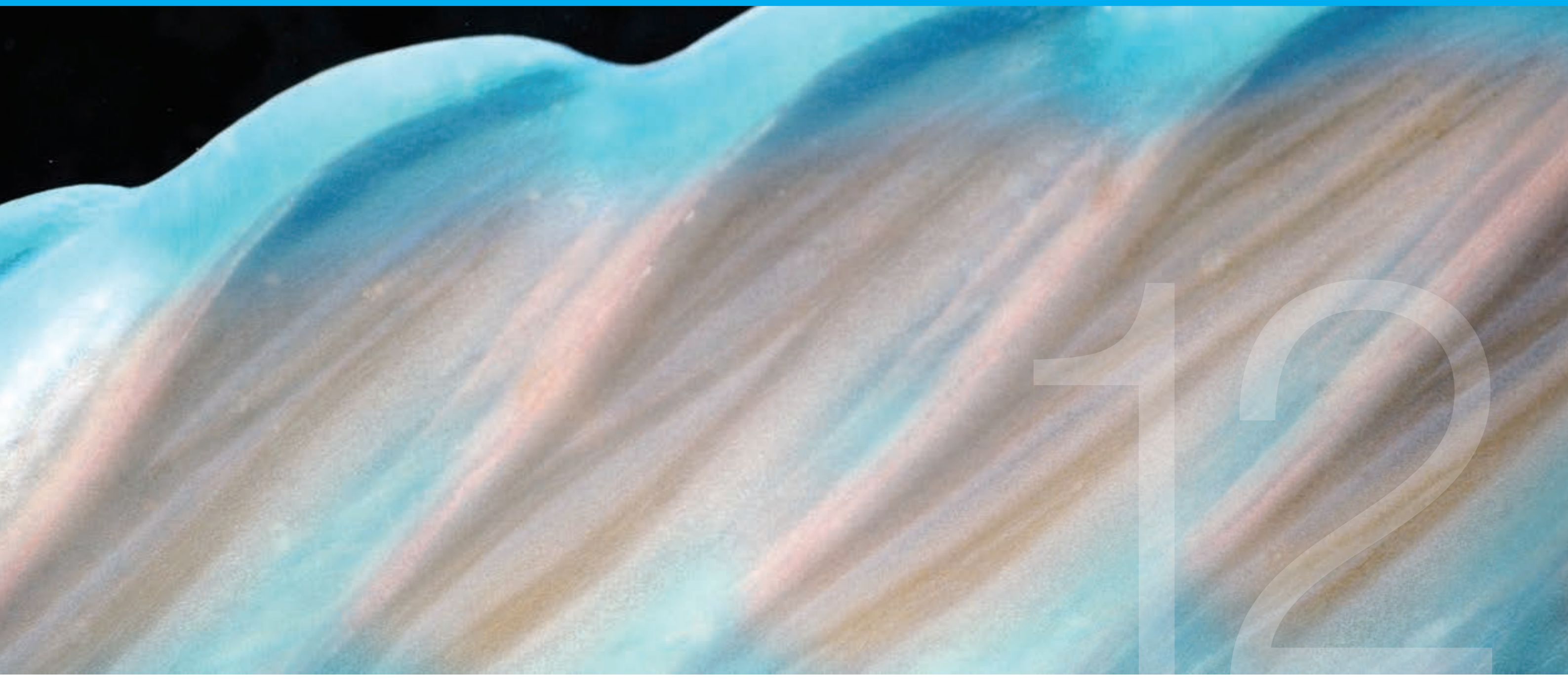
Annual Report and Financial Statements for the year ended 31 December 2012




# Albion Development VCT PLC

ALBION VENTURES

# Contents

# Company information

| | |
|---|---|
| **Company Number** | 3654040 |
| **Directors** | G O Vero FCA Chairman<br>A Phillipps PhD MBA<br>D C Pinckney MA FCA<br>J G T Thornton MA MBA FCA |
| **Manager, company secretary and registered office** | Albion Ventures LLP<br>1 King's Arms Yard<br>London, EC2R 7AF |
| **Registrar** | Computershare Investor Services PLC<br>The Pavilions<br>Bridgwater Road<br>Bristol, BS99 6ZZ |
| **Auditor** | PKF (UK) LLP<br>Farringdon Place<br>20 Farringdon Road<br>London, EC1M 3AP |
| **Taxation adviser** | PricewaterhouseCoopers LLP<br>1 Embankment Place<br>London, WC2N 6RH |
| **Legal adviser** | Bird & Bird LLP<br>15 Fetter Lane<br>London, EC4A 1JP |

Albion Development VCT PLC is a member of The Association of Investment Companies.

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**Shareholder enquiries**

For help relating to dividend payments, shareholdings and share certificates please contact Computershare Investor Services PLC:
Tel: 0870 873 5853 (UK national rate call,
lines are open 8.30am – 5.30pm, Mon – Fri, calls may be recorded)
Website: www.investorcentre.co.uk

Shareholders can access holdings and valuation information regarding any of their shares held by Computershare by registering on Computershare's website.

**Financial advisor enquiries**

For enquiries relating to the performance of the Fund and information for financial advisors please contact Albion Ventures LLP:
Tel: 0207 601 1850 (lines are open 9.00am – 5.30pm, Mon – Fri, calls may be recorded)
Email: info@albion-ventures.co.uk
Website: www.albion-ventures.co.uk

**Please note that these contacts are unable to provide financial or taxation advice.**

# Investment objectives

Albion Development VCT PLC (the "Company") is a venture capital trust which raised a total of £33.3 million through an issue of shares between 1999 and 2004. The C shares merged with the Ordinary shares in 2007.

A further £6.3 million was raised through an issue of new D shares in 2009/2010 and £3.5 million was raised for the Ordinary shares through the Albion VCTs Top Up Offers in 2011 and 2012. The funds raised will be invested in accordance with the Company's existing investment policy.

The Company's investment policy is intended to provide investors with a regular and predictable source of dividend income combined with the prospects of long term capital growth. This is achieved by establishing a diversified portfolio of holdings in smaller, unquoted companies whilst at the same time selecting and structuring investments in such a way as to reduce the risks normally associated with investment in such companies. It is intended that this will be achieved as follows:

- Through investment in a number of higher risk companies with greater growth prospects in sectors such as software and computer services, and medical technology.
- This is balanced by investment in lower risk, often asset-backed investments that provide a strong income stream combined with a protection of capital. These include freehold-based businesses in the leisure sector, such as pubs and health clubs, as well as stable and profitable businesses in other sectors including business services and healthcare. Such investments will constitute the majority of investments by cost.
- In neither category do investee companies normally have any external borrowings with a prior charge ranking ahead of the VCT.
- Up to two-thirds of qualifying investments by cost comprise loan stock secured with a first charge on the investee company's assets.

# Financial calendar

| | |
|---|---|
| Record date for first dividend | 3 May 2013 |
| Payment of first dividend | 31 May 2013 |
| Annual General Meeting | 11am 6 June 2013 |
| Announcement of half-yearly results for the six months ending 30 June 2013 | August 2013 |
| Payment of second dividend subject to Board approval | 30 September 2013 |

# Financial highlights

## Ordinary shares

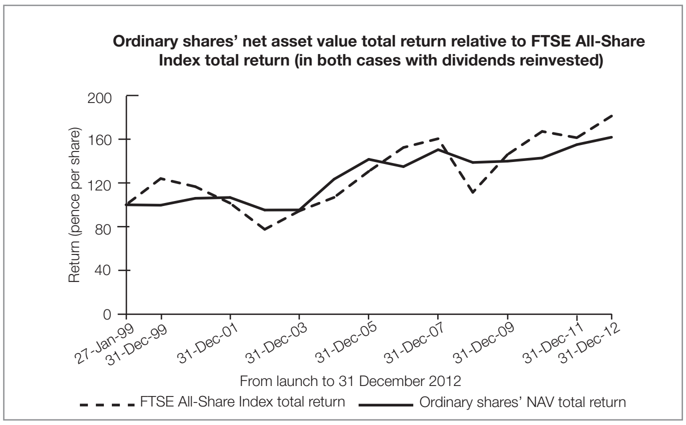
**141.75p** Net asset value plus dividends per Ordinary share from launch to 31 December 2012

**5.00p** Total tax free dividends per Ordinary share paid in the year to 31 December 2012

**2.50p** First tax free dividend per Ordinary share declared for the year to 31 December 2013

**74.00p** Net asset value per Ordinary share as at 31 December 2012

**6.0%** Annualised return per Ordinary share since launch including tax relief




Source: Albion Ventures LLP

## D shares

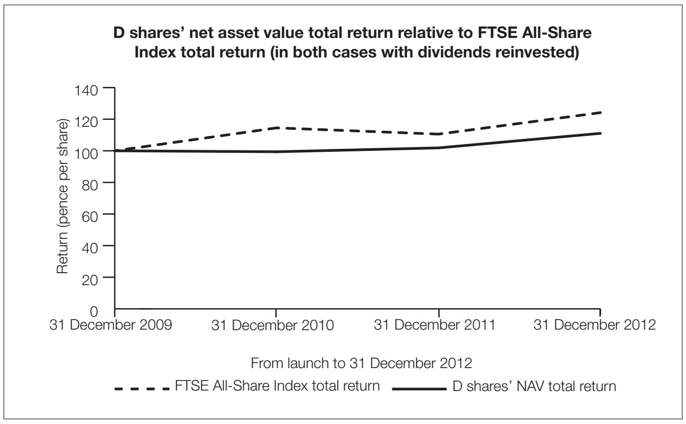
**104.90p** Net asset value plus dividends per D share from launch to 31 December 2012

**3.50p** Total tax free dividends per D share paid in the year to 31 December 2012

**2.50p** First tax free dividend per D share declared for the year to 31 December 2013

**97.90p** Net asset value per D share as at 31 December 2012

**17.9%** Annualised return per D share since launch including tax relief




Source: Albion Ventures LLP

# Financial highlights (continued)

| | Ordinary shares | | D shares | |
|---|---|---|---|---|
| | **31 December 2012 pence per share** | 31 December 2011 pence per share | **31 December 2012 pence per share** | 31 December 2011 pence per share |
| Dividends paid | **5.00** | 5.00 | **3.50** | 2.50 |
| Revenue return | **1.50** | 1.40 | **1.90** | 1.60 |
| Capital gain | **2.00** | 3.30 | **6.50** | 0.90 |
| Net asset value | **74.00** | 75.50 | **97.90** | 93.00 |

| **Total shareholder net asset value return to 31 December 2012:** | **Ordinary shares 31 December 2012 pence per share[(ii)]** | **C shares 31 December 2012 pence per share[(ii)]** | **D shares 31 December 2012 pence per share[(ii)]** |
|---|---|---|---|
| Total dividends paid during the year ended: | | | |
| 31 December 1999[(i)] | **1.00** | **–** | **–** |
| 31 December 2000 | **2.90** | **–** | **–** |
| 31 December 2001 | **3.95** | **–** | **–** |
| 31 December 2002 | **4.20** | **–** | **–** |
| 31 December 2003[(iii)] | **4.50** | **0.75** | **–** |
| 31 December 2004 | **4.00** | **2.00** | **–** |
| 31 December 2005 | **5.20** | **5.90** | **–** |
| 31 December 2006 | **3.00** | **4.50** | **–** |
| 31 December 2007[(iv)] | **5.00** | **5.36** | **–** |
| 31 December 2008 | **12.00** | **12.86** | **–** |
| 31 December 2009 | **4.00** | **4.29** | **–** |
| 31 December 2010 | **8.00** | **8.58** | **1.00** |
| 31 December 2011 | **5.00** | **5.36** | **2.50** |
| 31 December 2012 | **5.00** | **5.36** | **3.50** |
| **Total dividends paid to 31 December 2012** | **67.75** | **54.96** | **7.00** |
| **Net asset value as at 31 December 2012** | **74.00** | **79.29** | **97.90** |
| **Total shareholder net asset value return to 31 December 2012** | **141.75** | **134.25** | **104.90** |

In addition to the dividends paid above, the Board has declared a first dividend for the year ending 31 December 2013, of 2.50 pence per Ordinary share and 2.50 pence per D share payable on 31 May 2013 to shareholders on the register at 3 May 2013.

*Notes*

*(i) Assuming subscription for Ordinary shares by the First Closing on 26 January 1999.*

*(ii) Excludes tax benefits upon subscription.*

*(iii) Those subscribing for C shares after 30 June 2003 were not entitled to the interim dividend.*

*(iv) The C shares were converted into Ordinary shares on 31 March 2007, with a conversion of 1.0715 Ordinary shares for each C share. The net asset value per share and all dividends paid subsequent to the conversion of the C shares to the Ordinary shares are multiplied by the conversion factor of 1.0715 in respect of the C shares return, in order to give an accurate picture of the shareholder value since launch relating to the C shares.*

# Chairman's statement

**Introduction**

The results for Albion Development VCT PLC for the year to 31 December 2012, showed a total return of 3.5 pence per Ordinary share and 8.4 pence per D share. The return is slightly lower for the Ordinary shares compared with the previous year, though there was a pleasing increase in income. The particularly strong performance of the D shares reflects an uplift in valuation of the asset-based businesses in which we have invested in recent years.

**Investment performance and progress**

The Ordinary shares investment return benefitted from the sale of our five cinema investments which realised a total return of 2.3 times cost. In addition, there were further improved performances from Process Systems Enterprise, Mirada Medical, Lowcosttravel, Dysis Medical and a further uplift in the third party professional valuation of Radnor House School. Our investment in Nelson House Hospital was sold subsequent to the year end; the total return on this investment (whose proceeds are largely reflected in the year end valuation) amounted to 1.4 times cost, and an annualised return of over 20 per cent. per annum. Against this, there were disappointing reductions in the value of Helveta, which required further finance, and Prime Care Holdings.

During the year, £3.2 million was invested in the Ordinary share portfolio of which £1.7 million went to build up further the portfolio of renewable energy investments. Just over £784,000 was invested in the D share portfolio.

Between them, businesses in the Albion VCTs portfolio of investments employ over 3,900 people. These companies export more than £110 million of goods and spend in excess of £8 million on research and development annually.

**Risks and uncertainties**

The outlook for the UK and the global economies continues to be the key risk affecting your Company, neither of which are showing material growth. The task of the Manager is to allocate resources to those sectors and opportunities where growth can continue, despite the broader difficult economic climate. Importantly, however, investment risk is mitigated through a variety of processes including our policy of ensuring that the VCT has a first charge over portfolio companies' assets wherever possible.

A detailed analysis of the other risks and uncertainties facing the business is set out on pages 19 and 20 in the Directors' report.

**Discount management and share buy-backs**

It remains the Board's policy to buy-back shares in the market, subject to the overall constraint that such purchases are in the Company's interest, including the maintenance of sufficient resources for investment in new and existing portfolio companies and the continued payment of dividends to shareholders. It is the Board's intention for such buy-backs to be in the region of 5 per cent. discount to net asset value, so far as market conditions and liquidity permit.

During the year, the Company cancelled 39,396 Ordinary shares from treasury and purchased 765,436 Ordinary shares for cancellation at a cost of £499,000.

**Transactions with Manager**

Details of transactions that took place with the Manager during the year can be found in note 5.

**Results and dividends**

As at 31 December 2012, the net asset value was 74.0 pence per Ordinary share and 97.9 pence per D share. The revenue return before taxation was £613,000 for the Ordinary shares and £164,000 for the D shares compared to previous year's returns of £539,000 for the Ordinary shares and £130,000 for the D shares.

The Company will pay a first dividend for the financial year to 31 December 2013 of 2.50 pence per Ordinary share and 2.50 pence per D share on 31 May 2013 to shareholders on the register on 3 May 2013.

**Albion VCTs Top Up Offers 2012/13**

On 19 October 2012, the Company announced the launch of the Albion VCTs Top Up Offers 2012/13. In aggregate, the Albion VCTs will be aiming to raise approximately £15 million across six of the VCTs managed by Albion Ventures LLP, of which Albion Development VCT PLC's share will be approximately £2.5 million. This builds on the success of the previous two Albion VCTs Top Up Offers, which raised £22 million, of which Albion Development VCT's share was £3.2 million.

The proceeds of the Offer will be used to provide further resources to the VCT at a time when a number of attractive new investment opportunities are being seen. An Investor Guide and Offer document have been sent to shareholders and can be obtained from www.albion-ventures.co.uk.

**Board change**

David Pinckney, who has been a Director since the VCT's launch, has given notice that he will be retiring from the Board at the AGM in June, and on behalf of all shareholders I would like to thank him for his many years of wise counsel. The process for recruiting a replacement has begun.

**Outlook and prospects**

Despite the difficult outlook for the UK and global economies, a number of our portfolio companies have real prospects for sustained growth and strong value creation. Meanwhile, we continue to rebalance our investment portfolio to provide more emphasis on areas that we see as being more resilient, in particular renewable energy, which in due course will account for up to 20 per cent. of net assets.

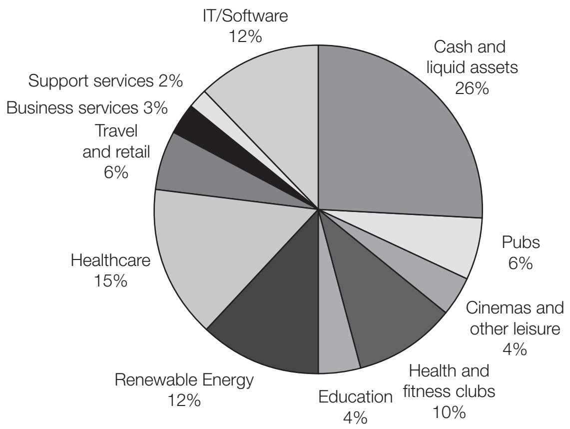
**Geoffrey Vero**
Chairman
4 April 2013

# Manager's report

The sector analysis of Albion Development VCT PLC's Ordinary share and D share investment portfolios as at 31 December 2012 are shown below.

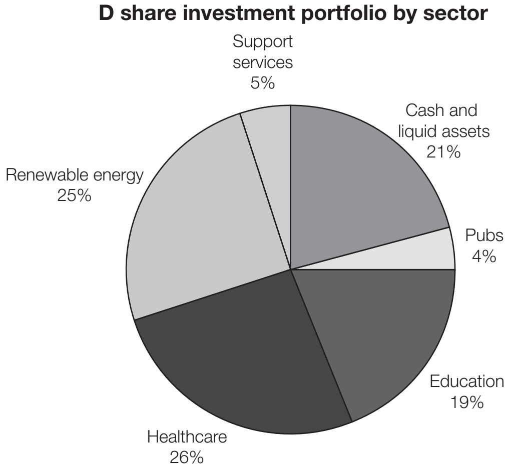
As at 31 December 2012, the healthcare element (prior to the sale of Nelson House Hospital) accounted for 15 per cent. of Ordinary shares fixed asset investment portfolio (2011: 14 per cent.), while the renewable energy portion is now 12 per cent., up from 7 per cent. at the previous year end. For the D shares, healthcare is now 26 per cent. (2011: 15 per cent.) and renewable energy is 25 per cent. of the portfolio (2011: 27 per cent.). Asset-backed investments account for 56 per cent. and growth investments account for 44 per cent. of the Ordinary share fixed asset investment portfolio by valuation (excluding cash and liquid assets). Asset-backed investments account for 82 per cent. and growth investments account for 18 per cent. of the D share fixed asset investment portfolio by valuation (excluding cash and liquid assets).

**Ordinary share investment portfolio by sector**




Source: Albion Ventures LLP

**D share investment portfolio by sector**




Source: Albion Ventures LLP

**Portfolio review**

Amongst the higher growth and technology investments, Lowcosttravel showed particular growth, despite the difficult retail environment, as purchasers of holidays moved increasingly online. Process Systems Enterprise also showed strong growth and now counts five of the six global oil majors amongst its clients. Opta Sports Data has become the European leader in sports performance data while both Mirada Medical, Dysis Medical and Masters showed the potential for strong further growth and uplifts in value.

The key reductions in value within the portfolio were, again, our investments in Helveta, Consolidated and Prime Care. Helveta and Consolidated face difficult market conditions, while growth in Prime Care has been affected by cuts in local authority spending.

In our asset-backed portfolio, our five cinemas were sold at a profit, including income received, of 2.3 times the original cost of £1.5 million. Meanwhile, the second year of operation of Radnor House School continued the strong progress of the first year. The school now has 240 pupils, is profitable, and growth has been sufficient to justify a further increase in the professional valuation.

Our renewable energy projects meanwhile are producing electricity according to plan and are becoming a strongly cash-generative part of the portfolio. Our investment in Nelson House Hospital was also sold subsequent to the year end, realising a total return of 1.4 times cost and an annualised return of over 20 per cent. per annum.

**New investments**

During the year £1.7 million was invested in renewable energy projects; ultimately this sector will amount to up to 20 per cent. of the combined Ordinary and D share portfolio. Our investments in this sector now cover the four technologies of solar, wind, biogas and hydro. A total of £194,000 was invested in AMS Life Sciences in order to complete its restructuring, and to support further growth in Bravo II, Process Systems Enterprise, Dysis and Mi-Pay. An initial £106,000 and £37,000 was invested for the Ordinary and D share portfolios in Proveca, a developer of paediatric drugs.

**Albion Ventures LLP**
Manager
4 April 2013

# The Board of Directors

The following are the Directors of the Company, all of whom operate in a non-executive capacity.

**Geoffrey Vero (Chairman), FCA (appointed 2 July 2007)**, has spent much of his career in venture capital, serving as a director of Causeway Capital Limited and ABN Amro Private Equity (UK) Limited which invested in small and medium sized unquoted businesses. He is a non-executive director of Numis Corporation Plc, and non-executive Chairman of EPE Special Opportunities Plc.

**David Pinckney (Chairman of the Audit Committee), FCA, MA (appointed 8 December 1998)**, was with Peat Marwick Mitchell & Co. (now KPMG) in London from 1963 to 1968, and from 1969 to 1983 in France. He became a partner in 1975 and senior audit partner in 1978. He was then managing director of Wrightson Wood Financial Services Limited, where his work involved the provision of advice to companies seeking venture capital. In 1987 he joined Thornton Management Limited, an international equity fund management group with a proportion of funds invested in smaller unquoted companies, first as group finance director and subsequently as joint managing director. From 1998 he was chief operating officer – Far East, and then vice chairman of AXA Investment Managers, the investment management arm of the AXA Group until he retired in December 2003. He is chairman of Ventus VCT PLC.

**Jonathan Thornton, MA, MBA, FCA (appointed 8 December 1998)**, has extensive experience in the management of unquoted investments. He was a director of Close Brothers Group plc from 1984 to 1998 and was responsible for establishing Close Brothers Private Equity LLP, the private equity fund management arm of Close Brothers Group plc. Prior to this he worked for 3i plc and Cinven. Over the past 25 years he has been a non-executive director of a number of smaller unquoted companies which have raised institutional capital and he is a member of the Albion Ventures LLP investment committee.

**Andrew Phillipps, PhD, MBA (appointed 30 October 2007)**, co-founded Active Hotels, an online hotels reservation business in 1999. As chief executive, he grew the business to become a European market leader, before selling it to Priceline Inc. for US$161 million in 2004. He was retained to run Priceline's international operations until 2006. He subsequently bought into, and was chairman of the online restaurant booking company, Toptable, which was successfully sold to Opentable in Q4 2010 for US$55 million. He is currently an investor and director of a number of private companies, including i2o Water and Reevoo.com. He also lectures in entrepreneurship at INSEAD and London Business School.

All Directors are members of the Audit Committee and David Pinckney is Chairman.

All Directors are members of the Nomination Committee and Geoffrey Vero is Chairman.

All Directors are members of the Remuneration Committee which was set up after the year end. Jonathan Thornton is Chairman.

Jonathan Thornton is the Senior Independent Director.

# The Manager

Albion Ventures LLP, is authorised and regulated by the Financial Conduct Authority and is the Manager of Albion Development VCT PLC. In addition to Albion Development VCT PLC, it manages a further six venture capital trusts, and has currently total funds under management of approximately £230 million. Albion was awarded Investor of the Year at the Independent Healthcare Awards 2011.

The following are specifically responsible for the management and administration of the Venture Capital Trusts managed by Albion Ventures LLP, including Albion Development VCT PLC.

**Patrick Reeve, MA, ACA**, qualified as a chartered accountant with PwC before joining Cazenove & Co where he spent three years in the corporate finance department. He joined Close Brothers Group plc in 1989, working in both the development capital and corporate finance divisions before founding the venture capital division in 1996. He led the buy-out of this business from Close Brothers in 2009, and re-named it Albion Ventures LLP. He is the managing partner of Albion Ventures LLP and is director of Albion Technology & General VCT PLC, Albion Income & Growth VCT PLC and Albion Enterprise VCT PLC, all managed by Albion Ventures LLP. He read modern languages at Oxford University. He is a Member of Council of the BVCA and is a member of the Audit Committee of the University College London. He is also a director of UCL Business, the university technology transfer arm.

**Will Fraser-Allen, BA (Hons), FCA**, qualified as a chartered accountant with Cooper Lancaster Brewers in 1996 and then joined their corporate finance team providing corporate finance advice to small and medium sized businesses. He joined Albion Ventures LLP in 2001 since when he has focused on leisure and healthcare investing. Will became deputy managing partner of Albion Ventures LLP in 2009. Will has a BA in history from Southampton University.

**Isabel Dolan, BSc (Hons), ACA, MBA**, qualified as a chartered accountant with Moore Stephens. From 1993 to 1997 she was head of recoveries at the Specialised Lending Services of the Royal Bank of Scotland plc and from 1997 to 2001 she was at 3i plc, latterly as a portfolio director. She joined Albion Ventures LLP in 2005, having previously been finance director for a number of unquoted companies. Isabel became operations partner at Albion Ventures LLP in 2009. She has a BSc in Biochemistry with Pharmacology from Southampton University and an MBA from London Business School.

**Dr Andrew Elder, MA, FRCS**, joined Albion Ventures LLP in 2005 and became a partner in 2009. He initially practiced as a surgeon for six years, specialising in neurosurgery, before joining the Boston Consulting Group (BCG) as a consultant in 2001. Whilst at BCG he specialised in healthcare strategy, gaining experience with many large, global clients across the full spectrum of healthcare including biotechnology, pharmaceuticals, service and care providers, software and telecommunications. He has an MA plus Bachelors of Medicine and Surgery from Cambridge University and is a Fellow of the Royal College of Surgeons (England).

**Emil Gigov, BA (Hons), FCA**, graduated from the European Business School, London, with a BA (Hons) Degree in European Business Administration in 1994. He then joined KPMG in their financial services division and qualified as a chartered accountant in 1997. Following this he transferred to KPMG Corporate Finance where he specialised in the leisure, media and marketing services sectors acting on acquisitions, disposals and fundraising mandates. He joined Albion Ventures LLP in 2000 and has since made and exited investments in a number of industry sectors, including healthcare, education, technology, leisure and engineering. Emil became a partner in Albion Ventures LLP in 2009.

**David Gudgin, BSc (Hons), ACMA**, qualified as a management accountant with ICL before spending 3 years at the BBC. In 1999 he joined 3i plc as an investor in European technology based in London and Amsterdam. In 2002 he moved to Foursome Investments (now Frog Capital) as the lead investor of environmental technology and at a later stage development capital fund. David joined Albion Ventures LLP in 2005 and became a partner in 2009. David has a BSc in Economics from Warwick University.

**Ed Lascelles, BA (Hons)**, joined Albion Ventures LLP in 2004. Ed began by advising quoted UK companies on IPOs, takeovers and other corporate transactions, first with Charterhouse Securities and then ING Barings. Companies ranged in value from £10 million to £1 billion, across the healthcare and technology sectors among others. After moving to Albion Ventures LLP in 2004, Ed started investing in the technology, healthcare, financial and business services sectors. Ed became partner in 2009 and is responsible for a number of Albion's technology investments. He graduated from University College London with a first class degree in Philosophy.

**Dr Christoph Ruedig, MA, MBA**, joined Albion Ventures LLP as an investment manager in October 2011. He initially practiced as a radiologist, before spending 3 years at Bain & Company. In 2006 he joined 3i plc working for their healthcare venture capital arm leading investments in biotechnology, pharmaceuticals and medical technology. Most recently he has worked for General Electric UK, where he was responsible for mergers and acquisitions in the medical technology and healthcare IT sectors. He holds a degree in medicine from Ludwig-Maximilians University, Munich and an MBA from INSEAD.

**Henry Stanford, MA, ACA**, qualified as a chartered accountant with Arthur Andersen before joining the corporate finance department of Close Brothers Group in 1992, becoming an assistant director in 1996. He moved to Albion Ventures LLP in 1998. Henry became a partner in Albion Ventures LLP in 2009. He holds an MA degree in Classics from Oxford University.

**Robert Whitby-Smith, BA (Hons), FCA**. After graduating in History at Reading University, Robert qualified as a chartered accountant with KPMG and subsequently worked in corporate finance at Credit Suisse First Boston and ING Barings. Since joining in 2005, Robert has assisted in the workout of three VCT portfolios (Murray VCT PLC, Murray VCT 2 PLC and Murray VCT 3 PLC now renamed Crown Place VCT PLC) formerly managed by Aberdeen Murray Johnstone, and is responsible for investments in the leisure, manufacturing and technology sectors. Robert became a partner in Albion Ventures LLP in 2009.

**Marco Yu, MPhil, MA, MRICS**, spent two and a half years at Bouygues (UK), developing cost management systems for PFI schemes, before moving to EC Harris in 2005 where he advised senior lenders on large capital projects. He joined Albion Ventures LLP in 2007 and became an investment manager in Albion Ventures LLP in 2009. Marco graduated from Cambridge University with a first class degree in economics and is a Chartered Surveyor.

# Portfolio of investments

## Ordinary shares

The following is a summary of fixed asset investments as at 31 December 2012:

| | | | As at 31 December 2012 | | | As at 31 December 2011 | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Portfolio company** | **% voting rights** | **% voting rights of AVL* managed companies** | **Cost £'000** | **Cumulative movement in value £'000** | **Value £'000** | **Cost £'000** | **Cumulative movement in value £'000** | **Value £'000** | **Change in value for the year** £'000** |
| **Asset-backed investments** | | | | | | | | | |
| The Weybridge Club Limited | 9.4 | 50.0 | **1,520** | **(273)** | **1,247** | 1,520 | (252) | 1,268 | **(21)** |
| Radnor House School (Holdings) Limited | 4.2 | 50.0 | **734** | **316** | **1,050** | 734 | 205 | 939 | **111** |
| The Street by Street Solar Programme Limited | 8.6 | 50.0 | **862** | **3** | **865** | 362 | 4 | 366 | **(1)** |
| Albion Investment Properties Limited | 48.4 | 100.0 | **929** | **(179)** | **750** | 929 | (97) | 832 | **(82)** |
| Kensington Health Clubs Limited | 4.9 | 50.0 | **1,124** | **(416)** | **708** | 1,124 | (353) | 771 | **(63)** |
| Alto Prodotto Wind Limited | 7.8 | 50.0 | **705** | **–** | **705** | 157 | 2 | 159 | **(2)** |
| Bravo Inns II Limited | 4.8 | 50.0 | **690** | **(4)** | **686** | 560 | (24) | 536 | **20** |
| Regenerco Renewable Energy Limited | 6.4 | 50.0 | **612** | **–** | **612** | 417 | 2 | 419 | **(2)** |
| Taunton Hospital Limited | 9.1 | 50.0 | **576** | **(49)** | **527** | 576 | 2 | 578 | **(51)** |
| Tower Bridge Health Clubs Limited | 7.9 | 50.0 | **363** | **147** | **510** | 462 | 95 | 557 | **52** |
| The Q Garden Company Limited | 16.6 | 50.0 | **1,198** | **(753)** | **445** | 1,198 | (707) | 491 | **(46)** |
| The Charnwood Pub Company Limited | 3.3 | 50.0 | **1,008** | **(603)** | **405** | 1,156 | (667) | 489 | **1** |
| Nelson House Hospital Limited | 3.0 | 50.0 | **292** | **80** | **372** | 136 | 1 | 137 | **79** |
| AVESI Limited | 8.0 | 50.0 | **248** | **–** | **248** | 28 | – | 28 | **–** |
| TEG Biogas (Perth) Limited | 3.0 | 50.0 | **182** | **13** | **195** | 182 | 5 | 187 | **8** |
| Bravo Inns Limited | 2.6 | 50.0 | **230** | **(85)** | **145** | 230 | (88) | 142 | **3** |
| Greenenerco Limited | 4.0 | 50.0 | **140** | **-** | **140** | – | – | – | **–** |
| Premier Leisure (Suffolk) Limited | 6.5 | 50.0 | **480** | **(376)** | **104** | 480 | (370) | 110 | **(6)** |
| Dragon Hydro Limited | 5.5 | 30.0 | **78** | **–** | **78** | – | – | – | **–** |
| The Dunedin Pub Company VCT Limited | 6.2 | 50.0 | **62** | **(3)** | **59** | 67 | (2) | 65 | **(1)** |
| GB Pub Company VCT Limited | 9.1 | 50.0 | **168** | **(154)** | **14** | 369 | (288) | 81 | **(4)** |
| Evolutions Group Limited | 46.7 | 100.0 | **77** | **(66)** | **11** | 581 | (446) | 135 | **(7)** |
| Orchard Portman Hospital Limited | n/a*** | 50.0 | **9** | **–** | **9** | – | – | – | **–** |
| **Total asset-backed investments** | | | **12,287** | **(2,402)** | **9,885** | 11,268 | (2,978) | 8,290 | **(12)** |

* Albion Ventures LLP

** as adjusted for additions and disposals during the year

*** loan stock investment only

# Portfolio of investments (continued)

## Ordinary shares (continued)

| | | | As at 31 December 2012 | | | As at 31 December 2011 | | | |
|---|---|---|---|---|---|---|---|---|---|
| Portfolio company | % voting rights | % voting rights of AVL* managed companies | Cost £'000 | Cumulative movement in value £'000 | Value £'000 | Cost £'000 | Cumulative movement in value £'000 | Value £'000 | Change in value for the year** £'000 |
| **Growth investments** | | | | | | | | | |
| Blackbay Limited | 7.4 | 34.9 | **819** | **326** | **1,145** | 819 | 244 | 1,063 | **82** |
| Lowcosttravelgroup Limited | 4.0 | 26.0 | **435** | **619** | **1,054** | 435 | 160 | 595 | **459** |
| Peakdale Molecular Limited | 8.9 | 14.9 | **908** | **12** | **920** | 936 | 7 | 943 | **5** |
| Mirada Medical Limited | 8.0 | 50.0 | **240** | **338** | **578** | 240 | 215 | 455 | **123** |
| Hilson Moran Holdings Limited | 7.5 | 50.0 | **533** | **–** | **533** | 600 | 1 | 601 | **(1)** |
| Mi-Pay Limited | 5.0 | 49.9 | **677** | **(200)** | **477** | 622 | (200) | 422 | **–** |
| Consolidated PR Limited | 21.7 | 43.4 | **623** | **(199)** | **424** | 603 | (92) | 511 | **(107)** |
| Helveta Limited | 4.1 | 33.4 | **681** | **(371)** | **310** | 645 | (261) | 384 | **(110)** |
| DySIS Medical Limited | 2.7 | 19.0 | **428** | **(76)** | **352** | 423 | (190) | 233 | **114** |
| Prime Care Holdings Limited | 9.4 | 49.9 | **559** | **(302)** | **257** | 559 | (76) | 483 | **(226)** |
| Opta Sports Data Limited | 1.3 | 14.2 | **165** | **91** | **256** | 165 | 3 | 168 | **88** |
| Rostima Holdings Limited | 4.8 | 39.6 | **163** | **93** | **256** | 118 | 120 | 238 | **(27)** |
| Process Systems Enterprise Limited | 1.1 | 18.1 | **118** | **126** | **244** | 95 | 32 | 127 | **101** |
| AMS Sciences Limited | 4.2 | 49.6 | **194** | **17** | **211** | 96 | – | 96 | **17** |
| Masters Pharmaceuticals Limited | 1.0 | 16.9 | **202** | **3** | **205** | 202 | (42) | 160 | **45** |
| memsstar Limited | 1.8 | 28.1 | **124** | **21** | **145** | 124 | – | 124 | **21** |
| Proveca Limited | 2.9 | 16.2 | **106** | **1** | **107** | – | – | – | **1** |
| Oxsensis Limited | 1.4 | 20.6 | **213** | **(117)** | **96** | 192 | (83) | 109 | **(34)** |
| Chichester Holdings Limited | 10.6 | 50.0 | **700** | **(609)** | **91** | 700 | (564) | 136 | **(45)** |
| Abcodia Limited | 1.7 | 21.4 | **60** | **–** | **60** | 60 | – | 60 | **–** |
| **Total growth investments** | | | **7,948** | **(227)** | **7,721** | 7,634 | (726) | 6,908 | **506** |
| **Total fixed asset investments** | | | **20,235** | **(2,629)** | **17,606** | 18,902 | (3,704) | 15,198 | **494** |

| | As at 31 December 2012 | | | As at 31 December 2011 | | | |
|---|---|---|---|---|---|---|---|
| | Cost £'000 | Cumulative movement in value £'000 | Value £'000 | Cost £'000 | Cumulative movement in value £'000 | Value £'000 | Change in value for the year** £'000 |
| **Current asset investments** | | | | | | | |
| Dexela Limited | **–** | **30** | **30** | 137 | – | 137 | **30** |
| | | | | | | | |
| **Total change on value on investments for the year** | | | | | | | **524** |
| Realised gain in current year | | | | | | | **352** |
| Movement in loan stock accrued interest (net of disposals) | | | | | | | **45** |
| **Total gains on investments as per Income statement** | | | | | | | **921** |

* Albion Ventures LLP

** as adjusted for additions and disposals during the year

# Portfolio of investments (continued)

## Ordinary shares (continued)

The comparative cost and valuations for 31 December 2011 do not agree to the Annual Report and Financial Statements for the year ended 31 December 2011 as the above list does not include brought forward investments that were fully disposed of in the year.

| **Investment realisations in the year to 31 December 2012** | **Cost £'000** | **Opening carrying value £'000** | **Disposal proceeds £'000** | **Total realised gain/(loss) £'000** | **Gain/(loss) on opening value £'000** |
|---|---|---|---|---|---|
| Albion Small Growth Company Limited | 750 | 750 | 750 | – | – |
| City Screen (Liverpool) Limited | 56 | 45 | 66 | 10 | 21 |
| CS (Brixton) Limited | 356 | 619 | 779 | 423 | 160 |
| CS (Exeter) Limited | 135 | 113 | 176 | 41 | 63 |
| CS (Greenwich) Limited | 807 | 1,017 | 1,158 | 351 | 141 |
| CS (Norwich) Limited | 50 | 61 | 74 | 24 | 13 |
| Evolutions Television Limited | 93 | 93 | 93 | – | – |
| Evolutions Group Limited | 504 | 117 | 117 | (387) | – |
| GB Pub Company VCT Limited (loan stock repayment) | 201 | 63 | 44 | (157) | (19) |
| Hilson Moran Holdings Limited (loan stock repayment) | 67 | 67 | 67 | – | – |
| Lowcosttravelgroup Limited | – | – | 3 | 3 | 3 |
| Peakdale Molecular Limited (loan stock repayment) | 28 | 28 | 28 | – | – |
| The Charnwood Pub Company VCT Limited (loan stock repayment) | 148 | 83 | 83 | (65) | – |
| The Dunedin Pub Company VCT Limited | 4 | 4 | 4 | – | – |
| Tower Bridge Health Clubs Limited (loan stock repayment) | 100 | 100 | 100 | – | – |
| AMS Sciences Limited (restructuring) | 97 | 97 | 37 | (60) | (60) |
| Other | – | – | 1 | 1 | 1 |
| | **3,396** | **3,257** | **3,580** | **184** | **323** |
| Realised loss on escrow previously held as debtor | | | | – | (5) |
| | | | | **184** | **318** |
| Current asset investment realisations in the year to 31 December 2012 – Dexela Limited | **–** | **96** | **130** | **130** | **34** |
| **Total realised gains** | **3,396** | **3,353** | **3,710** | **314** | **352** |

# Portfolio of investments (continued)

## D shares

The following is a summary of fixed asset investments as at 31 December 2012:

| | | | As at 31 December 2012 | | | As at 31 December 2011 | | | |
|---|---|---|---|---|---|---|---|---|---|
| Portfolio company | % voting rights | % voting rights of AVL* managed companies | Cost £'000 | Cumulative movement in value £'000 | Value £'000 | Cost £'000 | Cumulative movement in value £'000 | Value £'000 | Change in value for the year** £'000 |
| **Asset-backed investments** | | | | | | | | | |
| Radnor House School (Holdings) Limited | 4.6 | 50.0 | **800** | **358** | **1,158** | 800 | 235 | 1,035 | **123** |
| Nelson House Hospital Limited | 8.6 | 50.0 | **839** | **229** | **1,068** | 392 | – | 392 | **229** |
| Regenerco Renewable Energy Limited | 5.5 | 50.0 | **528** | **–** | **528** | 528 | 4 | 532 | **(4)** |
| TEG Biogas (Perth) Limited | 7.1 | 50.0 | **428** | **30** | **458** | 428 | 12 | 440 | **18** |
| The Street by Street Solar Programme Limited | 3.8 | 50.0 | **380** | **–** | **380** | 380 | 11 | 391 | **(11)** |
| Bravo Inns II Limited | 1.6 | 50.0 | **210** | **11** | **221** | 160 | 5 | 165 | **6** |
| Alto Prodotto Wind Limited | 1.5 | 50.0 | **137** | **–** | **137** | 137 | 2 | 139 | **(2)** |
| AVESI Limited | 2.5 | 50.0 | **76** | **–** | **76** | 76 | – | 76 | **–** |
| **Total asset-backed investments** | | | **3,398** | **628** | **4,026** | 2,901 | 269 | 3,170 | **359** |
| **Growth investments** | | | | | | | | | |
| Masters Pharmaceuticals Limited | 2.5 | 16.9 | **506** | **6** | **512** | 506 | (106) | 400 | **112** |
| Hilson Moran Holdings Limited | 4.0 | 50.0 | **284** | **–** | **284** | 320 | 1 | 321 | **(1)** |
| Abcodia Limited | 2.1 | 21.4 | **75** | **–** | **75** | 75 | – | 75 | **–** |
| Proveca Limited | 1.0 | 16.2 | **37** | **–** | **37** | – | – | – | **–** |
| **Total growth investments** | | | **902** | **6** | **908** | 901 | (105) | 796 | **111** |
| **Total investments** | | | **4,300** | **634** | **4,934** | 3,802 | 164 | 3,966 | **470** |
| Movement in loan stock accrued interest | | | | | | | | | **19** |
| **Total gains on investments as per Income statement** | | | | | | | | | **489** |

* Albion Ventures LLP

** as adjusted for additions and disposals during the year

| Investment realisations in the year to 31 December 2012 | Cost £'000 | Opening carrying value £'000 | Disposal proceeds £'000 | Total realised gain/(loss) £'000 | Gain/(loss) on opening value £'000 |
|---|---|---|---|---|---|
| Albion Small Growth Company Limited | 250 | – | 250 | – | – |
| Hilson Moran Holdings Limited (loan stock repayment) | 36 | 36 | 36 | – | – |
| **Total** | **286** | **36** | **286** | **–** | **–** |

# Portfolio companies

The top ten investments held by the Company, by total aggregate value of equity and loan stock are as shown below.

For the purpose of the valuation process, the latest company financial information is used. The accounting information disclosed below is the latest as filed at Companies House.

## Radnor House School (Holdings) Limited

Radnor House is a co-educational independent day school in Twickenham, which opened in September 2011. It is located in historic buildings on the banks of the River Thames in South West London. In its first Ofsted inspection the school was graded Outstanding in all categories, placing it in the top 0.5% of all schools in the UK inspected by Ofsted.

| | Audited results year to 31 August 2012 £'000 | Investment information | Ordinary shares £'000 | D shares £'000 |
|---|---|---|---|---|
| Turnover | 1,947 | Income recognised in the year | 18 | 23 |
| Loss before interest | (211) | Total cost | 734 | 800 |
| Loss before tax | (957) | Total loan stock valuation | 649 | 721 |
| Net liabilities | (225) | Total equity valuation | 401 | 437 |
| Basis of valuation: | Net asset value supported by third party valuation | Voting rights | 4.2 per cent. | 4.6 per cent. |

Website: www.radnorhouse.org

Funds managed by Albion Ventures LLP have invested in this company and their combined equity holding in the company is 50.0 per cent.

## Nelson House Hospital Limited

Nelson House Hospital Limited owns and operates a psychiatric hospital in Gosport, Hampshire. The facility opened in May 2012 and has been sold since the year end,

| | Audited results year to 30 April 2012 £'000 | Investment information | Ordinary shares £'000 | D shares £'000 |
|---|---|---|---|---|
| Turnover | – | Income recognised in the year | 3 | 8 |
| Loss before interest | (352) | Total cost | 292 | 839 |
| Loss before tax | (418) | Total loan stock valuation | 190 | 545 |
| Net assets | 1,159 | Total equity valuation | 182 | 523 |
| Basis of valuation: | Agreed sale price/offer price | Voting rights | 3.0 per cent. | 8.6 per cent. |

Website: www.orchardportman.com/nelson-house-gosport

Funds managed by Albion Ventures LLP have invested in this company and their combined equity holding in the company is 50.0 per cent.

## The Weybridge Club Limited

The company owns a 30 acre freehold site near to the centre of Weybridge in Surrey, which has been developed into a premium health and fitness club.

| | Audited results 13 months to 30 September 2011 £'000 | Investment information | Ordinary shares £'000 | D shares £'000 |
|---|---|---|---|---|
| Turnover | 1,969 | Income recognised in the year | 74 | – |
| Profit before interest | 544 | Total cost | 1,520 | – |
| Loss before tax | (839) | Total loan stock valuation | 1,213 | – |
| Net liabilities | (2,205) | Total equity valuation | 34 | – |
| Basis of valuation: | Net asset value supported by third party valuation | Voting rights | 9.4 per cent. | – |

Website: www.theweybridgeclub.com

Funds managed by Albion Ventures LLP have invested in this company and their combined equity holding in the company is 50.0 per cent.

## The Street by Street Solar Programme Limited

The company installs, owns and operates domestic photovoltaic systems on homes in England with Engensa as the installation partner.

| | Abbreviated audited results year to 30 November 2011 £'000 | Investment information | Ordinary shares £'000 | D shares £'000 |
|---|---|---|---|---|
| | | Income recognised in the year | 74 | 25 |
| | | Total cost | 862 | 380 |
| Net assets | 733 | Total loan stock valuation | 865 | 380 |
| Basis of valuation: | Cost reviewed for impairment | Total equity valuation | – | – |
| | | Voting rights | 8.6 per cent. | 3.8 per cent. |

Website: www.engensa.com

Funds managed by Albion Ventures LLP have invested in this company and their combined equity holding in the company is 50.0 per cent.

## Blackbay Limited

The company provides enterprise mobility solutions mainly for the postal logistics and field service sectors.

| | Audited results year to 31 December 2011 £'000 | Investment information | Ordinary shares £'000 | D shares £'000 |
|---|---|---|---|---|
| Turnover | 7,809 | Income recognised in the year | 44 | – |
| Profit before interest | 483 | Total cost | 819 | – |
| Profit before tax | 2 | Total loan stock valuation | 636 | – |
| Net liabilities | (1,490) | Total equity valuation | 509 | – |
| Basis of valuation: | Revenue multiple | Voting rights | 7.4 per cent. | – |

Website: www.blackbay.com

Funds managed by Albion Ventures LLP have invested in this company and their combined equity holding in the company is 34.9 per cent.

# Portfolio companies (continued)

## Regenerco Renewable Energy Limited

The Company installs, owns and operates a portfolio of PV systems on buildings used by SMEs and social housing with a total capacity above 2.3MW.

| | Abbreviated audited results year to 30 November 2011 £'000 |
|---|---|
| Net assets | 713 |
| Basis of valuation: | Cost reviewed for impairment |

| Investment information | Ordinary shares £'000 | D shares £'000 |
|---|---|---|
| Income recognised in the year | 52 | 49 |
| Total cost | 612 | 528 |
| Total loan stock valuation | 612 | 528 |
| Total equity valuation | – | – |
| Voting rights | 6.4 per cent. | 5.5 per cent. |

Website: www.regenerco.co.uk

Funds managed by Albion Ventures LLP have invested in this company and their combined equity holding in the company is 50.0 per cent.

## Lowcosttravelgroup Limited

The company is an online travel company specialising in beach holidays. The company has seen significant growth in bookings and now operates in the UK and in a number of other European countries.

| | Audited results year to 31 October 2011 £'000 |
|---|---|
| Turnover | 53,811 |
| Loss before interest and exceptional items | (281) |
| Profit before tax | 977 |
| Net assets | 7,942 |
| Basis of valuation: | Earnings multiple |

| Investment information | Ordinary shares £'000 | D shares £'000 |
|---|---|---|
| Income recognised in the year | 8 | – |
| Total cost | 435 | – |
| Total loan stock valuation | 212 | – |
| Total equity valuation | 842 | – |
| Voting rights | 4.0 per cent. | – |

Website: www.lowcosttravelgroup.com

Funds managed by Albion Ventures LLP have invested in this company and their combined equity holding in the company is 26.0 per cent.

## Peakdale Molecular Limited

The company is principally involved in the research, processing and supply of chemical compounds to the major pharmaceutical companies. It operates from a substantial freehold site in Chapel-en-le-Frith, Derbyshire.

| | Audited results year to 31 March 2012 £'000 |
|---|---|
| Turnover | 9,083 |
| Profit before interest | 275 |
| Profit before tax | 207 |
| Net assets | 5,500 |
| Basis of valuation: | Earnings multiple |

| Investment information | Ordinary shares £'000 | D shares £'000 |
|---|---|---|
| Income recognised in the year | 7 | – |
| Total cost | 908 | – |
| Total loan stock valuation | 278 | – |
| Total equity valuation | 642 | – |
| Voting rights | 8.9 per cent. | – |

Website: www.peakdale.co.uk

Funds managed by Albion Ventures LLP have invested in this company and their combined equity holding in the company is 14.9 per cent.

## Bravo Inns II Limited

The company was formed in September 2007 and owns and operates 23 freehold pubs in the North of England. The pubs are trading well with considerable demand for their value offering.

| | Abbreviated audited results year to 31 March 2012 £'000 |
|---|---|
| Turnover | 4,425 |
| Loss before tax | (230) |
| Profit before interest | 280 |
| Net assets | 2,278 |
| Basis of valuation: | Net asset value supported by third party valuation |

| Investment information | Ordinary shares £'000 | D shares £'000 |
|---|---|---|
| Income recognised in the year | 46 | 15 |
| Total cost | 690 | 210 |
| Total loan stock valuation | 467 | 146 |
| Total equity valuation | 219 | 75 |
| Voting rights | 4.8 per cent. | 1.6 per cent. |

Website: www.bravoinns.com

Funds managed by Albion Ventures LLP have invested in this company and their combined equity holding in the company is 50.0 per cent.

## Alto Prodotto Wind Limited

Alto Prodotto Wind is a company which builds, owns and operates medium scale (100kWp to 1500kWp) wind projects in the UK.

| | Abbreviated audited results year to 31 March 2012 £'000 |
|---|---|
| Net assets | 1,402 |
| Basis of valuation: | Cost reviewed for impairment |

| Investment information | Ordinary shares £'000 | D shares £'000 |
|---|---|---|
| Income recognised in the year | 23 | 12 |
| Total cost | 705 | 137 |
| Total loan stock valuation | 705 | 137 |
| Total equity valuation | – | – |
| Voting rights | 7.8 per cent. | 1.5 per cent. |

Funds managed by Albion Ventures LLP have invested in this company and their combined equity holding in the company is 50.0 per cent.

Net assets of a portfolio company where a recent third party valuation has taken place, may have a higher valuation in Albion Development VCT PLC accounts than in its own, where the portfolio company does not have a policy of revaluing its fixed assets.

# Directors' report

The Directors submit their Annual Report and the audited Financial Statements on the affairs of Albion Development VCT PLC (the "Company") for the year ended 31 December 2012.

**BUSINESS REVIEW**

**Principal activity and status**

The principal activity of the Company is that of a venture capital trust. It has been approved by H.M. Revenue & Customs ('HMRC') as a venture capital trust in accordance with Part 6 of the Income Tax Act 2007 and in the opinion of the Directors, the Company has conducted its affairs so as to enable it to continue to obtain such approval. Approval for the year ended 31 December 2012 is subject to review should there be any subsequent enquiry under corporation tax self assessment.

The Company is not a close company for taxation purposes and its shares are listed on The London Stock Exchange.

Under current tax legislation, shares in the Company provide tax-free capital growth and income distribution, in addition to the income tax relief which some investors would have obtained when they invested in the original share offers.

**Capital structure**

Details of the issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 15.

The Company's share capital comprises Ordinary shares and D shares. As at 31 December 2012, Ordinary shares represented 83.5 per cent. of the total voting rights and D shares 16.5 per cent. of the total voting rights.

The Ordinary shares and D shares, are designed for individuals who are professionally advised private investors, seeking, over the long term, investment exposure to a diversified portfolio of unquoted investments. The investments are spread over a number of sectors, to produce a regular and predictable source of income, combined with the prospect of longer term capital growth.

Both Ordinary shares and D shares currently rank *pari passu* for voting rights, save in respect of specific resolutions impacting their class, such as in the case of a reconstruction. Each Ordinary share and D share is entitled to one vote.

Ordinary and D shareholders are entitled to receive dividends paid out of the reserves attributable to their respective class of shares. Ordinary and D shareholders are entitled to the return on capital on winding up or other return on capital based on the surpluses attributable to their respective class of shares.

The Articles of the Company provide for the conversion of D shares into Ordinary shares in a ratio determined by the net asset values of each class.

The Company currently operates a Dividend Reinvestment Scheme, details of which can be found on www.albion-ventures.co.uk/Our Funds/Albion Development VCT PLC/Investor Centre under the Dividend Reinvestment Scheme section. During the year, the Company issued 171,537 new Ordinary shares and 25,324 D shares under the Dividend Reinvestment Scheme. Further details are shown in note 15.

On 1 November 2011 the Company announced the launch of the Albion VCTs Linked Top Up Offers 2011/2012 in conjunction with six other VCTs managed by Albion Ventures LLP. During the year, the Company issued a total of 2,017,961 new Ordinary shares under this Offer (details are shown in note 15). The Offer closed on 31 May 2012.

The Company, in conjunction with the Boards of five other VCTs managed by Albion Ventures LLP, launched the Albion VCTs Top Up Offers 2012/2013 for new Ordinary shares on 19 October 2012. Albion Development VCT PLC will be aiming to raise approximately £2.5 million of the £15 million in aggregate that the Albion VCTs plan to raise. The proceeds will be used to provide further resources at a time when a number of attractive investment opportunities are being seen. An Investor Guide and Offers document have been sent to shareholders. During the year, the Company issued a total of 469,739 new Ordinary shares under this Offer (details are shown in note 15).

**Reduction in share capital and cancellation of capital redemption reserve**

Shareholders approved the reduction of share capital by reducing the nominal value of Ordinary and D shares from 50 pence to 1 penny per share and the cancellation of the Company's share premium and capital redemption reserves at the Annual General Meeting on 15 June 2012. The High Court approved this restructuring on 11 July 2012. The restructuring has increased the reserves available to the Company for the payment of dividends, the buy-back of shares and for other corporate purposes. New share certificates will not be issued following these changes and existing certificates remain valid.

# Directors' report (continued)

**Substantial interests and shareholder profile**

As at 31 December 2012 and at the date of this report, the Company was not aware of any beneficial interest exceeding 3 per cent. of the aggregate voting rights of the Company. There have been no disclosures in accordance with Disclosure and Transparency Rule 5 made to the Company during the year ended 31 December 2012, and to the date of this report.

The shareholder profile of the Company (excluding treasury shares), as at 31 December 2012, is as follows:

**Ordinary shares**

| Number of shares held | % shareholders | % share capital |
|---|---|---|
| 1 – 10,000 | 60.4 | 17.5 |
| 10,001 – 50,000 | 34.3 | 47.5 |
| 50,001 – 100,000 | 3.5 | 15.7 |
| 100,001 – 500,000 | 1.8 | 19.3 |

**D shares**

| Number of shares held | % shareholders | % share capital |
|---|---|---|
| 1 – 10,000 | 37.1 | 11.0 |
| 10,001 – 50,000 | 53.6 | 52.6 |
| 50,001 – 100,000 | 6.9 | 20.2 |
| 100,001 – 500,000 | 2.4 | 16.2 |

**Investment policy**

The Company's investment strategy is to provide investors with a regular and predictable source of dividend income combined with the prospect of long term capital growth through allowing investors the opportunity to participate in a balanced portfolio of lower risk, asset-backed investments that provide a strong income stream, combined with investment in a smaller number of higher risk companies with greater growth prospects. In neither category would investee companies normally have any external borrowing with a charge ranking ahead of the Company. Up to two-thirds of qualifying investments by cost will comprise loan stock secured with a first charge on the portfolio company's assets.

Funds held pending investment or for liquidity purposes will be held as cash on deposit or in floating rate notes or similar instruments with banks or other financial institutions with a Moody's rating of A or above.

**Venture Capital Trust status**

In addition to the investment policy described above, the HMRC rules drive the Company's investment allocation and risk diversification policies. In order to maintain status under Venture Capital Trust legislation, the following tests must be met:

(1) The Company's income must be derived wholly or mainly from shares and securities;

(2) At least 70 per cent. of the value of its investments must have been represented throughout the year by shares or securities that are classified as 'qualifying holdings';

(3) At least 30 per cent. by value of its total qualifying holdings must have been represented throughout the year by holdings of 'eligible shares'. For funds raised after 5 April 2011 the figure is 70 per cent.;

(4) At no time in the year must the Company's holdings in any one company (other than another VCT) have exceeded 15 per cent. by value of its investments;

(5) The Company must not have retained greater than 15 per cent. of its income earned in the year from shares and securities;

(6) Eligible shares must comprise at least 10 per cent. by value of the total of the shares and securities that the Company holds in any one portfolio company; and

(7) The Company's shares, throughout the year must have been listed in the Official List of the Stock Exchange.

These tests drive a spread of investment risk through disallowing holdings of more than 15 per cent. in any portfolio company. The tests have been carried out and independently reviewed for the year ended 31 December 2012. The Company has complied with all tests and continues to do so.

'Qualifying Holdings' for Albion Development VCT PLC include shares or securities (including loans with a five year or greater maturity period) in companies which operate a 'qualifying trade' wholly or mainly in the United Kingdom. 'Qualifying trade' excludes, amongst other sectors, dealing in property or shares and securities, insurance, banking, agriculture, and operating or managing hotels or residential care homes. The Company may not control a portfolio company.

For the Ordinary and D share portfolios, the gross assets of a portfolio company must not exceed £15 million immediately prior to the investment and £16 million immediately thereafter. The maximum each company can receive from State Aided risk capital schemes is £5 million in any twelve month period.

Those investments which are permitted for both classes of share will be allocated between them in the ratio of funds available for investment.

# Directors' report (continued)

**Gearing**

As defined by the Articles of Association, the Company's maximum exposure in relation to gearing is restricted to 10 per cent. of the adjusted share capital and reserves. As at 31 December 2012, the Company's maximum permitted exposure was £2,914,000 (2011: £2,790,000) and its actual short term and long term borrowing at this date was £nil (2011: £nil). The Directors do not currently have any intention to utilise long term gearing.

**Current portfolio sector allocation**

The pie charts on page 7 of the Manager's report show the split of the portfolio valuation by industrial or commercial sector as at 31 December 2012. Details of the principal investments made by the Company are shown in the Portfolio of investments section on page 10.

**Review of business and future changes**

A detailed review of the Company's business during the year and future prospects is contained in the Chairman's Statement on page 6 and Manager's report on page 7. Details of significant events which have occurred since the end of the financial year are listed in note 21. Details of transactions with the Manager are shown in note 5.

The Directors do not foresee any major changes in the activity undertaken by the Company in the current year. The Company continues with its objective to invest in unquoted companies throughout the United Kingdom with a view to providing both capital growth and a reliable dividend income to shareholders over the long term.

**Operational arrangements**

The Company has delegated the investment management of the portfolio to Albion Ventures LLP, which is authorised and regulated by the Financial Conduct Authority. Albion Ventures LLP also provides company secretarial and other accounting and administrative support to the Company. Further details regarding the terms of engagement of the Manager are shown on page 21.

**Results and dividends**

| | Ordinary shares £'000 | D shares £'000 | Combined £'000 |
|---|---|---|---|
| Net revenue return for the year ended 31 December 2012 | 481 | 124 | 605 |
| Dividend paid on 31 May 2012 | (799) | (111) | (910) |
| Dividend paid on 30 September 2012 | (796) | (111) | (907) |
| Transferred from other distributable reserve | (1,114) | (98) | (1,212) |
| Net capital return for the year ended 31 December 2012 | 626 | 413 | 1,039 |
| Transfer from other distributable reserve for the year ended 31 December 2012 | 671 | – | 671 |
| **Transferred to realised and unrealised capital reserves** | 1,297 | 413 | 1,710 |
| Net assets as at 31 December 2012 | 23,860 | 6,245 | 30,105 |
| Net asset value per share as at 31 December 2012 (pence) | 74.0 | 97.9 | |

The Company paid dividends of 5.00 pence per Ordinary share and 3.50 pence per D share during the year (2011: 5.00 pence per Ordinary share and 2.50 pence per D share).

As described in the Chairman's statement, the Board has declared a first dividend for the year ending 31 December 2013 of 2.50 pence per Ordinary share and 2.50 pence per D share. This dividend will be paid on 31 May 2013 to shareholders on the register as at 3 May 2013.

As shown in the Ordinary shares' Income statement on page 33, the total investment income has risen to £928,000 (2011: £827,000) due to higher interest received on convertible and discounted debt investments during the year. Consequently, the Ordinary shares' total revenue return to equity holders has risen to £481,000 (2011: £419,000).

The Ordinary shares' total capital return for the year was £626,000 (2011: £1,004,000) which was mainly attributable to net realised and unrealised gains on investments offset by expenses charged to capital.

# Directors' report (continued)

The Ordinary shares' total return per share was 3.50 pence per share (2011: 4.70 pence per share).

The Ordinary shares' Balance sheet on page 35 shows that the net asset value per share has decreased over the last year to 74.00 pence per share (2011: 75.50 pence per share). The decrease in net asset value can be attributed to the payment of the dividend of 5.00 pence per Ordinary share during the year, partially offset by the return for the year and the buy-back of Ordinary shares by the Company at a discount to net asset value.

Cash flow for the Ordinary shares was positive for the year, with net proceeds from fundraising, the disposal of investments and cash inflow from operations being partially offset by the payment of dividends, the buy-back of shares and purchases of new investments.

The D shares' Income statement on page 33 shows an increase in income to £249,000 (2011: £211,000) due to an increase in interest received on loan stock investments made during the year.

The D shares' total capital return was £413,000 (2011: £59,000) reflecting the unrealised gains on valuation of investments partially offset by management fees charged to capital for the year.

The D shares' total return per share was 8.40 pence per share (2011: 2.50 pence per share).

The D shares' Balance sheet on page 36 shows a net asset value of 97.90 pence per share (2011: 93.00 pence per share). The increase in net asset value can be attributed to the factors described above, notwithstanding the payment of the dividend of 3.50 pence per D share during the year.

The cash flow for the D shares was negative for the year as a result of new investments made and dividends paid during the year partially offset by net cash inflow from operating activities and the disposal of investments.

**Key performance indicators**

The Directors believe that the following key performance indicators are the most important to the business:

- The graphs on page 4 show Albion Development VCT PLC's Ordinary and D shares' net asset value total return against the FTSE All-Share Index total return, in both instances with dividends reinvested. Details on the performance of the net asset value and return per share for the year are shown above.
- The ongoing charges ratio for the Company for the year to 31 December 2012 was 3.0 per cent. (2011: 3.0 per cent.).
- The Company continues to comply with HMRC rules in order to maintain its status under Venture Capital Trust legislation as highlighted on page 17.

**Share buy-backs**

The Company operates a policy of buying back shares either for cancellation or for holding in treasury. Details regarding the current discount policy can be found on page 6 of the Chairman's statement.

**Principal risks and uncertainties**

In addition to the current economic risks outlined in the Chairman's statement, the Board considers that the Company faces the following major risks and uncertainties:

1. *Economic risk*

   Changes in economic conditions, including interest rates, rates of inflation, industry conditions, competition, political, EU, diplomatic events and other factors could substantially and adversely affect the Company's prospects in a number of ways.

   To reduce this risk, in addition to investing equity in portfolio companies, the Company often invests in secured loan stock and has a policy of not normally permitting any external bank borrowings within portfolio companies. Additionally, the Manager has been rebalancing the sector exposure of the portfolio with a view to reducing reliance on consumer led sectors.

2. *Investment risk*

   This is the risk of investment in poor quality assets which reduces the capital and income returns to shareholders, and negatively impacts on the Company's reputation. By nature, smaller unquoted businesses, such as those that qualify for venture capital trust purposes, are more fragile than larger, long established businesses.

   The success of investments in certain sectors is also subject to regulatory risk, such as those affecting companies involved in UK renewable energy.

   To reduce this risk, the Board places reliance upon the skills and expertise of the Manager and its strong track record for investing in this segment of the market. In addition, the Manager operates a formal and structured investment process, which includes an investment committee, comprising investment professionals from the Manager and at least one external investment professional. The Manager also invites, and takes

# Directors' report (continued)

account of comments from all non-executive Directors of the Company on investments discussed at the investment committee meetings. Investments are actively and regularly monitored by the Manager (investment managers normally sit on portfolio company boards) and the Board receives reports on each investment as part of the Manager's report at quarterly board meetings. It is the policy of the Company for portfolio companies normally not to have external borrowings.

The Board and the Manager closely monitor regulatory changes within the sectors invested in.

3. *Valuation risk*

The Company's investment valuation method is reliant on the accuracy and completeness of information that is issued by portfolio companies. In particular, the Directors may not be aware of or take into account certain events or circumstances which occur after the information issued by such companies is reported.

As described in note 2 of the Financial Statements, the unquoted equity investments, convertible loan stock and debt issued at a discount held by the Company are measured at fair value through profit or loss and valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines. These guidelines set out recommendations, intended to represent current best practice on the valuation of venture capital investments. These investments are valued on the basis of forward looking estimates and judgements about the business itself, its market and the environment in which it operates, together with the state of the mergers and acquisitions market, stock market conditions and other factors. In making these judgements the valuation takes into account all known material facts up to the date of approval of the Financial Statements by the Board. The sensitivity of these assumptions is commented on further in notes 11 and 19. All other unquoted loan stock is measured at amortised cost.

4. *Venture Capital Trust approval risk*
The Company's current approval as a venture capital trust allows investors to take advantage of tax reliefs on initial investment and ongoing tax free capital gains and dividend income. Failure to meet the qualifying requirements could result in investors losing the tax relief on initial investment and loss of tax relief on any tax-free income or capital gains received. In addition, failure to meet the qualifying requirements could result in a loss of listing of the shares.

To reduce this risk, the Board has appointed the Manager, who has a team with significant experience in venture capital trust management, used to operating within the requirements of the venture capital trust legislation. In addition, to provide further formal reassurance, the Board has appointed PricewaterhouseCoopers LLP as its taxation advisers. PricewaterhouseCoopers LLP report quarterly to the Board to independently confirm compliance with the venture capital trust legislation, to highlight areas of risk and to inform on changes in legislation.

5. *Compliance risk*
The Company is listed on The London Stock Exchange and is required to comply with the rules of the UK Listing Authority, as well as with the Companies Act, Accounting Standards and other legislation. Failure to comply with these regulations could result in a delisting of the Company's shares, or other penalties under the Companies Act or from financial reporting oversight bodies.

Board members and the Manager have experience of operating at senior levels within quoted businesses. In addition, the Board and the Manager receive regular updates on new regulation from its auditor, lawyers and other professional bodies.

6. *Internal control risk*
Failures in key controls, within the Board or within the Manager's business, could put assets of the Company at risk or result in reduced or inaccurate information being passed to the Board or to shareholders.

The Audit Committee meets with the Manager's internal auditors, Littlejohn LLP when required, receiving a report regarding the last formal internal audit performed on the Manager, and providing the opportunity for the Audit Committee to ask specific and detailed questions. During the past year the Chairman of the Audit Committee has met with the internal audit partner of Littlejohn LLP to discuss the most recent internal audit report on the Manager. The Manager has a comprehensive business continuity plan in place in the event that operational continuity is threatened. Further details regarding the Board's management and review of the Company's internal controls through the implementation of the Turnbull guidance are detailed on page 27.

# Directors' report (continued)

Measures are in place to mitigate information risk in order to ensure the integrity, availability and confidentiality of information used within the business.

7. *Reliance upon third parties risk*
   The Company is reliant upon the services of Albion Ventures LLP for the provision of investment management and administrative functions. There are provisions within the management agreement for the change of Manager under certain circumstances (for more detail, see the management agreement paragraph below). In addition, the Manager has demonstrated to the Board that there is no undue reliance placed upon any one individual within Albion Ventures LLP.

8. *Financial risks*
   By its nature, as a venture capital trust, the Company is exposed to investment risk (which comprises investment price risk and cash flow interest rate risk), credit risk and liquidity risk. The Company's policies for managing these risks and its financial instruments are outlined in full in note 19 to the Financial Statements.

   All of the Company's income and expenditure is denominated in sterling and hence the Company has no foreign currency risk. The Company is financed through equity and does not have any borrowings. The Company does not use derivative financial instruments for speculative purposes.

**Environment**
The management and administration of Albion Development VCT PLC is undertaken by the Manager. Albion Ventures LLP recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by its activities. Initiatives designed to minimise the Company's impact on the environment include recycling and reducing energy consumption as will be shown in the financial statements of Albion Ventures LLP.

**Employees**
The Company is managed by Albion Ventures LLP and hence has no employees other than its Directors.

**Directors**
The Directors who held office throughout the year, and their interests in the shares of the Company (together with those of their immediate family) are shown below:

| | **31 December 2012** | | 31 December 2011 | |
|---|---|---|---|---|
| | **Ordinary shares** | **D shares** | Ordinary shares | D shares |
| Andrew Phillipps | **137,606** | **25,625** | 137,606 | 25,625 |
| David Pinckney | **5,000** | **–** | 5,000 | – |
| Jonathan Thornton | **88,091** | **10,400** | 86,157 | 10,400 |
| Geoffrey Vero | **17,957** | **10,400** | 13,947 | 10,400 |
| **Total** | **248,654** | **46,425** | 242,710 | 46,425 |

There have been no further changes in the holdings of the Directors between 31 December 2012 and the date of this report.

Partners and staff of Albion Ventures LLP, the Manager, hold a total of 124,012 Ordinary and 134,272 D shares in the Company.

All Directors are members of the Audit Committee of which David Pinckney is Chairman.

Further details regarding the Directors' remuneration are shown on page 30.

**Directors' indemnity**
Each Director has entered into a Deed of indemnity with the Company pursuant to which, the Company agrees, subject to the provisions of the Companies Act 2006 and the limitations set out in each deed, to indemnify each Director against any liability arising out of any claim made against him in relation to the performance of his duties as a Director of the Company. A copy of each Deed of indemnity entered into by the Company for each Director is available at the registered office of the Company.

**Re-election of Directors**
Directors' retirement and re-election is subject to the Articles of Association and the UK Corporate Governance Code. At the forthcoming Annual General Meeting, Geoffrey Vero will retire by rotation in accordance with the Articles and Jonathan Thornton, having served as Director for longer than nine years, will retire and offer himself for re-election.

**Management agreement**
Under the Management agreement, the Manager provides investment management, secretarial and administrative services to the Company. The Management agreement may be terminated by either party on 12 months' notice and is subject to earlier termination in the event of certain breaches or on the insolvency of either party. The Manager is paid an annual fee equal to 2.25 per cent. of the net asset value of the Company paid quarterly in arrears.

# Directors' report (continued)

Total annual expenses, including the management fee, are limited to 3.5 per cent. of the net asset value.

In line with common practice, the Manager is also entitled to an arrangement fee, payable by each portfolio company, of approximately 2 per cent. on each investment made.

**Management performance incentive**
The Management performance incentive structure sets a minimum target level, comprising the aggregate of dividends and net asset value per share, at 6.5 pence per share per annum. The Ordinary shares' target minimum return is cumulative from 1 January 2007 (which used the pro forma net asset value of 98.70 pence per share), and for the D shares the target is 100.00 pence per share.

In the event that the minimum return is not reached in one year, the shortfall needs to be made up in following years. The incentive fee is set at 20 per cent. of the excess return.

There was no management performance incentive fee payable during the year.

**Evaluation of the manager**
The Board, through the Audit Committee has evaluated the remuneration and performance of the Manager based on the returns generated by the Company, the continuing achievement of the 70 per cent. investment requirement for Venture Capital Trust status, the long term prospects of the current investments, a review of the management agreement and the services provided therein, and by benchmarking the performance and remuneration of the Manager to other VCT managers. The Board believes that it is in the interests of shareholders as a whole, and of the Company, to continue the appointment of the Manager for the forthcoming year.

**Investment and co-investment**
The Company co-invests with other venture capital trusts and funds managed by Albion Ventures LLP. Allocation of investments is on the basis of an allocation agreement which is based, *inter alia*, on the ratio of funds available for investment.

**Auditor**
In 2007, the Audit Committee undertook a tendering exercise for provision of audit services. As a result of this process, PKF (UK) LLP were appointed as Auditor with effect from 2008. The Audit Committee annually reviews and evaluates the standard and quality of service provided by the Auditor, as well as value for money in the provision of these services. The Auditor, PKF (UK) LLP, has merged their business with BDO LLP. A resolution to appoint BDO LLP as Auditor will be put to the forthcoming Annual General Meeting.

**Supplier payment policy**
The Company's policy is to pay all supplier invoices within 30 days of the invoice date, or as otherwise agreed. There were no overdue trade creditors at 31 December 2012 (2011: nil). Creditor days as at 31 December 2012 were nil days (2011: nil days).

**Annual General Meeting**
The Annual General Meeting will be held at the City of London Club, 19 Old Broad St, London, EC2N 1DS at 11am on Thursday 6 June 2013. The notice of the Annual General Meeting is at the end of this document.

The proxy form enclosed with this Annual Report and Financial Statements permits shareholders to disclose votes 'for', 'against', and 'withheld'. A 'vote withheld' is not a vote in law and will not be counted in the proportion of the votes for and against the resolution. A summary of proxies lodged at the Annual General Meeting will be published at www.albion-ventures.co.uk within the 'Our Funds' section by clicking on Albion Development VCT PLC and accessing the Financial Reports and Circular's Section.

Resolutions relating to the following items of special business will be proposed at the forthcoming Annual General Meeting for which shareholder approval is required in order to comply either with the Companies Act or the Listing Rules of the Financial Conduct Authority.

**Power to allot shares**
Ordinary resolution number 7 will request the authority to allot up to 10 per cent. of the issued Ordinary and D share capital.

During the year Ordinary and D shares were allotted as described in detail in note 15.

The Directors do not currently have any intention to allot shares, apart from the Albion VCTs Top Up Offers as described on page 6 of the Chairman's statement and similar offers, the Dividend Reinvestment Schemes and reissuing treasury shares where it is in the Company's interest to do so.

The Company currently holds 3,428,000 Ordinary shares in treasury representing 9.6 per cent. of the Ordinary share capital in issue as at 31 March 2013.

There are no D shares held in treasury.

This resolution replaces the authority given to the Directors at the Annual General Meeting in 2012. The authority sought at the forthcoming Annual General Meeting will expire 18 months from the date that this resolution is passed or at the conclusion of the next Annual General Meeting of the Company, whichever is earlier.

# Directors' report (continued)

**Dis-application of pre-emption rights**
Special resolution number 8 will request authority for Directors to allot equity securities for cash without first being required to offer such securities to existing members. This will include the sale on a non pre-emptive basis of any shares the Company holds in treasury for cash. The authority relates to a maximum of 10 per cent. of the issued Ordinary and D share capital of the Company as at the date of this Report.

This resolution replaces the authority given to the Directors at the Annual General Meeting in 2012. The authority sought at the forthcoming Annual General Meeting will expire 18 months from the date this resolution is passed or at the conclusion of the next Annual General Meeting of the Company, whichever is earlier. Members should note that this resolution also applies to treasury shares.

**Purchase of own shares**
Special resolution number 9 will request the authority to purchase approximately 14.99 per cent. of the Company's issued Ordinary and D share capital at, or between, the minimum and maximum prices specified in resolution 9.

Shares bought back under this authority may be cancelled and up to 10 per cent. can be held in treasury.

The Board believes that it is helpful for the Company to continue to have the flexibility to buy its own shares and this resolution seeks authority from shareholders to do so.

This resolution would renew the 2012 authority, which was in similar terms. During the financial year under review, the Company purchased 765,436 Ordinary shares for cancellation. Further information is shown in note 15.

The authority sought at the forthcoming Annual General Meeting will expire 18 months from the date this resolution is passed or at the conclusion of the next Annual General Meeting of the Company, whichever is earlier. Members should note that this resolution also applies to treasury shares.

**Treasury shares**
Under the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 (the "Regulations"), shares purchased by the Company out of distributable profits can be held as treasury shares, which may then be cancelled or sold for cash. The authority sought by these resolutions is intended to apply equally to shares to be held by the Company as treasury shares in accordance with the Regulations.

Special resolution number 10 will request the authority to permit Directors to sell treasury shares at the higher of the prevailing share price and the price bought in at.

**Recommendation**
The Board believes that the passing of the resolutions above are in the best interests of the Company and its shareholders as a whole and accordingly, unanimously recommends that you vote in favour of these resolutions, as the Directors intend to do in respect of their own beneficial shareholdings.

**Statement of Directors' responsibilities**
The Directors are responsible for preparing the Directors' report, 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 are required to prepare the Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these Financial Statements the Directors are required to:

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

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on

# Directors' report (continued)

the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the Financial Statements and other information included in annual reports may differ from legislation in other jurisdictions.

The Directors confirm, to the best of their knowledge that:

- 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 Chairman's statement, Manager's report and Director's report, includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

The names and functions of all the Directors are stated on page 8.

**Disclosure of information to the Auditor**
In the case of the persons who are Directors of the Company at the date of approval of this Report:

- so far as each of the Directors are aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- each of the Directors has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This disclosure is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

By Order of the Board

**Albion Ventures LLP**
Company Secretary
1 King's Arms Yard
London EC2R 7AF
4 April 2013

# Statement of corporate governance

**Background**
The Financial Conduct Authority requires all listed companies to disclose how they have applied the principles and complied with the provisions of the UK Corporate Governance Code ("the Code") issued by the Financial Reporting Council ("FRC") in May 2010. Since the year end, the Company has adopted the revised Code issued in September 2012.

The Board of Albion Development VCT PLC has also considered the principles and recommendations of the AIC Code of Corporate Governance ("AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies ("AIC Guide"). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in Section 1 of the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to Albion Development VCT PLC.

The Board considers that reporting in accordance with the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide better information to shareholders than reporting under the Code alone.

The Company has complied with the recommendations of the AIC Code and the relevant provisions of Section 1 of the UK Corporate Governance Code, except as set out below.

**Application of the Principles of the Code**
The Board attaches importance to matters set out in the Code and applies its principles. However, as a venture capital trust company, most of the Company's day-to-day responsibilities are delegated to third parties and the Directors are all non-executive. Thus, not all the provisions of the Code are directly applicable to the Company.

**Board of Directors**
The Board consists solely of non-executive Directors. Since all Directors are non-executive and day-to-day management responsibilities are sub-contracted to the Manager, the Company does not have a Chief Executive Officer.

Given the small size of the Board and as the Board comprises wholly non-executive Directors, it has historically not been considered necessary to appoint a Senior Independent Director. However, given the provisions of the UK Corporate Governance Code 2012, the Board has appointed Jonathan Thornton as Senior Independent Director with effect from 3 April 2013.

Geoffrey Vero is the Chairman of the Company and is considered independent. David Pinckney, Andrew Phillipps and Jonathan Thornton are also considered independent Directors.

David Pinckney will be retiring from the Board at the forthcoming Annual General Meeting.

Jonathan Thornton has been a Director of the Company for more than nine years and, in accordance with the recommendations of the AIC code, is subject to annual re-election. The Board does not consider that a Director's length of service reduces his ability to act independently of the Manager.

The Directors have a range of business and financial skills which are relevant to the Company; these are described in the Board of Directors section of this Report, on page 8. Directors are provided with key information on the Company's activities, including regulatory and statutory requirements, and internal controls, by the Manager. The Board has direct access to secretarial advice and compliance services by the Manager, who is responsible for ensuring that Board procedures are followed and applicable procedures complied with. All Directors are able to take independent professional advice in furtherance of their duties if necessary. In accordance with the UK Corporate Governance Code, the Company has in place Directors' & Officers' Liability Insurance.

The Board met four times during 2012 as part of its regular programme of Board meetings. In addition, and in accordance with best practice, a further meeting took place without the Manager present. All of the Directors attended each meeting. A sub-committee comprising at least two directors met during the year to allot shares issued under the Dividend Reinvestment Scheme and the Albion VCTs Linked Top Up Offers 2011/2012. A sub-committee comprising at least two Directors also met during the year to approve the terms and contents of the offers documents under the Albion VCTs Top Up Offers 2012/2013 and to allot shares under the Offers.

The Chairman ensures that all Directors receive all relevant management, regulatory and financial information in a timely manner. The Board receives and considers reports regularly from the Manager and other key advisers, and ad hoc reports and information are supplied to the Board as required. The Board has a formal schedule of matters reserved for it and the agreement between the Company and its Manager sets out the matters over which the Manager has authority and limits beyond which Board approval must be sought.

The Manager has authority over the management of the investment portfolio, the organisation of custodial services, accounting, secretarial and administrative services. The main issues reserved for the Board include:

- the consideration and approval of future developments or changes to the investment policy, including risk and asset allocation;
- consideration of corporate strategy;
- application of the principles of the UK Corporate Governance Code, corporate governance and internal control;

- review of sub-committee recommendations, including the recommendation to shareholders for the appointment and remuneration of the Auditor;
- approval of the appropriate dividend to be paid to shareholders;
- the appointment, evaluation, removal and remuneration of the Manager;
- the performance of the Company, including monitoring of the discount of the net asset value and the share price;
- share buy-back and treasury share policy; and
- monitoring shareholder profile and considering shareholder communications.

**Committees' and Directors' performance evaluation**
Performance of the Board and the Directors is assessed on the following:

- attendance at Board and Committee meetings;
- the contribution made by individual Directors at, and outside of, Board and Committee meetings; and
- completion of a detailed internal assessment process and annual performance evaluation conducted by the Chairman.

The evaluation process has identified that the Board works well together and has the right balance of skills, experience, independence and knowledge of the Company amongst the Directors. Diversity within the Board is achieved through the appointment of directors with different sector backgrounds and skills. For any new Board appointments, full consideration will be given to the matter of diversity, including gender.

Directors are offered training, both at the time of joining the Board and on other occasions where required. The Board also undertakes a proper and thorough evaluation of its committees on an annual basis.

David Pinckney will retire at the forthcoming Annual General Meeting.

As a result of the performance evaluation process, Geoffrey Vero and Jonathan Thornton are considered to be effective Directors and demonstrate strong commitment to the role. The Board believes it to be in the best interests of the Company to propose that Geoffrey Vero and Jonathan Thornton be re-elected at the forthcoming Annual General Meeting.

**Remuneration Committee**
Since the Board consists solely of four non-executive directors, a Remuneration Committee has not been considered necessary during the year.

Directors' salaries have not been increased since 2005. However, in accordance with the provisions of the UK Corporate Governance Code 2012, a Remuneration Committee has been formed after the year end. Jonathan Thornton is Chairman and all of the Directors are members of this Committee. The Committee will meet when it believes a review of Directors responsibilities and of salaries against the market is required.

The terms of reference for the Remuneration Committee can be found on the Company's website at www.albion-ventures.co.uk within the 'Our Funds' section by clicking on Albion Development VCT PLC and looking under the Corporate Governance Section.

**Audit Committee**
The Audit Committee consists of all Directors and David Pinckney is the Chairman. In accordance with the Code, the members of the Audit Committee have recent and relevant financial experience. The Committee met twice during the year ended 31 December 2012; all members attended.

Written terms of reference have been constituted for the Audit Committee and can be found on the Company's website at www.albion-ventures.co.uk within the 'Our Funds' section by clicking on Albion Development VCT PLC and looking within the Corporate Governance Section.

During the year under review, the Committee discharged the responsibilities including:

- formally reviewing the final Annual Report and Financial Statements, the Half-yearly Financial Report, the Interim Management Statements and the associated announcements, with particular focus on the main areas requiring judgement and on critical accounting policies;
- reviewing the effectiveness of the internal controls system and examination of the Internal Controls Report produced by the Manager;
- meeting with the external Auditor and reviewing their findings; and
- reviewing the performance of the Manager and making recommendations regarding their re-appointment to the Board;
- highlighting specific issues relating to the Financial Statements including the reasonableness of valuations, compliance with accounting standards and UK law, corporate governance and listing and disclosure rules disclosures as well as going concern. These issues were addressed through detailed review, discussion and challenge by the Board of these matters, as well by reference to underlying technical information;
- advising the Board on whether the annual report and accounts, 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; and
- (after the year end) reporting to the Board on how it has discharged its responsibilities.

# Statement of corporate governance (continued)

The Audit Committee reviews the performance and continued suitability of the Company's external Auditor on an annual basis. They assess the external Auditor's independence, qualification, extent of relevant experience, effectiveness of audit procedures as well as the robustness of their quality assurance procedures. In advance of each audit, the Committee obtains confirmation from the external Auditor that they are independent and of the level of non-audit fees earned by them and their affiliates. There were no non-audit fees charged to the Company during the year.

As part of its work, the Audit Committee has undertaken a formal evaluation of the external Auditor against the following criteria;

- Qualification
- Expertise
- Resources
- Effectiveness
- Independence
- Leadership

In order to form a view of the effectiveness of the external audit process, the Committee took into account information from the Manager regarding the audit process, the formal documentation issued to the Audit Committee and the Board by the external Auditor regarding the external audit for the year ended 31 December 2012, and assessments made by individual Directors.

The Audit Committee also has an annual meeting with the external Auditor, without the Manager present, at which pertinent questions are asked to help the Audit Committee determine if the Auditor's skills match all the relevant and appropriate criteria.

As part of its annual review procedures, the Committee has obtained sufficient assurance from their own evaluation and the audit feedback documentation. The Auditor, PKF (UK) LLP, has announced that it has merged with BDO LLP. Based on the assurance obtained, the Committee has recommended to the Board that a resolution to appoint BDO LLP be proposed at the Annual General Meeting.

**Nomination Committee**
The Nomination Committee consists of all Directors, with Geoffrey Vero as Chairman. Given the size of the Board, this facilitates more effective and efficient communication. The terms of reference of the Nomination Committee are to evaluate the balance of skills, experience and time commitment of the current Board members and make recommendations to the Board as and when a particular appointment arises. The Nomination Committee did not meet during 2012 and will meet when it is appropriate for it to do so.

The Board's policy on the recruitment of new Directors is to attract a range of backgrounds, skills and experience and to ensure that appointments are made on the grounds of merit against clear and objective criteria and bear in mind the maintenance of gender and other diversity within the Board.

Terms of reference for the Nomination Committee can be found on the Company's website at www.albion-ventures.co.uk within the 'Our Funds' section by clicking on Albion Development VCT PLC and, looking within the Corporate Governance Section. The terms and conditions of Directors' appointment are available for inspection at the Annual General Meeting.

**Internal control**
In accordance with the UK Corporate Governance Code, the Board has an established process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place throughout the year and continues to be subject to regular review by the Board in accordance with the Internal Control Guidance for Directors in the UK Corporate Governance Code published in September 1999 and updated in 2005 (the "Turnbull guidance"). The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage, rather than eliminate the risks of failure to achieve the Company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board's monitoring covers all controls, including financial, operational and compliance controls, and risk management. The Board receives each year from the Manager, a formal report, which details the steps taken to monitor the areas of risk, including those that are not directly the responsibility of the Manager, and which reports the details of any known internal control failures. Steps are and continue to be taken to embed the system of internal control and risk management into the operations and culture of the Company and its key suppliers, and to deal with areas of improvement which come to the Manager's and the Board's attention.

The Board, through the Audit Committee, has performed a specific assessment for the purpose of this Annual Report and Financial Statements. This assessment considers all significant aspects of internal control arising during the year. The Audit Committee assists the Board in discharging its review responsibilities.

The main features of the internal control system with respect to financial reporting, in place throughout the year are:

- segregation of duties between the preparation of valuations and the recording in accounting records;
- independent third party valuations of the majority of asset-backed investments within the portfolio are undertaken annually;
- reviews of valuations are carried out by the Managing Partner and reviews of financial reports are carried out by the Operations Partner of Albion Ventures LLP;

# Statement of corporate governance (continued)

- bank and stock reconciliations are carried out monthly by the Manager in accordance with the FCA requirements;
- all published financial reports are reviewed by Albion Ventures LLP's compliance department;
- the Board reviews financial information; and
- a separate Audit Committee of the Board reviews financial information due to be published.

As the Board has delegated the investment management and administration of the Company to Albion Ventures LLP, the Board feels that it is not necessary to have its own internal audit function. Instead, the Board had access to Littlejohn LLP, which, as internal auditor for Albion Ventures LLP undertakes periodic examination of the business processes and controls environment at Albion Ventures LLP, and ensures that any recommendations to implement improvements in controls are carried out. During the year, the Audit Committee and the Board reviewed internal audit reports prepared by Littlejohn LLP. The Board will continue to monitor its system of internal control in order to provide assurance that it operates as intended.

**Going concern**

In accordance with "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009" issued by the Financial Reporting Council, the Board has assessed the Company's operation as a going concern. The Company has significant cash for the foreseeable future. The portfolio of investments is well diversified in terms of sector, and the major cash outflows of the Company (namely investments, buy-backs and dividends) are within the Company's control. Accordingly, after making diligent enquiries the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors have adopted the going concern basis in preparing the accounts.

The Board's assessment of liquidity risk and details of the Company's policies for managing its capital and financial risks are shown in note 19. The Company's business activities, together with details of its performance are shown in the Directors' report.

**Conflicts of interest**

Directors review the disclosure of conflicts of interest annually, with any changes reviewed and noted at the beginning of each Board meeting. A Director who has conflicts of interest has two independent Directors authorise and acknowledge those conflicts. Procedures to disclose and authorise conflicts of interest have been adhered to throughout the year.

**Capital structure and Articles of Association**

Details regarding the Company's capital structure, substantial interests and Directors' powers to buy and issue shares are detailed in full on pages 16, 17, 22 and 23 of the Directors' report. The Company is not party to any significant agreements that may take effect, alter or terminate upon a change of control of the Company following a takeover bid.

Any amendments to the Company's Articles of Association are by way of a special resolution subject to ratification by shareholders.

**Relationships with shareholders**

The Company's Annual General Meeting at 11am on 6 June 2013 will be used as an opportunity to communicate with investors. The Board, including the Chairman of the Audit Committee, will be available to answer questions at the Annual General Meeting.

At the Annual General Meeting, the level of proxies lodged on each resolution, the balance for and against the resolution, and the number of votes withheld, are announced after the resolution has been voted on by a show of hands.

The Annual General Meeting will also include a presentation from the Manager on the portfolio and on the Company, and a presentation from a portfolio company.

Shareholders are able to access the latest information on the Company via the Albion Ventures LLP website www.albion-ventures.co.uk under the "Our Funds" section and by clicking on Albion Development VCT plc.

Any enquiries relating to shareholdings, share certificates or changes to personal details can be directed to Computershare Investor Services PLC:

Tel: 0870 873 5853
UK national rate call (lines are open 8.30am – 5.30pm, Mon – Fri, calls may be recorded)

Shareholders can access holdings and valuation information regarding any of their shares held with Computershare by registering on Computershare's website www.investorcentre.co.uk.

For enquiries relating to the performance of the Fund, and for financial advisors' information please contact Albion Ventures LLP:

Tel: 020 7601 1850 (lines are open 9.00am – 5.30pm, Mon – Fri, calls may be recorded)
Email: info@albion-ventures.co.uk
Website: www.albion-ventures.co.uk

The Company's share buy-back programme operates in the market through brokers. In order to sell shares, as they are quoted on the London Stock Exchange, investors should approach a broker to undertake the sale. Banks may be able to assist shareholders with a referral to a broker within their banking group.

# Statement of corporate governance (continued)

**Statement of compliance**

The Company appointed a Senior Independent Director and formed a Remuneration Committee after the year end. With the exception of the requirement to have a Senior Independent Director and a Remuneration Committee during the year, the Directors consider that the Company has complied throughout the year ended 31 December 2012 with all the relevant provisions set out in Section 1 of the Code issued in May 2010, and with the AIC Code of Corporate Governance. The Company continues to comply with the Code issued in September 2012 as at the date of this report.

By Order of the Board

**Geoffrey Vero**
Chairman
1 King's Arms Yard
London EC2R 7AF
4 April 2013

# Directors' remuneration report

**Introduction**

This report is submitted in accordance with Section 420 of the Companies Act 2006. The report also meets the relevant rules of the Listing Rules of the Financial Conduct Authority and describes how the Board has applied the principles relating to the Directors' remuneration. As required by the Act, a resolution to approve the report will be proposed at the Annual General Meeting.

**UNAUDITED INFORMATION**

**Remuneration Committee**

Since the Company's Board consists solely of non-executive Directors and there are no executive employees, a Remuneration Committee has not been considered necessary during the year. However, in accordance with provision of the UK Corporate Governance Code 2012, a Remuneration Committee has been formed after the year end.

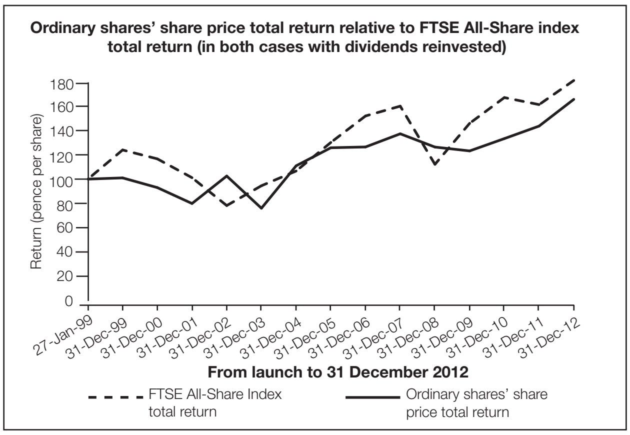
**Directors' remuneration policy**

The Company's policy is that fees payable to non-executive Directors should reflect their expertise, responsibilities and time spent on Company matters. In determining the level of Directors' remuneration, market equivalents are considered in comparison to the overall activities and size of the Company.

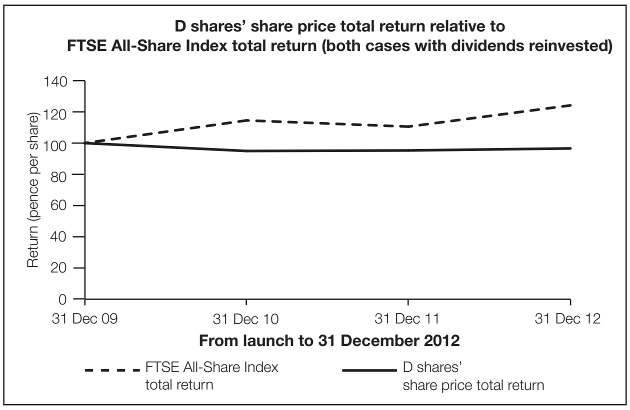
The maximum level of non-executive Directors' remuneration is fixed by the Company's Articles of Association, not to exceed £100,000 per annum; amendment to this is by way of a special resolution subject to ratification by shareholders.

**Performance graph**

The graphs below show Albion Development VCT PLC's Ordinary and D shares' price total return against the FTSE All-Share Index total return, in both instances with dividends reinvested, since launch. The Directors consider this to be the most appropriate benchmark in the absence of a venture capital trust index. Investors should, however, be reminded that shares in VCTs generally trade at a discount to the actual net asset value of the Company.




Source: Albion Ventures LLP




Source: Albion Ventures LLP

There are no options, issued or exercisable, in the Company which would distort the graphical representation.

**Service contracts**

None of the Directors has a service contract with the Company.

The Company's Articles of Association provide for the resignation and, if approved, re-election of the Directors every three years at the Annual General Meeting. At the forthcoming Annual General Meeting Geoffrey Vero and Jonathan Thornton will retire and will be proposed for re-election.

**AUDITED INFORMATION**

**Directors' remuneration**

The following items have been audited.

The following table shows an analysis of the remuneration of individual Directors, who were in office during the year, exclusive of National Insurance or VAT:

| | **31 December 2012** | 31 December 2011 |
|---|---|---|
| | **£'000** | £'000 |
| Jonathan Thornton | 20.5 | 20.5 |
| Andrew Phillipps | 20.5 | 20.5 |
| David Pinckney | 20.5 | 20.5 |
| Geoffrey Vero | 20.5 | 20.5 |
| | 82.0 | 82.0 |

The Company does not confer any share options, long term incentives or retirement benefits to any Director, nor does it make a contribution to any pension scheme on behalf of the Directors.

Each Director of the Company was remunerated personally through the Manager's payroll which has been recharged to the Company, save for Jonathan Thornton whose services were provided by Jonathan Thornton Limited during the year.

In addition to Directors' remuneration, the Company pays an annual premium in respect of Directors' & Officers' Liability Insurance of £9,540 (2011: £9,063).

By Order of the Board

**Albion Ventures LLP**
Company Secretary
1 King's Arms Yard
London, EC2R 7AF
4 April 2013

# Independent Auditor’s report to the Members of Albion Development VCT PLC

We have audited the Financial Statements of Albion Development VCT PLC for the year ended 31 December 2012 which comprise the Income statement, the Balance sheet, the Reconciliation of movements in shareholders' funds, the Cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of Directors and Auditor**

As explained more fully in the Statement of Directors’ responsibilities, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

**Scope of the audit of the Financial Statements**

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

**Opinion on Financial Statements**

In our opinion the Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 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.

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

In our opinion:

- the part of the Directors’ remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors’ report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the information given in the Statement of corporate governance on pages 25 to 29 in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook issued by the Financial Conduct Authority (information about internal control and risk management systems in relation to financial reporting processes and about share capital structures) is consistent with the Financial Statements.

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

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors’ statement, set out on page 28, in relation to going concern; and
- the part of the Statement of corporate governance relating to the Company’s compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors’ remuneration.

**Rhodri Whitlock** (Senior statutory auditor)
for and on behalf of PKF (UK) LLP, Statutory auditor
London, UK
4 April 2013

# Income statement

| | | **Combined Year ended 31 December 2012** | | | Combined Year ended 31 December 2011 | | |
|---|---|---|---|---|---|---|---|
| | **Note** | **Revenue £'000** | **Capital £'000** | **Total £'000** | Revenue £'000 | Capital £'000 | Total £'000 |
| Gains on investments | 3 | **–** | **1,410** | **1,410** | – | 1,421 | 1,421 |
| Investment income | 4 | **1,177** | **–** | **1,177** | 1,038 | – | 1,038 |
| Investment management fees | 5 | **(165)** | **(499)** | **(664)** | (162) | (484) | (646) |
| Other expenses | 6 | **(235)** | **–** | **(235)** | (207) | – | (207) |
| **Return on ordinary activities before tax** | | **777** | **911** | **1,688** | 669 | 937 | 1,606 |
| Tax (charge)/credit on ordinary activities | 8 | **(172)** | **128** | **(44)** | (152) | 126 | (26) |
| **Return attributable to shareholders** | | **605** | **1,039** | **1,644** | 517 | 1,063 | 1,580 |

The accompanying notes on pages 43 to 60 form an integral part of these Financial Statements.

The total column of this Income statement represents the profit and loss account of the Company. The supplementary revenue and capital columns have been prepared in accordance with The Association of Investment Companies' Statement of Recommended Practice.

All revenue and capital items in the above statement derive from continuing operations.

There are no recognised gains or losses other than the results for the year disclosed above. Accordingly a Statement of total recognised gains and losses is not required.

The difference between the reported profit on ordinary activities before tax and the historical profit is due to the fair value movements on investments. As a result a note on historical cost profit and losses has not been prepared.

Disclosure of basic and diluted earnings per share is given in the underlying Ordinary and D share Income statements on the following pages.

# Income statement (non-statutory analysis)

| | | Ordinary shares Year ended 31 December 2012 | | | Ordinary shares Year ended 31 December 2011 | | |
|---|---|---|---|---|---|---|---|
| | Note | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Gains on investments | 3 | – | 921 | 921 | – | 1,289 | 1,289 |
| Investment income | 4 | 928 | – | 928 | 827 | – | 827 |
| Investment management fees | 5 | (132) | (396) | (528) | (129) | (385) | (514) |
| Other expenses | 6 | (183) | – | (183) | (159) | – | (159) |
| **Return on ordinary activities before tax** | | 613 | 525 | 1,138 | 539 | 904 | 1,443 |
| Tax (charge)/credit on ordinary activities | 8 | (132) | 101 | (31) | (120) | 100 | (20) |
| **Return attributable to shareholders** | | 481 | 626 | 1,107 | 419 | 1,004 | 1,423 |
| **Basic and diluted return per share (pence)*** | 10 | 1.50 | 2.00 | 3.50 | 1.40 | 3.30 | 4.70 |

| | | D shares Year ended 31 December 2012 | | | D shares Year ended 31 December 2011 | | |
|---|---|---|---|---|---|---|---|
| | Note | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Gains on investments | 3 | – | 489 | 489 | – | 132 | 132 |
| Investment income | 4 | 249 | – | 249 | 211 | – | 211 |
| Investment management fees | 5 | (33) | (103) | (136) | (33) | (99) | (132) |
| Other expenses | 6 | (52) | – | (52) | (48) | – | (48) |
| **Return on ordinary activities before tax** | | 164 | 386 | 550 | 130 | 33 | 163 |
| Tax (charge)/credit on ordinary activities | 8 | (40) | 27 | (13) | (32) | 26 | (6) |
| **Return attributable to shareholders** | | 124 | 413 | 537 | 98 | 59 | 157 |
| **Basic and diluted return per share (pence)*** | 10 | 1.90 | 6.50 | 8.40 | 1.60 | 0.90 | 2.50 |

* *excluding treasury shares*

The accompanying notes on pages 43 to 60 form an integral part of these Financial Statements.

# Balance sheet

| | Note | Combined 31 December 2012 £'000 | Combined 31 December 2011 £'000 |
|---|---|---|---|
| **Fixed asset investments** | 11 | **22,540** | 21,113 |
| **Current assets** | | | |
| Trade and other debtors | 13 | **282** | 131 |
| Current asset investments | 13 | **530** | 637 |
| Cash at bank and in hand | 17 | **7,131** | 7,195 |
| | | **7,943** | 7,963 |
| **Creditors: amounts falling due within one year** | 14 | **(378)** | (262) |
| **Net current assets** | | **7,565** | 7,701 |
| **Net assets** | | **30,105** | 28,814 |
| **Capital and reserves** | | | |
| Called up share capital | 15 | **421** | 20,088 |
| Share premium | | **392** | 636 |
| Capital redemption reserve | | **2** | 1,917 |
| Unrealised capital reserve | | **(2,046)** | (3,143) |
| Realised capital reserve | | **3,326** | 2,713 |
| Other distributable reserve | | **28,010** | 6,603 |
| **Total equity shareholders' funds** | | **30,105** | 28,814 |

The accompanying notes on pages 43 to 60 form an integral part of these Financial Statements.

Disclosure of basic and diluted net asset value per share is given in the underlying Ordinary and D shares Balance sheets on the following pages.

These Financial Statements were approved by the Board of Directors, and authorised for issue on 4 April 2013 and were signed on its behalf by

**Geoffrey Vero**
Chairman

Company number: 3654040

# Balance sheet (non-statutory analysis)

| | Note | **Ordinary shares 31 December 2012 £'000** | Ordinary shares 31 December 2011 £'000 |
|---|---|---|---|
| **Fixed asset investments** | 11 | **17,606** | 17,147 |
| **Current assets** | | | |
| Trade and other debtors | 13 | **202** | 101 |
| Current asset investments | 13 | **30** | 137 |
| Cash at bank and in hand | 17 | **6,309** | 5,734 |
| | | **6,541** | 5,972 |
| **Creditors: amounts falling due within one year** | 14 | **(287)** | (214) |
| **Net current assets** | | **6,254** | 5,758 |
| **Net assets** | | **23,860** | 22,905 |
| **Capital and reserves** | | | |
| Called up share capital | 15 | **357** | 16,912 |
| Share premium | | **383** | 631 |
| Capital redemption reserve | | **2** | 1,917 |
| Unrealised capital reserve | | **(2,661)** | (3,269) |
| Realised capital reserve | | **3,514** | 2,825 |
| Other distributable reserve | | **22,265** | 3,889 |
| **Total equity shareholders' funds** | | **23,860** | 22,905 |
| **Basic and diluted net asset value per share (pence)*** | 16 | **74.00** | 75.50 |

** excluding treasury shares*

The accompanying notes on pages 43 to 60 form an integral part of these Financial Statements.

# Balance sheet (non-statutory analysis)

| | Note | D shares<br>31 December 2012<br>£'000 | D shares<br>31 December 2011<br>£'000 |
|---|---|---|---|
| **Fixed asset investments** | 11 | **4,934** | 3,966 |
| **Current assets** | | | |
| Trade and other debtors | 13 | **80** | 30 |
| Current asset investments | 13 | **500** | 500 |
| Cash at bank and in hand | 17 | **822** | 1,461 |
| | | **1,402** | 1,991 |
| **Creditors: amounts falling due within one year** | 14 | **(91)** | (48) |
| **Net current assets** | | **1,311** | 1,943 |
| **Net assets** | | **6,245** | 5,909 |
| **Capital and reserves** | | | |
| Called up share capital | 15 | **64** | 3,176 |
| Share premium | | **9** | 5 |
| Unrealised capital reserve | | **615** | 126 |
| Realised capital reserve | | **(188)** | (112) |
| Other distributable reserve | | **5,745** | 2,714 |
| **Total equity shareholders' funds** | | **6,245** | 5,909 |
| **Basic and diluted net asset value per share (pence)*** | 16 | **97.90** | 93.00 |

** excluding treasury shares*

The accompanying notes on pages 43 to 60 form an integral part of these Financial Statements.

# Reconciliation of movements in shareholders' funds

## Combined

| | Called-up share capital £'000 | Share premium £'000 | Capital redemption reserve £'000 | Unrealised capital reserve* £'000 | Realised capital reserve* £'000 | Other distributable reserve* £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **As at 1 January 2012** | **20,088** | **636** | **1,917** | **(3,143)** | **2,713** | **6,603** | **28,814** |
| Return/(loss) for the year | – | – | – | 1,058 | (19) | 605 | 1,644 |
| Transfer of unrealised losses to realised losses | – | – | – | 39 | (39) | – | – |
| Reduction in share capital and cancellation of capital redemption and share premium reserves** | (20,446) | (1,139) | (2,204) | – | – | 23,789 | – |
| Cancellation of treasury shares | (20) | – | 20 | – | – | – | – |
| Purchase of own shares for cancellation | (269) | – | 269 | – | – | (499) | (499) |
| Issue of equity (net of costs) | 1,068 | 895 | – | – | – | – | 1,963 |
| Transfer from other distributable reserve to realised capital reserve | – | – | – | – | 671 | (671) | – |
| Dividends paid | – | – | – | – | – | (1,817) | (1,817) |
| **As at 31 December 2012** | **421** | **392** | **2** | **(2,046)** | **3,326** | **28,010** | **30,105** |
| As at 1 January 2011 | 19,388 | 37 | 1,426 | (5,063) | 2,860 | 9,270 | 27,918 |
| Return for the year | – | – | – | 81 | 982 | 517 | 1,580 |
| Transfer of unrealised losses to realised losses | – | – | – | 1,839 | (1,839) | – | – |
| Purchase of own treasury shares | – | – | – | – | – | (462) | (462) |
| Cancellation of treasury shares | (250) | – | 250 | – | – | – | – |
| Purchase of own shares for cancellation | (241) | – | 241 | – | – | (306) | (306) |
| Issue of equity (net of costs) | 1,191 | 599 | – | – | – | – | 1,790 |
| Transfer from other distributable reserve to realised capital reserve | – | – | – | – | 711 | (711) | – |
| Dividends paid | – | – | – | – | – | (1,705) | (1,705) |
| As at 31 December 2011 | 20,088 | 636 | 1,917 | (3,143) | 2,713 | 6,603 | 28,814 |

* Included within these reserves is an amount of £29,290,000 (2011: £6,173,000) which is considered distributable.

** The reduction in the nominal value of shares from 50 pence to 1 penny and the cancellation of the capital redemption and share premium reserves (as approved by shareholders at the Annual General Meeting held on 15 June 2012 and by order of the Court dated 11 July 2012) has increased the value of distributable reserves.

The special reserve, treasury shares reserve and the revenue reserve have been combined in the Balance sheet to form a single reserve named other distributable reserve for both the current and prior year. The Directors consider the combination of these reserves enhances the clarity of financial reporting. More details regarding treasury shares can be found in note 15.

A transfer of £671,000 (2011: £711,000) representing gross realised losses on disposal of investments during the year ended 31 December 2012 has been made from the other distributable reserve to the realised capital reserve.

# Reconciliation of movements in shareholders' funds

## Ordinary shares (non-statutory analysis)

| | Called-up share capital £'000 | Share premium £'000 | Capital redemption reserve £'000 | Unrealised capital reserve* £'000 | Realised capital reserve* £'000 | Other distributable reserve* £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **As at 1 January 2012** | **16,912** | **631** | **1,917** | **(3,269)** | **2,825** | **3,889** | **22,905** |
| Return for the year | – | – | – | 569 | 57 | 481 | 1,107 |
| Transfer of unrealised losses to realised losses | – | – | – | 39 | (39) | – | – |
| Reduction of share capital and cancellation of capital redemption and share premium reserves** | (17,327) | (1,129) | (2,204) | – | – | 20,660 | – |
| Cancellation of treasury shares | (20) | – | 20 | – | – | – | – |
| Purchase of own shares for cancellation | (269) | – | 269 | – | – | (499) | (499) |
| Issue of equity (net of costs) | 1,061 | 881 | – | – | – | – | 1,942 |
| Transfer from other distributable reserve to realised capital reserve | – | – | – | – | 671 | (671) | – |
| Dividends paid | – | – | – | – | – | (1,595) | (1,595) |
| **As at 31 December 2012** | **357** | **383** | **2** | **(2,661)** | **3,514** | **22,265** | **23,860** |
| As at 1 January 2011 | 16,220 | 37 | 1,426 | (5,083) | 2,924 | 6,496 | 22,020 |
| (Loss)/return for the year | – | – | – | (25) | 1,029 | 419 | 1,423 |
| Transfer of unrealised losses to realised losses | – | – | – | 1,839 | (1,839) | – | – |
| Purchase of own treasury shares | – | – | – | – | – | (462) | (462) |
| Cancellation of treasury shares | (250) | – | 250 | – | – | – | – |
| Purchase of own shares for cancellation | (241) | – | 241 | – | – | (306) | (306) |
| Issue of equity (net of costs) | 1,183 | 594 | – | – | – | – | 1,777 |
| Transfer from other distributable reserve to realised capital reserve | – | – | – | – | 711 | (711) | – |
| Dividends paid | – | – | – | – | – | (1,547) | (1,547) |
| As at 31 December 2011 | 16,912 | 631 | 1,917 | (3,269) | 2,825 | 3,889 | 22,905 |

* Included within these reserves is an amount of £23,118,000 (2011: £3,445,000) which is considered distributable.

** The reduction in the nominal value of shares from 50 pence to 1 penny and the cancellation of the capital redemption and share premium reserves (as approved by shareholders at the Annual General Meeting held on 15 June 2012 and by order of the Court dated 11 July 2012) has increased the value of distributable reserves.

The special reserve, treasury shares reserve and the revenue reserve have been combined in the Balance sheet to form a single reserve named other distributable reserve for both the current and prior year. The Directors consider the combination of these reserves enhances the clarity of financial reporting. More details regarding treasury shares can be found in note 15.

A transfer of £671,000 (2011: £711,000) representing gross realised losses on disposal of investments during the year ended 31 December 2012 has been made from the other distributable reserve to the realised capital reserve.

# Reconciliation of movements in shareholders' funds

## D shares (non-statutory analysis)

| | Called-up share capital £'000 | Share premium £'000 | Unrealised capital reserve £'000 | Realised capital reserve* £'000 | Other distributable reserve* £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **As at 1 January 2012** | **3,176** | **5** | **126** | **(112)** | **2,714** | **5,909** |
| Return/(loss) for the year | – | – | 489 | (76) | 124 | 537 |
| Reduction in share capital and cancellation of share premium reserve** | (3,119) | (10) | – | – | 3,129 | – |
| Issue of equity (net of costs) | 7 | 14 | – | – | – | 21 |
| Dividends paid | – | – | – | – | (222) | (222) |
| **As at 31 December 2012** | **64** | **9** | **615** | **(188)** | **5,745** | **6,245** |
| As at 1 January 2011 | 3,168 | – | 20 | (64) | 2,774 | 5,898 |
| Return/(loss) for the year | – | – | 106 | (47) | 98 | 157 |
| Issue of equity (net of costs) | 8 | 5 | – | – | – | 13 |
| Dividends paid | – | – | – | – | (158) | (158) |
| As at 31 December 2011 | 3,176 | 5 | 126 | (112) | 2,714 | 5,909 |

* Included within these reserves is an amount of £5,557,000 (2011: £2,602,000) which is considered distributable.

** The reduction in the nominal value of shares from 50 pence to 1 penny and the cancellation of the share premium reserve (as approved by shareholders at the Annual General Meeting held on 15 June 2012 and by order of the Court dated 11 July 2012) has increased the value of distributable reserves.

The special reserve, treasury shares reserve and the revenue reserve have been combined in the Balance sheet to form a single reserve named other distributable reserve for both the current and prior year. The Directors consider the combination of these reserves enhances the clarity of financial reporting. More details regarding treasury shares can be found in note 15.

# Cash flow statement

| | Note | **Combined Year ended 31 December 2012 £'000** | Combined Year ended 31 December 2011 £'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Loan stock income received | | **1,144** | 873 |
| Deposit interest received | | **104** | 93 |
| Dividend income received | | **–** | 19 |
| Other income received | | **–** | 1 |
| Investment management fees paid | | **(657)** | (643) |
| Other cash payments | | **(224)** | (224) |
| **Net cash flow from operating activities** | 18 | **367** | 119 |
| **Taxation** | | | |
| UK corporation tax (paid)/recovered | | **(24)** | 125 |
| **Capital expenditure and financial investments** | | | |
| Purchase of fixed asset investments | | **(4,124)** | (5,311) |
| Disposal of fixed asset investments | | **3,904** | 4,932 |
| Purchase of current asset investments | | **–** | (500) |
| Disposal of current asset investments | | **171** | – |
| **Net cash flow from investing activities** | | **(49)** | (879) |
| **Equity dividends paid** | | | |
| Dividends paid (net of cost of shares issued under the Dividend Reinvestment Scheme) | | **(1,678)** | (1,585) |
| **Net cash flow before financing** | | **(1,384)** | (2,220) |
| **Financing** | | | |
| Issue of share capital (net of costs) | | **1,824** | 1,671 |
| Purchase of own shares (including costs) | 15 | **(504)** | (768) |
| **Net cash flow from financing** | | **1,320** | 903 |
| **Cash flow in the year** | 17 | **(64)** | (1,317) |

# Cash flow statement (non-statutory analysis)

| | Note | **Ordinary shares Year ended 31 December 2012 £'000** | Ordinary shares Year ended 31 December 2011 £'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Loan stock income received | | **906** | 755 |
| Deposit interest received | | **70** | 55 |
| Dividend income received | | **–** | 19 |
| Other income received | | **–** | 1 |
| Investment management fees paid | | **(523)** | (511) |
| Other cash payments | | **(175)** | (174) |
| **Net cash flow from operating activities** | 18 | **278** | 145 |
| **Taxation** | | | |
| UK corporation tax (paid)/recovered | | **(31)** | 125 |
| **Capital expenditure and financial investments** | | | |
| Purchase of fixed asset investments | | **(3,304)** | (3,131) |
| Disposal of fixed asset investments | | **3,618** | 4,906 |
| Disposal of current asset investments | | **171** | – |
| **Net cash flow from investing activities** | | **485** | 1,775 |
| **Equity dividends paid** | | | |
| Dividends paid (net of cost of shares issued under Dividend Reinvestment Scheme) | | **(1,477)** | (1,441) |
| **Net cash flow before financing** | | **(745)** | 604 |
| **Financing** | | | |
| Issue of share capital (net of costs) | | **1,824** | 1,671 |
| Purchase of own shares | 15 | **(504)** | (768) |
| **Net cash flow from financing** | | **1,320** | 903 |
| **Cash flow in the year** | 17 | **575** | 1,507 |

# Cash flow statement (non-statutory analysis)

| | Note | D shares Year ended 31 December 2012 £'000 | D shares Year ended 31 December 2011 £'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Loan stock income received | | **238** | 118 |
| Deposit interest received | | **34** | 38 |
| Investment management fees paid | | **(134)** | (132) |
| Other cash payments | | **(49)** | (50) |
| **Net cash flow from operating activities** | 18 | **89** | (26) |
| **UK corporation tax received** | | **7** | – |
| **Capital expenditure and financial investments** | | | |
| Purchase of fixed asset investments | | **(820)** | (2,180) |
| Disposal of fixed asset investments | | **286** | 26 |
| Purchase of current asset investments | | **–** | (500) |
| **Net cash flow from investing activities** | | **(534)** | (2,654) |
| **Equity dividends paid** | | | |
| Dividends paid (net of cost of shares issued under the Dividend Reinvestment Scheme) | | **(201)** | (144) |
| **Net cash flow before financing** | | **(639)** | (2,824) |
| **Cash flow in the year** | 17 | **(639)** | (2,824) |

# Notes to the Financial Statements

**1. Accounting convention**

The financial statements have been prepared in accordance with the historical cost convention, modified to include the revaluation of investments, in accordance with applicable United Kingdom law and accounting standards and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies and Venture Capital Trusts" ("SORP") issued by The Association of Investment Companies ("AIC") in January 2009. Accounting policies have been applied consistently in current and prior periods, however to enhance clarity of financial reporting, during the year the special reserve, treasury share reserve and revenue reserve have been combined to create a single reserve named Other distributable reserve. This has also been applied to prior periods.

**2. Accounting policies**

**Investments**

*Unquoted equity investments, debt issued at a discount, and convertible bonds*

In accordance with FRS 26 "Financial Instruments Recognition and Measurement", unquoted equity, debt issued at a discount and convertible bonds are designated as fair value through profit or loss ("FVTPL"). Unquoted investments' fair value is determined by the Directors in accordance with the International Private Equity and Venture Capital Valuation Guidelines (IPEVCV guidelines).

Fair value movements and gains and losses arising on the disposal of investments are reflected in the capital column of the Income statement in accordance with the AIC SORP. Realised gains or losses on the sale of investments will be reflected in the realised capital reserve, and unrealised gains or losses arising from the revaluation of investments will be reflected in the unrealised capital reserve.

*Warrants and unquoted equity derived instruments*

Warrants and unquoted equity derived instruments are only valued if there is deemed to be additional value to the Company in exercising or converting as at the balance sheet date. Otherwise these instruments are held at nil value. The valuation techniques used are those used for the underlying equity investment.

*Unquoted loan stock*

Unquoted loan stock (excluding debt issued at a discount and convertible bonds) is classified as loans and receivables as permitted by FRS 26 and measured at amortised cost using the effective interest rate method less impairment. Movements in the amortised cost relating to interest income are reflected in the revenue column of the Income statement, and hence are reflected in the other distributable reserve, and movements in respect of capital provisions are reflected in the capital column of the Income statement and are reflected in the realised capital reserve following sale, or in the unrealised capital reserve for impairments arising from revaluations of the fair value of the security.

For all unquoted loan stock, whether fully performing, past due or impaired, the Board considers that the fair value is equal to or greater than the security value of these assets. For unquoted loan stock, the amount of the impairment is the difference between the asset's cost and the present value of estimated future cash flows, discounted at the original effective interest rate. The future cash flows are estimated based on the fair value of the security less estimated selling costs.

Investments are recognised as financial assets on legal completion of the investment contract and are de-recognised on legal completion of the sale of an investment.

Dividend income is not recognised as part of the fair value movement of an investment, but is recognised separately as investment income through the other distributable reserve when a share becomes ex-dividend.

Loan stock accrued interest is recognised in the Balance sheet as part of the carrying value of the loans and receivables at the end of each reporting period.

In accordance with the exemptions under FRS 9 "Associates and joint ventures", those undertakings in which the Company holds more than 20 per cent. of the equity as part of an investment portfolio are not accounted for using the equity method.

**Current asset investments**

Contractual future contingent receipts on disposal of fixed asset investments are designated at fair value through profit or loss and are subsequently measured at fair value.

Fixed term deposits are classified as current asset investments as they are investments held for the short term. These are designated as loans and receivables and measured at amortised cost, which is considered to be equivalent to fair value.

**Investment income**

*Unquoted equity income*

Dividend income is included in the revenue column when the investment is quoted ex-dividend.

*Unquoted loan stock income*

Fixed returns on non-equity shares and debt securities are recognised on a time apportionment basis using an effective interest rate over the life of the financial instrument. Income which is not capable of being received within a reasonable period of time is reflected in the capital value of the investment.

*Bank interest income*

Interest income is recognised on an accruals basis using the rate of interest agreed with the bank.

**Investment management fees and other expenses**

All expenses have been accounted for on an accruals basis. Expenses are charged through the revenue column of the Income statement except the following which are charged through the realised capital reserve:

- 75 per cent. of management fees are allocated to the realised capital reserve in line with the Board's expectation that over the long term 75 per cent. of the Company's investment returns will be in the form of capital gains; and
- expenses which are incidental to the purchase or disposal of an investment are charged through the realised capital reserve.

# Notes to the Financial Statements (continued)

**Performance incentive fee**
In the event that a performance incentive fee crystallises, the fee will be allocated between revenue and realised capital reserves based upon the proportion to which the calculation of the fee is attributable to revenue and capital returns.

**Taxation**
Taxation is applied on a current basis in accordance with FRS 16 "Current tax". Taxation associated with capital expenses is applied in accordance with the SORP. In accordance with FRS 19 "Deferred tax", deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on 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 financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

**Dividends**
In accordance with FRS 21 "Events after the balance sheet date", dividends declared by the Company are accounted for in the period in which the dividend has been paid or approved by shareholders in annual general meeting.

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

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

*Unrealised capital reserve*
Increases and decreases in the valuation of investments held at the year end against cost, are included in this reserve.

*Other distributable reserve*
The special reserve, treasury share reserve and the revenue reserve have been combined to form a single reserve named Other distributable reserve.

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

*Realised capital reserve*
The following are disclosed in this reserve:

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

**D shares**
Until such time that D shares are converted into Ordinary shares, all investments and returns attributable to this class of share will be separately identifiable from the existing Ordinary shares. All residual expenses will be allocated in the ratio of the respective Net Asset Values of each class of share.

# Notes to the Financial Statements (continued)

**3. Gains on investments**

| | **Year ended 31 December 2012** | | | Year ended 31 December 2011 | | |
|---|---|---|---|---|---|---|
| | **Ordinary shares £'000** | **D shares £'000** | **Total £'000** | Ordinary shares £'000 | D shares £'000 | Total £'000 |
| Unrealised gains/(losses) on fixed asset investments held at fair value through profit or loss | **569** | **390** | **959** | 266 | (272) | (6) |
| Unrealised (impairments)/reversals of impairments on fixed asset investments held at amortised cost | **(30)** | **99** | **69** | (291) | 378 | 87 |
| | **539** | **489** | **1,028** | (25) | 106 | 81 |
| Unrealised gains on current asset investments held at fair value through profit or loss account | **30** | **–** | **30** | – | – | – |
| **Unrealised gains/(losses) sub-total** | **569** | **489** | **1,058** | (25) | 106 | 81 |
| Realised gains on investments held at fair value through profit or loss account | **337** | **–** | **337** | 224 | – | 224 |
| Realised (losses)/gains on investments held at amortised cost | **(19)** | **–** | **(19)** | 1,090 | 26 | 1,116 |
| | **318** | **–** | **318** | 1,314 | 26 | 1,340 |
| Realised gains on current asset investments held at fair value through profit or loss account | **34** | **–** | **34** | – | – | – |
| **Realised gains sub total** | **352** | **–** | **352** | 1,314 | 26 | 1,340 |
| | **921** | **489** | **1,410** | 1,289 | 132 | 1,421 |

Investments measured at amortised cost are unquoted loan stock investments as described in note 2.

**4. Investment income**

| | **Year ended 31 December 2012** | | | Year ended 31 December 2011 | | |
|---|---|---|---|---|---|---|
| | **Ordinary shares £'000** | **D shares £'000** | **Total £'000** | Ordinary shares £'000 | D shares £'000 | Total £'000 |
| **Income recognised on investments held at fair value through profit or loss** | | | | | | |
| Dividend income | **–** | **–** | **–** | 19 | – | 19 |
| Income from convertible bonds and discounted debt | **159** | **87** | **246** | 37 | 54 | 91 |
| | **159** | **87** | **246** | 56 | 54 | 110 |
| **Income recognised on investments held at amortised cost** | | | | | | |
| Bank deposit interest | **72** | **31** | **103** | 71 | 56 | 127 |
| Return on loan stock investments | **697** | **131** | **828** | 700 | 101 | 801 |
| | **769** | **162** | **931** | 771 | 157 | 928 |
| | **928** | **249** | **1,177** | 827 | 211 | 1,038 |

Interest income earned on impaired investments at 31 December 2012 amounted to £233,000 (2011: £98,000). These investments are all held at amortised cost.

**5. Investment management fees**

| | **Year ended 31 December 2012** | | | Year ended 31 December 2011 | | |
|---|---|---|---|---|---|---|
| | **Ordinary shares £'000** | **D shares £'000** | **Total £'000** | Ordinary shares £'000 | D shares £'000 | Total £'000 |
| Investment management fee charged to revenue | **132** | **33** | **165** | 129 | 33 | 162 |
| Investment management fee charged to capital | **396** | **103** | **499** | 385 | 99 | 484 |
| | **528** | **136** | **664** | 514 | 132 | 646 |

Further details of the Management agreement under which the investment management fee is paid are given in the Directors' report on page 21.

The Manager, Albion Ventures LLP, is party to a management agreement from the Company (details disclosed on page 21 of this report). During the year, services of a total value of £664,000 (2011: £646,000) were purchased by the Company from Albion Ventures LLP in respect of management fees. At the financial year end, the amount due to Albion Ventures LLP disclosed as accruals was £169,000 (2011: £162,000).

During the year the Company raised new funds through the Albion VCTs Linked Top Up Offers 2011/2012 and the Albion VCTs Top Up Offers 2012/2013 as detailed in note 15. The total cost of the issue of these shares was 5.5 per cent. of the sums subscribed. Of these costs, amounts of £6,740 and £663 respectively were paid to the Manager, Albion Ventures LLP in respect of receiving agent services. There were no sums outstanding in respect of receiving agent services at the year end.

Albion Ventures LLP holds 331 fractional entitlement shares of the Company as a result of the conversion of C shares to Ordinary shares in March 2007. These shares will be sold for the benefit of the Company at a future date.

Albion Ventures LLP also holds 14,000 Ordinary shares having subscribed for them as a result of the failure of an original subscriber to pay cleared funds on initial subscription.

**6. Other expenses**

| | **Year ended 31 December 2012** | | | Year ended 31 December 2011 | | |
|---|---|---|---|---|---|---|
| | **Ordinary shares £'000** | **D shares £'000** | **Total £'000** | Ordinary shares £'000 | D shares £'000 | Total £'000 |
| Directors' fees (including NIC) | **69** | **18** | **87** | 69 | 19 | 88 |
| Other administrative expenses | **95** | **29** | **124** | 73 | 23 | 96 |
| Auditor's remuneration for statutory audit services (excluding VAT) | **19** | **5** | **24** | 17 | 6 | 23 |
| | **183** | **52** | **235** | 159 | 48 | 207 |

**7. Directors' fees**

The amounts paid to and on behalf of Directors during the year are as follows:

| | **Year ended 31 December 2012** | | | Year ended 31 December 2011 | | |
|---|---|---|---|---|---|---|
| | **Ordinary shares £'000** | **D shares £'000** | **Total £'000** | Ordinary shares £'000 | D shares £'000 | Total £'000 |
| Directors' fees | **65** | **17** | **82** | 64 | 18 | 82 |
| National insurance | **4** | **1** | **5** | 5 | 1 | 6 |
| | **69** | **18** | **87** | 69 | 19 | 88 |

Further information can be found in the Directors' remuneration report on page 30.

# Notes to the Financial Statements (continued)

**8. Tax (charge)/credit on ordinary activities**

The Company's combined tax charge of £44,000 (2011: £26,000) is analysed between the two share classes as follows:

| | **Year ended 31 December 2012** | | | Year ended 31 December 2011 | | |
|---|---|---|---|---|---|---|
| | **Revenue** | **Capital** | **Total** | Revenue | Capital | Total |
| **Ordinary shares** | **£'000** | **£'000** | **£'000** | £'000 | £'000 | £'000 |
| UK corporation tax in respect of current year | **(149)** | **101** | **(48)** | (128) | 100 | (28) |
| UK corporation tax in respect of prior years | **17** | **–** | **17** | 8 | – | 8 |
| | **(132)** | **101** | **(31)** | (120) | 100 | (20) |

**Factors affecting the tax charge:**

| **Ordinary shares** | **Year ended 31 December 2012 £'000** | Year ended 31 December 2011 £'000 |
|---|---|---|
| Profit on ordinary activities before taxation | **1,138** | 1,443 |
| Tax on profit at the standard rate of 24.5 per cent. (2011: 20 per cent.) | **(279)** | (292) |
| Factors affecting the charge: | | |
| Non-taxable profits | **226** | 260 |
| Non-taxable income | **–** | 4 |
| Non-deductible expenses | **(4)** | – |
| Marginal relief | **9** | – |
| Adjustment in respect of prior years | **17** | 8 |
| | **(31)** | (20) |

| | **Year ended 31 December 2012** | | | Year ended 31 December 2011 | | |
|---|---|---|---|---|---|---|
| | **Revenue** | **Capital** | **Total** | Revenue | Capital | Total |
| **D shares** | **£'000** | **£'000** | **£'000** | £'000 | £'000 | £'000 |
| UK corporation tax in respect of current year | **(40)** | **27** | **(13)** | (32) | 26 | (6) |

**Factors affecting the tax charge:**

| **D shares** | **Year ended 31 December 2012 £'000** | Year ended 31 December 2011 £'000 |
|---|---|---|
| Profit on ordinary activities before taxation | **550** | 163 |
| Tax on profit at the standard rate of 24.5 per cent. (2011: 20 per cent.) | **(135)** | (33) |
| Factors affecting the charge: | | |
| Non-taxable profits | **120** | 27 |
| Non-deductible expenses | **(1)** | – |
| Marginal relief | **3** | – |
| | **(13)** | (6) |

The tax charge for the year shown in the Income statement is lower than the standard rate of corporation tax in the UK of 24.5 per cent. (2011: 20 per cent.). The differences are explained above.

Consortium relief is recognised in the accounts in the period in which the claim is submitted to HMRC and is shown as tax in respect of prior years.

Notes

(i) Venture Capital Trusts are not subject to corporation tax on capital gains.

(ii) Tax relief on expenses charged to capital has been determined by allocating tax relief to expenses by reference to the applicable corporation tax rate and allocating the relief between revenue and capital in accordance with the SORP.

(iii) No deferred tax asset or liability has arisen in the year.

**9. Dividends**

| Ordinary shares | **Year ended 31 December 2012 £'000** | Year ended 31 December 2011 £'000 |
|---|---|---|
| Dividend of 2.5p per Ordinary share paid on 31 May 2011 | **–** | 776 |
| Dividend of 2.5p per Ordinary share paid on 30 September 2011 | **–** | 771 |
| Dividend of 2.5p per Ordinary share paid on 31 May 2012 | **799** | – |
| Dividend of 2.5p per Ordinary share paid on 30 September 2012 | **796** | – |
| | **1,595** | 1,547 |

| D shares | **Year ended 31 December 2012 £'000** | Year ended 31 December 2011 £'000 |
|---|---|---|
| Dividend of 1.25p per D share paid on 31 May 2011 | **–** | 79 |
| Dividend of 1.25p per D share paid on 30 September 2011 | **–** | 79 |
| Dividend of 1.75p per D share paid on 31 May 2012 | **111** | – |
| Dividend of 1.75p per D share paid on 30 September 2012 | **111** | – |
| | **222** | 158 |

In addition to the dividends summarised above, the Board has declared a first dividend of 2.50 pence per Ordinary share and 2.50 pence per D share for the year ending 31 December 2013. This dividend will be paid on 31 May 2013 to shareholders on the register as at 3 May 2013. This dividend totals approximately £806,000 for Ordinary shares and £159,000 for D shares.

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

| | **Year ended 31 December 2012** | | | Year ended 31 December 2011 | | |
|---|---|---|---|---|---|---|
| **Ordinary shares** | **Revenue** | **Capital** | **Total** | Revenue | Capital | Total |
| The return per share has been based on the following figures: | | | | | | |
| Return attributable to equity shares (£'000) | **481** | **626** | **1,107** | 419 | 1,004 | 1,423 |
| Weighted average shares in issue (excluding treasury shares) | | **31,651,285** | | | 30,630,649 | |
| Return attributable per equity share (pence) | **1.50** | **2.00** | **3.50** | 1.40 | 3.30 | 4.70 |

The weighted average number of Ordinary shares is calculated excluding the treasury shares of 3,428,000 (2011: 3,467,396).

| | **Year ended 31 December 2012** | | | Year ended 31 December 2011 | | |
|---|---|---|---|---|---|---|
| **D shares** | **Revenue** | **Capital** | **Total** | Revenue | Capital | Total |
| The return per share has been based on the following figures: | | | | | | |
| Return attributable to equity shares (£'000) | **124** | **413** | **537** | 98 | 59 | 157 |
| Weighted average shares in issue (excluding treasury shares) | | **6,363,334** | | | 6,342,448 | |
| Return attributable per equity share (pence) | **1.90** | **6.50** | **8.40** | 1.60 | 0.90 | 2.50 |

There are no D shares held in treasury.

There are no convertible instruments, derivatives or contingent share agreements in issue so basic and diluted return per share are the same.

# Notes to the Financial Statements (continued)

**11. Fixed asset investments**

The classification of investments by nature of instruments is as follows:

| | Ordinary shares | | D shares | |
|---|---|---|---|---|
| | **31 December 2012** | 31 December 2011 | **31 December 2012** | 31 December 2011 |
| | **£'000** | £'000 | **£'000** | £'000 |
| **Investments held at fair value through profit or loss** | | | | |
| Unquoted equity, warrants and preference shares | **5,490** | 5,776 | **1,471** | 1,053 |
| Discounted debt and convertible loan stock | **3,534** | 1,581 | **1,184** | 1,138 |
| | **9,024** | 7,357 | **2,655** | 2,191 |
| **Investments held at amortised cost** | | | | |
| Unquoted loan stock | **8,582** | 9,790 | **2,279** | 1,775 |
| | **17,606** | 17,147 | **4,934** | 3,966 |

| | Ordinary shares | D shares | Combined |
|---|---|---|---|
| | **£'000** | **£'000** | **£'000** |
| **Opening valuation as at 1 January 2012** | **17,147** | **3,966** | **21,113** |
| Purchases at cost | 3,232 | 784 | 4,016 |
| Disposal proceeds | (3,580) | (286) | (3,866) |
| Realised gains | 318 | – | 318 |
| Movement in loan stock accrued income | (50) | (19) | (69) |
| Unrealised gains | 539 | 489 | 1,028 |
| **Closing valuation as at 31 December 2012** | **17,606** | **4,934** | **22,540** |
| **Movement in loan stock accrued income** | | | |
| Opening accumulated movement in loan stock accrued income | **288** | **38** | **326** |
| Movement in loan stock accrued income | (50) | (19) | (69) |
| **Closing accumulated movement in loan stock accrued income as at 31 December 2012** | **238** | **19** | **257** |
| **Movement in unrealised (losses)/gains** | | | |
| Opening accumulated unrealised (losses)/gains | **(3,541)** | **126** | **(3,415)** |
| Transfer of previously unrealised losses on disposal | 134 | – | 134 |
| Movement in unrealised gains | 539 | 489 | 1,028 |
| **Closing accumulated unrealised (losses)/gains as at 31 December 2012** | **(2,868)** | **615** | **(2,253)** |
| **Historic cost basis** | | | |
| Opening book cost | **20,399** | **3,802** | **24,201** |
| Purchases at cost | 3,232 | 784 | 4,016 |
| Sales at cost | (3,396) | (286) | (3,682) |
| **Closing book cost as at 31 December 2012** | **20,235** | **4,300** | **24,535** |

The Directors believe that the carrying value of loan stock measured at amortised cost is not materially different to fair value. The Company does not hold any assets as the result of the enforcement of security during the year, and believes that the carrying values for both impaired and past due assets are covered by the value of security held for these loan stock investments.

Additions and disposal proceeds included in the cash flow statement differ from the amounts shown in the note above, due to deferred consideration, settlement creditors and the restructuring of investments.

A schedule of realisations during the year is shown on pages 12 and 13.

# Notes to the Financial Statements (continued)

**11. Fixed asset investments (continued)**

The amended FRS 29 'Financial Instruments: Disclosures' requires the Company to disclose the valuation methods applied to its investments measured at fair value through profit or loss in a fair value hierarchy according to the following definitions:

| Fair value hierarchy | Definition of valuation method |
|---|---|
| Level 1 | Unadjusted quoted (bid) prices applied |
| Level 2 | Inputs to valuation are from observable sources and are directly or indirectly derived from prices |
| Level 3 | Inputs to valuations not based on observable market data |

Unquoted equity, preference shares, convertible loan stock and debt issued at a discount are all valued according to Level 3 valuation methods.

The Ordinary shares' Level 3 investments had the following movements in the year to 31 December 2012:

| | **31 December 2012** | | | 31 December 2011 | | |
|---|---|---|---|---|---|---|
| | **Equity £'000** | **Convertible and discounted bonds £'000** | **Total £'000** | Equity £'000 | Convertible and discounted bonds £'000 | Total £'000 |
| Opening balance | **5,776** | **1,581** | **7,357** | 5,199 | 937 | 6,136 |
| Additions | **976** | **1,320** | **2,296** | 3,126 | 846 | 3,972 |
| Disposals | **(1,462)** | **(68)** | **(1,530)** | (2,586) | (525) | (3,111) |
| Realised gains/(losses) | **400** | **(63)** | **337** | 222 | – | 222 |
| Debt/equity conversion | **24** | **(24)** | **–** | – | – | – |
| Transfer to current asset investments | **–** | **–** | **–** | (137) | – | (137) |
| Unrealised (losses)/gains | **(224)** | **793** | **569** | (48) | 314 | 266 |
| Accrued loan stock interest | **–** | **(5)** | **(5)** | – | 9 | 9 |
| Closing balance | **5,490** | **3,534** | **9,024** | 5,776 | 1,581 | 7,357 |

The D shares' Level 3 investments had the following movements in the year to 31 December 2012:

| | **31 December 2012** | | | 31 December 2011 | | |
|---|---|---|---|---|---|---|
| | **Equity £'000** | **Convertible and discounted bonds £'000** | **Total £'000** | Equity £'000 | Convertible and discounted bonds £'000 | Total £'000 |
| Opening balance | **1,053** | **1,138** | **2,191** | 530 | 44 | 574 |
| Additions | **53** | **63** | **116** | 795 | 699 | 1,494 |
| Disposals | **(25)** | **–** | **(25)** | – | – | – |
| Unrealised gains/(losses) | **390** | **–** | **390** | (272) | 378 | 106 |
| Accrued loan stock interest | **–** | **(17)** | **(17)** | – | 17 | 17 |
| Closing balance | **1,471** | **1,184** | **2,655** | 1,053 | 1,138 | 2,191 |

Investments held at fair value through profit or loss are valued in accordance with the IPEVCV guidelines as follows:

| | **31 December 2012** | | | 31 December 2011 | | |
|---|---|---|---|---|---|---|
| **Valuation methodology** | **Ordinary shares £'000** | **D shares £'000** | **Total £'000** | Ordinary shares £'000 | D shares £'000 | Total £'000 |
| Cost (reviewed for impairment) | **2,760** | **1,233** | **3,993** | 1,529 | 1,715 | 3,244 |
| Net asset value supported by third party valuation | **1,154** | **656** | **1,810** | 1,815 | 412 | 2,227 |
| Recent investment price (reviewed for impairment) | **96** | **–** | **96** | 448 | – | 448 |
| Earnings multiple | **2,248** | **243** | **2,491** | 2,188 | 64 | 2,252 |
| Revenue multiple | **2,226** | **–** | **2,226** | 1,377 | – | 1,377 |
| Agreed sale price/offer price | **540** | **523** | **1,063** | – | – | – |
| | **9,024** | **2,655** | **11,679** | 7,357 | 2,191 | 9,548 |

# Notes to the Financial Statements (continued)

**11. Fixed asset investments (continued)**

Full third party valuations are prepared by independent RICS qualified surveyors in full compliance with the RICS Red Book. Desk top reviews are carried out by similarly RICS qualified surveyors by updating previously prepared full valuations for current trading and market indices.

FRS 29 requires the Directors to consider the impact of changing one or more of the inputs used as part of the valuation process to reasonable possible alternative assumptions. After due consideration and noting that the valuation methodology applied to 50 per cent. of the Ordinary shares' and 91 per cent. of the D shares' Level 3 investments (by valuation) is based on third party independent evidence, recent investment price, agreed sale price/offer price and cost, the Directors believe that changes to reasonable possible alternative assumptions for the valuation of the remainder of the portfolio could lead to a significant change in the fair value of the Ordinary shares portfolio. The impact of these changes could result in an increase in the valuation of investments by £644,000 or a decrease in investments by £595,000 for the Ordinary share portfolio. The Directors do not believe that changes to reasonable possible alternative input assumptions for the D share portfolio would have a significant impact.

The Ordinary shares' unquoted equity instruments had the following movements between investment methodologies between 31 December 2011 and 31 December 2012:

| Change in valuation methodology (2011 to 2012) | Value as at 31 December 2012 £'000 | Explanatory note |
|---|---|---|
| Cost (reviewed for impairment) to net asset value supported by third party valuation | 205 | Third party valuation has recently taken place |
| Earnings multiple to revenue multiple | 509 | Temporary trading losses |
| Net asset value supported by third party valuation to agreed sale price/offer price | 11 | Proceeds awaited from exit |
| Revenue multiple to agreed sale price/offer price | 347 | Investment round has recently taken place |
| Cost (reviewed for impairment) to earnings multiple | 74 | Company is generating profits |
| Cost (reviewed for impairment) to agreed sale price/offer price | 182 | Proceeds awaited from exit |

The D shares unquoted equity instruments had the following movements between investment methodologies between 31 December 2011 and 31 December 2012:

| Change in valuation methodology (2011 to 2012) | Value as at 31 December 2012 £'000 | Explanatory note |
|---|---|---|
| Cost (reviewed for impairment) to earnings multiple | 39 | Company is generating profits |
| Cost (reviewed for impairment) to net asset value supported by third party valuation | 144 | Third party valuation has recently taken place |
| Cost (reviewed for impairment) to agreed sale price/offer price | 523 | Proceeds awaited from exit |

The valuation method used will be the most appropriate valuation methodology for an investment within its market, with regard to the financial health of the investment and the IPEVCV Guidelines. The Directors believe that, within these parameters, there are no other possible methods of valuation which would be reasonable as at 31 December 2012.

# Notes to the Financial Statements (continued)

**12. Significant interests**

The principal activity of the Company is to select and hold a portfolio of investments in unquoted securities. Although the Company, through the Manager, will, in some cases, be represented on the board of the portfolio company, it will not take a controlling interest or become involved in the day-to-day management of a portfolio company. The size and structure of the companies with unquoted securities may result in certain holdings in the portfolio representing a participating interest without there being any partnership, joint venture or management consortium agreement.

The Company has interests of greater than 20 per cent. of the nominal value of any class of the allotted shares in the portfolio companies as at 31 December 2012, as described below:

| Company | Country of incorporation | Principal activity | % class and share type | % total voting rights |
|---|---|---|---|---|
| Evolutions Group Limited | Great Britain | Owner and lessor of property | 46.7% A Ordinary | 46.7% |
| The Q Garden Company Limited | Great Britain | Garden centre operator | 33.2% A Ordinary<br>10.8% Ordinary | 16.6% |
| Consolidated PR Limited | Great Britain | Public relations agency | 50.0% A Ordinary | 21.7% |
| Albion Investment Properties Limited | Great Britain | Owner of residential property | 48.4% A Ordinary | 48.4% |
| Blackbay Limited | Great Britain | Mobile data solutions | 21.1% A Ordinary | 7.4% |
| Masters Pharmaceuticals Limited | Great Britain | International specialist distributor of pharmaceuticals | 21.1% A Ordinary | 3.5% |
| Peakdale Molecular Limited | Great Britain | Researcher, processor and supplier of chemical compounds | 23.0% Ordinary | 8.9% |

The investments listed above are held as part of an investment portfolio and therefore, as permitted by FRS 9, they are measured at fair value and are not accounted for using the equity method.

**13. Trade and other debtors and current asset investments**

| | **31 December 2012** | | | 31 December 2011 | | |
|---|---|---|---|---|---|---|
| **Trade and other debtors** | **Ordinary shares £'000** | **D shares £'000** | **Total £'000** | Ordinary shares £'000 | D shares £'000 | Total £'000 |
| Prepayments and accrued income | **24** | **20** | **44** | 23 | 23 | 46 |
| UK corporation tax receivable | **–** | **–** | **–** | – | 7 | 7 |
| Other debtors | **178** | **60** | **238** | 78 | – | 78 |
| | **202** | **80** | **282** | 101 | 30 | 131 |

| | **31 December 2012** | | | 31 December 2011 | | |
|---|---|---|---|---|---|---|
| **Current asset investments** | **Ordinary shares £'000** | **D shares £'000** | **Total £'000** | Ordinary shares £'000 | D shares £'000 | Total £'000 |
| Contingent future receipts on disposal of fixed asset investments | **30** | **–** | **30** | 137 | – | 137 |
| Close Brothers Bank Limited fixed term deposit | **–** | **500** | **500** | – | 500 | 500 |
| | **30** | **500** | **530** | 137 | 500 | 637 |

The fair value hierarchy applied to contingent future receipts on disposal of fixed asset investments is Level 3. These receipts may not crystallise within 12 months.

The only movements in current asset investments during the year was the deferred receipts on disposal of fixed asset investments.

# Notes to the Financial Statements (continued)

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

| | **31 December 2012** Ordinary shares £'000 | **D shares £'000** | **Total £'000** | 31 December 2011 Ordinary shares £'000 | D shares £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Accruals and deferred income | **180** | **48** | **228** | 179 | 46 | 225 |
| UK corporation tax payable | **31** | **13** | **44** | 30 | – | 30 |
| Other creditors | **76** | **30** | **106** | 5 | 2 | 7 |
| | **287** | **91** | **378** | 214 | 48 | 262 |

**15. Called up share capital**

| | **31 December 2012** Ordinary shares | **D shares** | **Total** | 31 December 2011 Ordinary shares | D shares | Total |
|---|---|---|---|---|---|---|
| **Allotted, called up and fully paid shares of 1 penny each (2011: 50 pence each)** | | | | | | |
| Number of shares | **35,678,200** | **6,377,976** | **42,056,176** | 33,823,795 | 6,352,652 | 40,176,447 |
| Nominal value of allotted shares (£'000) | **357** | **64** | **421** | 16,912 | 3,176 | 20,088 |
| **Voting rights (net of treasury shares)** | **32,250,200** | **6,377,976** | **38,628,176** | 30,356,399 | 6,352,652 | 36,709,051 |

The Annual General Meeting on 15 June 2012, granted the Company authority to reduce the nominal value of its shares from 50 pence to 1 penny, and to cancel its capital redemption and share premium reserves. This was approved by the Court on 11 July 2012. The restructuring increased the distributable reserves available to the Company for the payment of dividends, the buy-back of shares, and for other corporate purposes. The effect of these transactions were to reduce the Ordinary share capital by £17,327,000 and the D share capital by £3,119,000, the Ordinary share capital redemption reserve by £2,204,000 and the Ordinary share and D share share premium reserves by £1,129,000 and £10,000 respectively.

The Company purchased no Ordinary shares (2011: 723,700 shares at a cost of £462,000) to be held in treasury during the year. The Company cancelled 39,396 Ordinary shares from treasury (2011: 500,000), and purchased 765,436 Ordinary shares (2011: 482,372) for cancellation at a cost of £499,000 (2011: £306,000).

The Company holds a total of 3,428,000 Ordinary shares in treasury, representing 9.6 per cent. of the issued Ordinary share capital as at 31 December 2012. There are no D shares held in treasury.

Under the terms of the Ordinary shares' Dividend Reinvestment Scheme, the following Ordinary shares were allotted during the year. The nominal value as at 31 May 2012 was 50 pence per share and for 30 September 2012 was 1 penny per share.

| **Date of allotment** | **Number of shares allotted** | **Issue price (pence per share)** | **Aggregate nominal value of shares £'000** | **Consideration received (net of costs) £'000** | **Opening market price per share on allotment date (pence per share)** |
|---|---|---|---|---|---|
| 31 May 2012 | **92,099** | **74.20** | **46** | **68** | **68.50** |
| 30 September 2012 | **79,438** | **71.40** | **1** | **50** | **64.75** |
| | **171,537** | | **47** | **118** | |

# Notes to the Financial Statements (continued)

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

Under the Albion VCTs Linked Top Up Offers 2011/2012 launched on 1 November 2011, the following Ordinary shares of 50 pence nominal value were allotted:

| Date of allotment | Number of shares allotted | Issue price (pence per share) | Aggregate nominal value of shares £'000 | Consideration received (net of costs) £'000 | Opening market price per share on allotment date (pence per share) |
|---|---|---|---|---|---|
| 10 January 2012 | **513,073** | **77.80** | **257** | **378** | **63.50** |
| 20 March 2012 | **556,839** | **77.80** | **278** | **410** | **61.50** |
| 5 April 2012 | **853,075** | **77.80** | **427** | **627** | **61.50** |
| 31 May 2012 | **94,974** | **78.50** | **47** | **71** | **68.50** |
| | **2,017,961** | | **1,009** | **1,486** | |

Under the Albion VCTs Top Up Offers 2012/2013 launched on 19 October 2012, the following Ordinary shares of 1 penny nominal value were allotted:

| Date of allotment | Number of shares allotted | Issue price (pence per share) | Aggregate nominal value of shares £'000 | Consideration received (net of costs) £'000 | Opening market price per share on allotment date (pence per share) |
|---|---|---|---|---|---|
| 19 December 2012 | **469,739** | **76.20** | **5** | **338** | **68.00** |

Under the terms of the D shares' Dividend Reinvestment Scheme, the following D shares were allotted during the year. The nominal value as at 31 May 2012 was 50 pence per share and for 30 September 2012 was 1 penny per share.

| Date of allotment | Number of shares allotted | Issue price (pence per share) | Aggregate nominal value of shares £'000 | Consideration received (net of costs) £'000 | Opening market price per share on allotment date (pence per share) |
|---|---|---|---|---|---|
| 31 May 2012 | **12,532** | **93.10** | **7** | **12** | **92.00** |
| 30 September 2012 | **12,792** | **92.95** | **–** | **9** | **90.00** |
| | **25,324** | | **7** | **21** | |

**16. Basic and diluted net asset values per share**

| | **31 December 2012** | | 31 December 2011 | |
|---|---|---|---|---|
| | **Ordinary shares (pence per share)** | **D shares (pence per share)** | Ordinary shares (pence per share) | D shares (pence per share) |
| Basic and diluted net asset values per share | **74.00** | **97.90** | 75.50 | 93.00 |

The basic and diluted net asset values per share at the year end are calculated in accordance with the Articles of Association and are based upon total shares in issue (less treasury shares) of 32,250,200 Ordinary shares (2011: 30,356,399) and 6,377,976 D shares (2011: 6,352,652) as at 31 December 2012.

# Notes to the Financial Statements (continued)

**17. Analysis of changes in cash during the year**

| | **Year ended 31 December 2012** | | | Year ended 31 December 2011 | | |
|---|---|---|---|---|---|---|
| | **Ordinary shares £'000** | **D shares £'000** | **Total £'000** | Ordinary shares £'000 | D shares £'000 | Total £'000 |
| Opening cash balances | **5,734** | **1,461** | **7,195** | 4,227 | 4,285 | 8,512 |
| Net cash flow | **575** | **(639)** | **(64)** | 1,507 | (2,824) | (1,317) |
| **Closing cash balances** | **6,309** | **822** | **7,131** | 5,734 | 1,461 | 7,195 |

**18. Reconciliation of revenue return on ordinary activities before tax to net cash flow from operating activities**

| | **Year ended 31 December 2012** | | | Year ended 31 December 2011 | | |
|---|---|---|---|---|---|---|
| | **Ordinary shares £'000** | **D shares £'000** | **Total £'000** | Ordinary shares £'000 | D shares £'000 | Total £'000 |
| Revenue return on ordinary activities before tax | **613** | **164** | **777** | 539 | 130 | 669 |
| Investment management fee charged to capital | **(396)** | **(103)** | **(499)** | (385) | (99) | (484) |
| Movement in accrued amortised loan stock interest | **50** | **19** | **69** | 19 | (37) | (18) |
| (Increase)/decrease in debtors | **(1)** | **3** | **2** | (15) | (18) | (33) |
| Increase/(decrease) in creditors | **12** | **6** | **18** | (13) | (2) | (15) |
| **Net cash flow from operating activities** | **278** | **89** | **367** | 145 | (26) | 119 |

**19. Capital and financial instruments risk management**

The Company's capital comprises Ordinary shares and D shares as described in note 15. The Company is permitted to buy back its own shares for cancellation or treasury purposes, and this is described in more detail on page 23 of the Directors' report.

The Company's financial instruments comprise equity and loan stock investments in unquoted companies, contingent future receipts on disposal of fixed asset investments, cash balances, fixed term deposits, debtors and creditors which arise from its operations. The main purpose of these financial instruments is to generate revenue and capital appreciation for the Company's operations. The Company has no gearing or other financial liabilities apart from short term creditors. The Company does not use any derivatives for the management of its balance sheet.

The principal risks arising from the Company's operations are:

- Investment (or market) risk (which comprises investment price and cash flow interest rate risk);
- credit risk; and
- liquidity risk.

The Board regularly reviews and agrees policies for managing each of these risks. There have been no changes in the nature of the risks that the Company has faced during the past year, and apart from where noted below, there have been no changes in the objectives, policies or processes for managing risks during the past year. The key risks are summarised below.

**Investment risk**

As a venture capital trust, it is the Company's specific nature to evaluate and control the investment risk of its portfolio in unquoted investments, details of which are shown on pages 10 to 13. Investment risk is the exposure of the Company to the revaluation and devaluation of investments. The main driver of investment risk is the operational and financial performance of the portfolio companies and the dynamics of market quoted comparators. The Manager receives management accounts from portfolio companies, and members of the investment management team often sit on the boards of unquoted portfolio companies; this enables the close identification, monitoring and management of investment risk.

The Manager and the Board formally review investment risk (which includes market price risk), both at the time of initial investment and at quarterly Board meetings.

The Board monitors the prices at which sales of investments are made to ensure that profits to the Company are maximised, and that valuations of investments retained within the portfolio appear sufficiently prudent and realistic compared to prices being achieved in the market for sales of unquoted investments.

# Notes to the Financial Statements (continued)

**19. Capital and financial instruments risk management (continued)**

The maximum investment risk as at the balance sheet date is the value of the fixed asset and current asset investment portfolio (excluding fixed term deposits) which, for Ordinary shares is £17,636,000 (2011: £17,147,000) and for D shares £4,934,000 (2011: £3,966,000). Fixed asset and current asset investments (excluding fixed term deposits) form 74 per cent. of the Ordinary shares' and 79 per cent. of the D shares' net asset value as at 31 December 2012 (2011: 75 per cent. Ordinary shares; 67 per cent. D shares).

More details regarding the classification of fixed asset investments are shown in note 11.

**Investment price risk**

Investment price risk is the risk that the fair value of future investment cash flows will fluctuate due to factors specific to an investment instrument or to a market in similar instruments. To mitigate the investment price risk for the Company as a whole, the strategy of the Company is to invest in a broad spread of industries with approximately two-thirds of the unquoted investments comprising debt securities, which, owing to the structure of their yield and the fact that they are usually secured, have a lower level of price volatility than equity. Details of the industries in which investments have been made are contained in the Portfolio companies section on pages 14 and 15 and in the Manager's report.

The valuation method used will be the most appropriate valuation methodology for an investment within its market, with regard to the financial health of the investment and the IPEVCV Guidelines.

As required under FRS 29, the Board is required to illustrate by way of a sensitivity analysis the degree of exposure to market risk. The Board considers that the value of the fixed asset and current asset investment portfolio is sensitive to a 10 per cent. change based on the current economic climate. The impact of a 10 per cent. change has been selected as this is considered reasonable given the current level of volatility observed both on a historical basis and future expectations.

The sensitivity of a 10 per cent. (2011: 10 per cent.) increase or decrease in the valuation of the fixed asset and current asset investments (excluding fixed term deposits) (keeping all other variables constant) would increase or decrease the net asset value and return for the year of Ordinary shares by £1,764,000 (2011: £1,715,000) and £493,000 (2011: £397,000) for the D shares.

**Cash flow interest rate risk**

It is the Company's policy to accept a degree of interest rate risk on its financial assets through the effect of interest rate changes. On the basis of the Company's analysis, it is estimated that a rise of half a percentage point in all interest rates would be immaterial due to the level of fixed rate loan stock held within the portfolio. On the basis of the Company's analysis, it is considered that further falls in interest rates would not have a significant impact.

The weighted average interest rate applied to the Company's fixed rate assets during the year was approximately 5.9 per cent. for the Ordinary shares (2011: 6.7 per cent.) and 7.8 per cent. for the D shares (2011: 8.3 per cent.).

The weighted average period to maturity for the fixed rate assets is approximately 4.3 years (2011: 3.0 years) for Ordinary shares and 7.5 years for D shares (2011: 9.1 years).

The Company's financial assets and liabilities, all denominated in pounds sterling, consist of the following:

**Ordinary shares**

| | **31 December 2012** | | | | 31 December 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Fixed rate £'000** | **Floating rate £'000** | **Non-interest bearing £'000** | **Total £'000** | Fixed rate £'000 | Floating rate £'000 | Non-interest bearing £'000 | Total £'000 |
| Unquoted equity, warrants and preference shares | **–** | **–** | **5,490** | **5,490** | – | – | 5,776 | 5,776 |
| Convertible and discounted bonds | **3,168** | **–** | **366** | **3,534** | 1,243 | – | 338 | 1,581 |
| Unquoted loan stock | **8,436** | **146** | **–** | **8,582** | 9,623 | 136 | 31 | 9,790 |
| Debtors* | **–** | **–** | **178** | **178** | – | – | 78 | 78 |
| Current asset investments | **–** | **–** | **30** | **30** | – | – | 137 | 137 |
| Current liabilities* | **–** | **–** | **(256)** | **(256)** | – | – | (183) | (183) |
| Cash | **5,907** | **402** | **–** | **6,309** | 3,686 | 2,048 | – | 5,734 |
| | **17,511** | **548** | **5,808** | **23,867** | 14,552 | 2,184 | 6,177 | 22,913 |

# Notes to the Financial Statements (continued)

**19. Capital and financial instruments risk management (continued)**
**D shares**

| | **31 December 2012** | | | | 31 December 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Fixed rate £'000** | **Floating rate £'000** | **Non-interest bearing £'000** | **Total £'000** | Fixed rate £'000 | Floating rate £'000 | Non-interest bearing £'000 | Total £'000 |
| Unquoted equity, warrants and preference shares | **–** | **–** | **1,471** | **1,471** | – | – | 1,053 | 1,053 |
| Discounted debt and convertible bonds | **1,195** | **–** | **–** | **1,195** | 1,138 | – | – | 1,138 |
| Unquoted loan stock | **2,268** | **–** | **–** | **2,268** | – | – | 1,775 | 1,775 |
| Debtors* | **–** | **60** | **–** | **60** | – | – | – | – |
| Current asset investments | **500** | **–** | **–** | **500** | 500 | – | – | 500 |
| Current liabilities* | **–** | **–** | **(78)** | **(78)** | – | – | (47) | (47) |
| Cash | **682** | **140** | **–** | **822** | 1,067 | 394 | – | 1,461 |
| | **4,645** | **200** | **1,393** | **6,238** | 2,705 | 394 | 2,781 | 5,880 |

*The debtors and current liabilities do not reconcile to the balance sheets as prepayments and tax payable are not included in the above tables.

**Credit risk**

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Company is exposed to credit risk through its debtors, investment in unquoted loan stock, and through the holding of cash on deposit with banks.

The Manager evaluates credit risk on loan stock and other similar instruments prior to investment, and as part of its ongoing monitoring of investments. In doing this, it takes into account the extent and quality of any security held. Typically loan stock instruments have a first fixed charge or a fixed and floating charge over the assets of the portfolio company in order to mitigate the gross credit risk. The Manager receives management accounts from portfolio companies, and members of the investment management team often sit on the boards of unquoted portfolio companies; this enables the close identification, monitoring and management of investment-specific credit risk.

Bank deposits are held with banks which have a Moody's credit rating of at least 'A'. The Company has an informal policy of limiting counterparty banking exposure to a maximum of 20 per cent. of net asset value for any one counterparty.

The Manager and the Board formally review credit risk (including debtors) and other risks, both at the time of initial investment and at quarterly Board meetings.

The Company's total gross credit risk for Ordinary shares at 31 December 2012 was limited to £12,116,000 (2011: £11,371,000) of unquoted loan stock instruments (all are secured on the assets of the portfolio company) and £6,309,000 (2011: £5,734,000) of cash deposits with banks.

The Company's total gross credit risk for D shares at 31 December 2012 was limited to £3,463,000 (2011: £2,913,000) of unquoted loan stock instruments (all are secured on the assets of the portfolio company) and £1,322,000 (2011: £1,961,000) of cash and fixed term deposits with banks.

As at the balance sheet date, the cash and fixed term deposits held by the Company are held with Lloyds TSB Bank plc, Close Brothers Bank Limited, Scottish Widows Bank plc (part of Lloyds Banking Group Plc), Barclays Bank plc and National Westminster Bank plc. Credit risk on cash transactions is mitigated by transacting with counterparties that are regulated entities subject to prudential supervision, with high credit ratings assigned by international credit-rating agencies.

The credit profile of unquoted loan stock is described under liquidity risk shown below.

# Notes to the Financial Statements (continued)

**19. Capital and financial instruments risk management (continued)**

The Ordinary shares' cost, impairment and carrying value of impaired loan stocks as at 31 December 2012 and 31 December 2011 are as follows:

| | **31 December 2012** | | | 31 December 2011 | | |
|---|---|---|---|---|---|---|
| **Ordinary shares** | **Cost £'000** | **Impairment £'000** | **Carrying value £'000** | Cost £'000 | Impairment £'000 | Carrying value £'000 |
| Impaired loan stock | **4,803** | **(1,724)** | **3,079** | 4,200 | (1,711) | 2,489 |

There are no impaired loan stock instruments for D shares.

Impaired loan stock instruments have a first fixed charge or a fixed and floating charge over the assets of the portfolio company and the Board consider the security value approximates to the carrying value.

**Liquidity risk**

Liquid assets are held as cash on current account, cash on deposit or short term money market account. Under the terms of its Articles, the Company has the ability to borrow up to 10 per cent. of its adjusted capital and reserves of the latest published audited balance sheet, which amounts to £2,914,000 (2011: £2,790,000) as at 31 December 2012.

The Company had no committed borrowing facilities as at 31 December 2012 (2011: nil) and the Company had cash and fixed term deposit balances of £7,631,000 (2011: £7,695,000). The main cash outflows are for new investments, buy-back of shares and dividend payments, which are within the control of the Company. The Manager formally reviews the cash requirements of the Company on a monthly basis, and the Board on a quarterly basis, as part of its review of management accounts and forecasts. All of the Company's financial liabilities are short term in nature and total £378,000 (2011: £262,000).

The carrying value of Ordinary shares' loan stock investments at 31 December 2012, analysed by expected maturity dates is as follows:

| **Redemption date** | **Fully performing £'000** | **Impaired £'000** | **Past due £'000** | **Total £'000** |
|---|---|---|---|---|
| **Less than one year** | **523** | **1,477** | **1,811** | **3,811** |
| **1-2 years** | **1,186** | **1,415** | **322** | **2,923** |
| **2-3 years** | **328** | **58** | **165** | **551** |
| **3-5 years** | **1,650** | **129** | **517** | **2,296** |
| **Greater than 5 years** | **1,922** | **–** | **613** | **2,535** |
| | **5,609** | **3,079** | **3,428** | **12,116** |

The carrying value of Ordinary shares' loan stock investments at 31 December 2011, analysed by expected maturity dates is as follows:

| Redemption date | Fully performing £'000 | Impaired £'000 | Past due £'000 | Total £'000 |
|---|---|---|---|---|
| Less than one year | 741 | 390 | 959 | 2,090 |
| 1-2 years | 1,806 | 664 | 1,432 | 3,902 |
| 2-3 years | 1,008 | 1,388 | 184 | 2,580 |
| 3-5 years | 1,605 | 47 | 362 | 2,014 |
| Greater than 5 years | 667 | – | 118 | 785 |
| | 5,827 | 2,489 | 3,055 | 11,371 |

# Notes to the Financial Statements (continued)

**19. Capital and financial instruments risk management (continued)**

The carrying value of D shares' loan stock investments at 31 December 2012, analysed by expected maturity dates is as follows:

| **Redemption date** | **Fully performing £'000** | **Impaired £'000** | **Past due £'000** | **Total £'000** |
|---|---|---|---|---|
| **Less than one year** | **–** | **–** | **–** | **–** |
| **1-2 years** | **–** | **–** | **–** | **–** |
| **2-3 years** | **833** | **–** | **442** | **1,275** |
| **3-5 years** | **442** | **–** | **838** | **1,280** |
| **Greater than 5 years** | **908** | **–** | **–** | **908** |
| | **2,183** | **–** | **1,280** | **3,463** |

The carrying value of D shares' loan stock investments at 31 December 2011, analysed by expected maturity dates is as follows:

| Redemption date | Fully performing £'000 | Impaired £'000 | Past due £'000 | Total £'000 |
|---|---|---|---|---|
| Less than one year | – | – | – | – |
| 1-2 years | – | – | – | – |
| 2-3 years | 1,015 | – | 209 | 1,224 |
| 3-5 years | 449 | – | 317 | 766 |
| Greater than 5 years | 608 | – | 315 | 923 |
| | 2,072 | – | 841 | 2,913 |

Loan stock categorised as past due for the Ordinary shares includes:

- loan stock valued at £2,744,000 yielding an average 7.5 per cent. which has some interest past due by less than 12 months;
- loan stock valued at £248,000 yielding 9.5 per cent. which has some interest past due by greater than 12 months but less than 2 years;
- loan stock valued at £436,000 yielding an average 15.7 per cent. which has capital past due by greater than 12 months but less than 2 years.

Loan stock categorised as past due for the D shares includes;

- loan stock valued at £1,204,000 yielding an average 8.3 per cent. which has some interest past due by less than 12 months;
- loan stock valued at £76,000 yielding 9.5 per cent. which has some interest past due by greater than 12 months but less than 2 years.

In view of the availability of adequate cash balances and the repayment profile of loan stock investments, the Board considers that the Company is subject to low liquidity risk.

**Fair values of financial assets and financial liabilities**

All of the Company's financial assets and liabilities as at 31 December 2012 are stated at fair value as determined by the Directors, with the exception of loans and receivables included within investments, cash, fixed term deposits, debtors and creditors, which are measured at amortised cost, as permitted by FRS 26. In the opinion of the Directors, the amortised cost of loan stock is not materially different to the fair value. There are no financial liabilities other than creditors. The Company's financial liabilities are all non-interest bearing. It is the Directors' opinion that the book value of the financial liabilities is not materially different from the fair value and all are payable within one year, and that the Company is subject to low financial risk as a result of having nil gearing and positive cash balances.

**20. Contingencies and commitments**

The Company had the following financial commitments in respect of investments:

- Dragon Hydro Limited, £157,000;
- Dysis Medical Limited, £16,000; and
- Proveca Limited, £477,000.

# Notes to the Financial Statements (continued)

**21. Post balance sheet events**

Since the year end, the Company had the following material investment transactions:

- MyMeds&Me Limited; £235,000
- Dragon Hydro Limited; £27,000
- The Q Garden Company Limited; £17,000
- Dysis Medical Limited; £16,000
- Rostima Holdings Limited; £8,000
- Mi-Pay Limited; £35,000
- Cash of £1,506,000 received from the disposal of Nelson House Hospital Limited

**22. Related party transactions**

There are no related party transactions or balances requiring disclosure.

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the annual general meeting of Albion Development VCT PLC (the "Company") will be held at the City of London Club, 19 Old Broad Street, London, EC2N 1DS on 6 June 2013 at 11am for the following purposes:

To consider and, if thought fit, to pass the following resolutions, of which numbers 1 to 7 will be proposed as ordinary resolutions and numbers 8 to 10 as special resolutions.

**Ordinary Business**

1. To receive and adopt the Company's accounts for the year ended 31 December 2012 together with the report of the Directors and Auditors.

2. To approve the Directors' remuneration report for the year ended 31 December 2012.

3. To re-elect Geoffrey Vero as a Director of the Company.

4. To re-elect Jonathan Thornton as a Director of the Company.

5. To appoint BDO LLP as Auditor of the Company in accordance with section 489 of the Companies Act 2006, until the conclusion of the next general meeting of the Company at which audited accounts are to be laid before members.

6. To authorise the Directors to agree the Auditor's remuneration.

**Special Business**

7. That the Directors be generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the "Act") to allot shares in the Company up to an aggregate nominal amount of £35,678 for Ordinary shares and £6,378 for D shares, provided that this authority shall expire 18 months from the date that this resolution is passed, or, if earlier, the conclusion of the next annual general meeting of the Company but so that the Company may, before such expiry, make an offer or agreement which would or might require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after such expiry and the Directors may allot shares or grant rights to subscribe for or convert securities into shares pursuant to such an offer or agreement as if this authority had not expired.

8. That, subject to and conditional on the passing of resolution number 7, the Directors be empowered, pursuant to section 570 of the Act, to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority conferred by resolution number 7 as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

   (a) in connection with an offer of such securities by way of rights issue;

   (b) in connection with any Dividend Reinvestment Scheme introduced and operated by the Company;

   (c) in connection with the Albion VCTs Top Up Offers 2012/2013 and similar top up offers; and

   (d) otherwise than pursuant to paragraphs (a) to (c) above, up to an aggregate nominal amount of £35,678 for Ordinary shares and £6,378 for D shares.

   provided that this authority shall expire 18 months from the date that this resolution is passed, or, if earlier, the conclusion of the next annual general meeting of the Company, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power had not expired.

# Notice of Annual General Meeting (continued)

In this resolution, "rights issue" means an offer of equity securities open for acceptance for a period fixed by the Directors to holders on the register on a fixed record date in proportion as nearly as may be to their respective holdings, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with any fractional entitlements or legal or practical difficulties under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory.

This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of section 560(2)(b) of the Act as if in the first paragraph of the resolution the words "pursuant to the authority conferred by resolution number 7" were omitted.

9. That, the Company be generally and unconditionally authorised to make market purchases (within the meaning of Section 693(4) of the Act) of Ordinary shares and D shares of 1 penny each in the capital of the Company, on such terms as the Directors think fit, and where such shares are held as treasury shares, the Company may use them for the purposes set out in section 727 of the Act, provided that:

   (a) the maximum number of shares hereby authorised to be purchased is 5,348,162 Ordinary shares and 956,058 D shares, equal to 14.99 per cent. of the shares in issue;

   (b) the minimum price, exclusive of any expenses, which may be paid for an Ordinary share or a D share is 1 penny;

   (c) the maximum price, exclusive of any expenses, which may be paid for each Ordinary or D share is an amount equal to the higher of (a) 105 per cent. of the average of the middle market quotations for an Ordinary share, as derived from the London Stock Exchange Daily Official List, for the five business days immediately preceding the day on which the Ordinary share is purchased; and (b) the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation 2003;

   (d) the authority hereby conferred shall, unless previously revoked or varied, expire at the end of the next Annual General Meeting, or 6 December 2014, whichever is earlier; and

   (e) the Company may make a contract or contracts to purchase Ordinary or D shares under this authority before the expiry of the authority which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of shares in pursuance of any such contract or contracts.

   Under the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 (the "Regulations"), Ordinary and D shares purchased by the Company out of distributable profits can be held as treasury shares, which may then be cancelled or sold for cash. The authority sought by this special resolution number 9 is intended to apply equally to shares to be held by the Company as treasury shares in accordance with the Regulations.

10. That the Directors be empowered to sell treasury shares at the higher of the prevailing current share price and the price bought in at.

BY ORDER OF THE BOARD

**Albion Ventures LLP**
Company Secretary
Registered office
1 King's Arms Yard
London EC2R 7AF

4 April 2013

Registered in England and Wales with number 03654040

# Notice of Annual General Meeting (continued)

Notes

1. Members entitled to attend, speak and vote at the Annual General Meeting ("AGM") may appoint a proxy or proxies (who need not be a member of the Company) to exercise these rights in their place at the meeting. A member may appoint more than one proxy, provided that each proxy is appointed to exercise the rights attached to different shares. Proxies may only be appointed by:

   - completing and returning the Form of Proxy enclosed with this Notice to Computershare Investor Services PLC, The Pavilion, Bridgwater Road, Bristol, BS99 6ZY;
   - going to www.eproxyappointment.com and following the instructions provided there; or
   - by having an appropriate CREST message transmitted, if you are a user of the CREST system (including CREST personal members).

   Return of the Form of Proxy will not preclude a member from attending the meeting and voting in person. A member may not use any electronic address provided in the Notice of this meeting to communicate with the Company for any purposes other than those expressly stated.

   To be effective the Form of Proxy must be completed in accordance with the instructions and received by the Registrars of the Company by 11am on 4 June 2013.

2. Any person to whom this Notice is sent who is a person nominated under section 146 of the Companies Act 2006 ('the Act') to enjoy information rights (a "Nominated Person") may, under an agreement between him or her and the member by whom he or she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he or she may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights. The statement of rights of members in relation to the appointment of proxies in note 1 above does not apply to Nominated Persons. The rights described in that note can only be exercised by members of the Company.

3. To be entitled to attend and vote at the AGM (and for the purpose of the determination by the Company of the votes they may cast), members must be registered in the register of members of the Company at 11am on 4 June 2013 (or, in the event of any adjournment, on the date which is two days before the time of the adjourned meeting). Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.

4. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for this AGM and any adjournment(s) by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

   In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK and Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via www.euroclear.com/CREST). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent by 11am 4 June 2013. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

   CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK and Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

   The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

5. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

6. A copy of this Notice, and other information regarding the meeting, as required by section 311A of the Act, is available from www.albion-ventures.co.uk, Our Funds, Albion Development VCT PLC.

7. Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

# Notice of Annual General Meeting (continued)

8. As at 4 April 2013 (being the latest practicable date prior to the publication of this Notice), the Company's issued share capital consists of 35,678,200 Ordinary shares and 6,377,976 D shares with a nominal value of 1 penny each. The Company holds 3,428,000 Ordinary shares in treasury. At that date, the total voting rights of the Ordinary share class were 32,250,200 and for D shares were 6,377,976. The total voting rights for the Company were 38,628,176.
9. Members satisfying the thresholds in Section 338 of the Companies Act 2006 may require the Company to give, to members of the Company entitled to receive notice of the AGM, notice of a resolution which those members intend to move (and which may properly be moved) at the AGM. A resolution may properly be moved at the AGM unless (i) it would, if passed, be ineffective (whether by reason of any inconsistency with any enactment of the Company's constitution or otherwise); (ii) it is defamatory of any person; or (iii) it is frivolous or vexatious. The business which may be dealt with at the AGM includes a resolution circulated pursuant to this right. A request made pursuant to this right may be in hard copy or electronic form, must identify the resolution of which notice is to be given, must be authenticated by the person(s) making it and must be received by the Company not later than 6 weeks before the date of the AGM.
10. Members satisfying the thresholds in Section 388A of the Companies Act 2006 may request the Company to include in the business to be dealt with at the AGM any matter (other than a proposed resolution) which may properly be included in the business at the AGM.

A matter may properly be included in the business at the AGM unless (i) it is defamatory of any person or (ii) it is frivolous or vexatious. A request made pursuant to this right may be in hard copy or electronic form, must identify the matter to be included in the business, must be accompanied by a statement setting out the grounds for the request, must be authenticated by the person(s) making it and must be received by the Company not later than 6 weeks before the date of the AGM.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