Capital reserve – realised and Revenue reserve are all distributable reserves. The distributable reserve is reduced by losses of £1,950,000 (2013: £1,558,000) which are included in the Revaluation reserve.

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

| | Shares in issue 2014 | Shares in issue 2013 | 2014 Net asset value Pence per share | 2014 Net asset value £'000 | 2013 Net asset value Pence per share | 2013 Net asset value £'000 |
|---|---|---|---|---|---|---|
| Ordinary Shares | 10,288,157 | 10,361,027 | 92.2 | 9,484 | 104.8 | 10,862 |
| 'A' Shares | 15,506,488 | 15,547,088 | 0.1 | 15 | 0.1 | 15 |
| 'B' Shares | 19,911,070 | 19,936,370 | 82.3 | 16,385 | 84.9 | 16,932 |
| 'C' Shares | 29,926,070 | 29,926,070 | 0.1 | 30 | 0.1 | 30 |
| 'D' Shares | 7,877,527 | 7,887,527 | 83.0 | 6,540 | 87.7 | 6,917 |
| Net assets per Balance Sheet | | | | 32,454 | | 34,756 |

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

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

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

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

| | Ordinary Shares £'000 | 'B' Shares £'000 | 'D' Shares £'000 | 2014 Total £'000 | 2013 Total £'000 |
|---|---|---|---|---|---|
| Return on ordinary activities before taxation | 589 | 600 | 31 | 1,220 | 2,131 |
| Gains on investments | (225) | (117) | (41) | (383) | (1,316) |
| Increase in debtors | (2) | (24) | (43) | (69) | (159) |
| Increase/(decrease) in creditors | (10) | 14 | (1) | 3 | 54 |
| Net cash inflow/(outflow) from operating activities and returns on investments | 352 | 473 | (54) | 771 | 710 |

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

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Beginning of year | 4,972 | 3,531 |
| Net cash (outflow)/inflow | (752) | 1,441 |
| End of year | 4,220 | 4,972 |

**17. Financial instruments**

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

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

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

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

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

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

**17. Financial instruments (continued)**

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

***Investment risks***

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

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

- Investment price risk; and
- Interest rate risk.

***Investment price risk***

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

At 31 March 2014, the Structured Product portfolio was valued at £4,950,000.

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

| **As at 31 March 2014** | **Risk exposure at 31 March 2014** | **Risk exposure at 31 March 2013** |
|---|---|---|
| Structured Products (£'000) | 4,950 | 6,940 |
| FTSE 100 at 31 March 2014 | 6,598 | 5,605 |

| **Movement in FTSE 100 Index** | **Estimated Impact on NAV £'000** | **Estimated Impact on NAV pence** | **Estimated Impact on NAV £'000** | **Estimated Impact on NAV pence** |
|---|---|---|---|---|
| **Ordinary Shares** | | | | |
| 20% increase to 7,918 (2013: 6,726) | - | - | 1 | 0.0p |
| 20% decrease to 5,278 (2013: 4,484) | - | - | (1) | (0.0p) |
| **'B' Shares** | | | | |
| 20% increase to 7,918 (2013: 6,726) | 111 | 0.7p | 92 | 0.5p |
| 20% decrease to 5,278 (2013: 4,484) | (111) | (0.7p) | (92) | (0.5p) |
| **'D' Shares** | | | | |
| 20% increase to 7,918 (2013: 6,726) | 135 | 2.1p | 7 | 0.1p |
| 20% decrease to 5,278 (2013: 4,484) | (135) | (2.1p) | (7) | (0.1p) |

17. **Financial instruments (continued)**

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

At 31 March 2014, the unquoted portfolio was valued at £28,220,000 (2013: £23,080,000).

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

**10% movement in unquoted investment valuations**

| Unquoted investments | 2014 | | 2013 | |
|---|---|---|---|---|
| **Share pool** | **Impact on net assets £'000** | **Impact on NAV per share pence** | **Impact on net assets £'000** | **Impact on NAV per share pence** |
| Ordinary Shares | 831 | 7.4p | 901 | 8.7p |
| 'B' Shares | 1,193 | 6.1p | 1,182 | 6.0p |
| 'D' Shares | 303 | 3.9p | 225 | 2.9p |

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

***Interest rate risk***

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

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

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

| | **Average interest rate** | **Average period until maturity** | **2014 £'000** | **2013 £'000** |
|---|---|---|---|---|
| Fixed rate | 10.9% | 718 days | 14,588 | 15,067 |
| Floating rate | 0.5% | | 4,220 | 4,972 |
| No interest rate | | | 13,646 | 14,717 |
| | | | 32,454 | 34,756 |

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

It is estimated that an increase of 1% in interest rates would have increased total return before taxation for the year by £42,000. As the Bank of England base rate stood at 0.5% per annum throughout the year, it is not believed that a reduction from this level is likely.

**17. Financial instruments (continued)**

***Credit risk***

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

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

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Investments in loan stocks | 14,588 | 15,067 |
| Investments in Structured Products | 4,950 | 6,940 |
| Cash and cash equivalents | 4,220 | 4,972 |
| Interest and other receivables | 598 | 235 |
| | 24,356 | 27,214 |

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

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

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

***Liquidity risk***

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

As the Company has a relatively low level of creditors, being £584,000 (2013: £471,000), and has no borrowings, the Board believes that the Company's exposure to liquidity risk is low. Also, some quoted investments held by the Company are considered to be readily realisable. The Company always holds sufficient levels of funds as cash and readily realisable investments in order to meet expenses and other cash outflows as they arise. For these reasons, the Board believes that the Company's exposure to liquidity risk is minimal.

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

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

The carrying value of loan stock investments held and at fair value through the profit and loss account at 31 March 2014, as analysed by expected maturity date, is as follows:

| As at 31 March 2014 | Not later than 1 year £'000 | Between 1 and 2 years £'000 | Between 2 and 3 years £'000 | Between 3 and 5 years £'000 | Total £'000 |
|---|---|---|---|---|---|
| Fully performing loan stock | 1,361 | 1,396 | 3,831 | 1,094 | 7,682 |
| Past due loan stock | 891 | 2,848 | 2,000 | 1,167 | 6,906 |
| | 2,252 | 4,244 | 5,831 | 2,261 | 14,588 |

**17. Financial instruments (continued)**
***Liquidity risk (continued)***

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

Of the loan stock classified as "past due" above, £6,487,000 relates to the principal of loan notes where, although the principal remains within term, the investee company is not fully servicing the interest obligations under the loan note and is thus in arrears. As at the balance sheet date, the extent to which the interest giving rise to the classification of the loan notes as past due falls within the banding of one to two years past due. Notwithstanding the arrears of interest, the Directors do not consider that the loan note itself has been impaired or the maturity of the principal has altered.

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

**18. Capital management**

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

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

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

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

At 31 March 2014, the Company had no contingencies, guarantees or financial commitments.

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

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

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

NOTICE IS HEREBY GIVEN that the fifth Annual General Meeting of Downing Structured Opportunities VCT 1 plc will be held at Fifth floor, Ergon House, Horseferry Road, London SW1P 2AL at 10:30 a.m. on 25 September 2014 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 2014 together with the report of the Auditor thereon.
2. To approve the Directors' Remuneration Report.
3. To approve the Remuneration Policy.
4. To approve the payment of final dividends of 2.5p per Ordinary Share, 10.0p per 'B' Share and 2.5p per 'D' Share.
5. To re-appoint BDO LLP as Auditor of the Company to hold office until the conclusion of the next Annual General Meeting at which accounts of the Company are presented and to authorise the Directors to determine their remuneration.
6. To re-elect as Director, Lord Flight, who retires and, being eligible, offers himself for re-election.
7. To re-elect as Director, Robin Chamberlayne, who retires and, being eligible, offers himself for re-election.
8. To re-elect as Director, Mark Mathias, who retires and, being eligible, offers himself for re-election.

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

9. That, the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 693(4) of the Companies Act 2006) of Ordinary Shares of 0.1p each ("Ordinary Shares"), 'A' Shares of 0.1p each ("'A' Shares"), 'B' Shares of 0.1p each ("'B' Shares"), 'C' Shares of 0.1p each ("'C' Shares") and 'D' Shares of 0.1p each ("'D' Shares") in the capital of the Company provided that:

    (i) the maximum number of Ordinary Shares hereby authorised to be purchased is 1,532,935 representing approximately 14.9% of the issued Ordinary Share capital, 2,310,467 representing approximately 14.9% of the issued 'A' Share capital, 2,966,749 representing approximately 14.9% of the issued 'B' Share capital, 4,458,984 representing approximately 14.9% of the issued 'C' Share capital and 1,173,751 representing approximately 14.9% of the issued 'D' Share capital of the Company from time to time;
    (ii) the minimum price which may be paid for an Ordinary Share, 'A' Share, 'B' Share, 'C' Share or 'D' Share is 0.1p, exclusive of all expenses;
    (iii) the maximum price which may be paid for an Ordinary Share, 'A' Share, 'B' Share, 'C' Share or 'D' Share is an amount, exclusive of all expenses, equal to 105% of the average of the middle market quotations of the relevant share as derived from the Daily Official List of the London Stock Exchange, for each of the five business days immediately preceding the day on which the share is contracted to be purchased; and
    (iv) the Company may validly make a contract to purchase its own Ordinary Shares, 'A' Shares, 'B' Shares, 'C' Shares or 'D' Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may validly make a purchase of Ordinary Shares, 'A' Shares, 'B' Shares, 'C' Shares or 'D' Shares in pursuance of any such contract;

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

By order of the Board

**Grant Whitehouse**
Company Secretary
Registered office:
Ergon House
Horseferry Road
London, SW1P 2AL

25 July 2014

**Notes**

(a) Any member of the Company entitled to attend and vote at the Annual General Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the Annual General Meeting in order to represent his appointor. A member entitled to attend and vote at the Annual General Meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person. If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in these Notes. Please read Note (h) below. Under section 319A of the Act, the Company must answer any question a member asks relating to the business being dealt with at the Annual General Meeting unless:

- answering the question would interfere unduly with the preparation for the Annual General Meeting or involve the disclosure of confidential information;
- the answer has already been given on a website in the form of an answer to a question; or
- it is undesirable in the interests of the Company or the good order of the Annual General Meeting that the question be answered.

(b) To be valid, a Form of Proxy and the power of attorney or other written authority, if any, under which it is signed or an office or notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority, must be delivered to Downing LLP, Fifth floor, Ergon House, Horseferry Road, London, SW1P 2AL 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, Fifth floor, Ergon House, Horseferry Road, London, SW1P 2AL. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.
- by sending an e-mail to proxy@downing.co.uk.

In either case, the revocation notice must be received by Downing LLP before the Annual General Meeting or the holding of a poll subsequently thereto. If a member attempts to revoke his or her proxy appointment but the revocation is received after the time specified then, subject to Note (d) directly below, the proxy appointment will remain valid.

(d) Completion and return of a Form of Proxy will not preclude a member of the Company from attending and voting in person. If a member appoints a proxy and that member attends the Annual General Meeting in person, the proxy appointment will automatically be terminated.

(e) Copies of the Directors' Letters of Appointment and the Register of Directors' interests in the Shares of the Company, will be available for inspection at the registered office of the Company during usual business hours on any weekday (excluding weekends and public holidays) from the date of this notice, until the end of the Annual General Meeting for at least 15 minutes prior to and during the meeting.

(f) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those holders of the Company's shares registered on the Register of Members of the Company as at 10.30 a.m. on 23 September 2014 or, in the event that the Annual General Meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the said Annual General Meeting in respect of such shares registered in their name at the relevant time. Changes to entries on the Register of Members after 10.30 a.m. on 23 September 2014 or, in the event that the Annual General Meeting is adjourned, on the Register of Members less than 48 hours before the time of any adjourned meeting, shall be disregarded in determining the right of any person to attend and vote at the Annual General Meeting.

(g) As at 9 a.m. on 25 July 2014, the Company's issued share capital comprised 10,288,157 Ordinary Shares, 15,506,488 'A' Shares, 19,911,070 'B' Shares, 29,926,070 'C' Shares, and 7,877,527 'D' Shares and the total number of voting rights in the Company was 38,076,754. The website referred to above will include information on the number of shares and voting rights.

**Notes (continued)**

(h) If you are a person who has been nominated under section 146 of the Act to enjoy information rights ("Nominated Person"):

- You may have a right under an agreement between you and the member of the Company who has nominated you to have information rights ("Relevant Member") to be appointed or to have someone else appointed as a proxy for the Annual General Meeting;
- If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights; and
- Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.

(i) A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.

(j) A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, the proxy will vote or abstain from voting at his or her discretion. The proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Annual General Meeting.

(k) Except as provided above, members who have general queries about the Annual General Meeting should write to the Chairman at the registered office set out above.

(l) Members may not use any electronic address provided either in this notice of Annual General Meeting, or any related documents (including the Chairman's letter and Form of Proxy), to communicate with the Company for any purposes other than those expressly stated.