

# **DOWNING PLANNED EXIT VCT 2011 PLC**

**Report & Accounts for the period ended  
30 November 2011**

WEDNESDAY



LD6 \*L17KXK19\* 25/04/2012 #27  
COMPANIES HOUSE

## SHAREHOLDER INFORMATION

### Performance summary

	30 Nov 2011 Pence	Initial Pence
<b>General pool</b>		
Net asset value per General Ordinary Share	87 1	88 4
Net asset value per General 'A' Share	6 9	6 1
Total return per General Ordinary Share and 'A' Share	<u>94 0</u>	<u>94 5</u>
<b>Structured pool</b>		
Net asset value per Structured Ordinary Share	82 5	88 4
Net asset value per Structured 'A' Share	6 5	6 1
Total return per Structured Ordinary Share and 'A' Share	<u>89 0</u>	<u>94 5</u>
<b>Low Carbon pool</b>		
Net asset value per Low Carbon Ordinary Share	<u>87 1</u>	<u>88 4</u>

### Dividends

Proposed final dividends

	Pence per share
<b>General pool – General Ordinary Share</b>	5 0
<b>Structured pool – Structured Ordinary Share</b>	5 0
<b>Low Carbon pool – Low Carbon Ordinary Share</b>	5 0

All dividends will be paid on 18 May 2012 (subject to Shareholder approval)

Dividends will be paid by the registrar on behalf of the Company. Shareholders who wish to have dividends paid directly into their bank account, rather than by cheque to their registered address, can complete a mandate form for this purpose. Queries relating to dividends, shareholdings and requests for mandate forms should be directed to the Company's registrar, Capita Registrars, on 0871 664 0324 (calls cost 10p per minute plus network extras, lines open 8 30am to 5 30pm Monday to Friday), or by writing to them at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Mandate forms can also be downloaded from Capita's website (see page 1).

### Share prices

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

	General pool		Structured pool		Low Carbon pool
	Ordinary Shares	'A' Shares	Ordinary Shares	'A' Shares	Ordinary Shares
TIDM/EPIC codes	D1GO	D1GA	D1SO	D1SA	D1LO
Latest share price (27 March 2012)	89 0p	6 5p	85 0p	6 5p	88 0p

### Selling shares

The Company's shares can be bought and sold in the same way as any other company listed on the London Stock Exchange using a stockbroker. Disposing of shares may have tax implications, so Shareholders are urged to contact their independent financial adviser before making a decision. Downing LLP is able to provide details of close periods (when the Company is prohibited from buying shares) and details of the price at which the Company has bought in shares. Contact details are shown on page 1 of this document.

### Financial calendar

9 May 2012	Annual General Meeting
18 May 2012	Payment of dividends
July 2012	Announcement of half yearly financial results

### Notification of change of address

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

### Other information for Shareholders

Up-to-date Company information (including financial statements, share prices and dividend history) may be obtained from Downing's website at [www.downing.co.uk](http://www.downing.co.uk). If you have any queries regarding your shareholding in Downing Planned Exit VCT 2011 plc, please contact the registrar on the above number or visit Capita's website at [www.capitaregistrars.com](http://www.capitaregistrars.com) and click on "Shareholders".

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## COMPANY INFORMATION

<b>Registered number</b>	07425571
<b>Directors</b>	Aubrey Brocklebank Russell Catley Robin Chamberlayne
<b>Secretary and registered office</b>	Grant Whitehouse 10 Lower Grosvenor Place London SW1W 0EN
<b>Investment and Administration Manager</b>	Downing LLP 10 Lower Grosvenor Place London SW1W 0EN Tel 020 7416 7780 <a href="http://www.downing.co.uk">www.downing.co.uk</a>
<b>Auditor</b>	PKF (UK) LLP Farringdon Place 20 Farringdon Road London EC1M 3AP
<b>VCT status advisers</b>	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH
<b>Registrars</b>	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU Tel 0871 664 0324 (calls cost 10p per minute plus network extras, lines open 8.30 a.m. to 5.30 p.m. Monday to Friday) <a href="http://www.capitaregistrars.com">www.capitaregistrars.com</a>
<b>Solicitors</b>	Howard Kennedy 19 Cavendish Square London W1A 2AW
<b>Bankers</b>	The Co-operative Bank 11 <sup>th</sup> Floor, The Plaza 100 Old Hall Street Liverpool L3 9QJ  Royal Bank of Scotland London Victoria Branch 119/121 Victoria Street London SW1E 6RA

### Share scam warning

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

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

## INVESTMENT OBJECTIVES

Downing Planned Exit VCT 2011 plc is a Venture Capital Trust established under the legislation introduced in the Finance Act 1995. The Company's principal objectives are to

- reduce the risks normally associated with VCT investments,
- target an annual dividend of 5p per share,
- target a tax-free Net Return of at least 9% per annum (15% gross equivalent to a 40% taxpayer) over the life of the investment (expected to be approximately six years). This target return is calculated on the net investment of 70p per share (net of income tax relief), and
- maintain VCT status to enable Shareholders to retain their 30% income tax relief on investment.

The detailed investment policy adopted to achieve the investment objectives is set out in the Report of the Directors on page 22.

## DIRECTORS

**Sir Aubrey Brocklebank Bt (Chairman)** qualified as a chartered accountant prior to working for Guinness Mahon from 1981 to 1986, initially in its corporate finance department before helping to establish a specialist development capital department. From 1986 to 1990 he was a director of Venture Founders Limited, managing a £12 million venture capital fund and subsequently managed the Avon Enterprise Fund Limited. He is chairman of Hargreave Hale AIM VCT 1 plc and Puma VCT VIII plc as well as being a non-executive director of several other companies. He was previously chairman of Downing Distribution VCT 1 plc and five other VCTs and a non-executive director of a further two. He has spent the last twenty years helping companies through periods of change, usually helping them raise money, including a number of AIM-quoted companies.

**Russell Catley** has over 25 years' experience in the financial sector and is a founding partner at Catley Lakeman LLP, which specialises in structuring, advising on and selling structured products. Its clients include J P Morgan, Citigroup, Nomura and HSBC. He was previously with Citigroup Global Markets Limited and AXA Investment Managers UK Limited, also specialising in structured products. Until November 2010, he was a non-executive director of Downing Structured Opportunities VCT 1 plc.

**Robin Chamberlayne** is a chartered financial planner with extensive knowledge of venture capital trusts, partly gained through his role as a non-executive director of Downing Structured Opportunities VCT 1 plc and ProVen Planned Exit VCT plc. He is a partner in Progressive Strategic Solutions LLP, an investment advisory firm specialising in tax based financial solutions, the forerunner to which he founded in 1997. He has a particular interest in renewable energy and is a partner in Renewable Energy Funding LLP which is seeking to develop funding strategies for renewable energy projects.

## CHAIRMAN'S STATEMENT

### Introduction

I am pleased to present the Company's first Annual Report and Accounts. It has been a busy initial period in which the Company completed a successful fundraising and good progress was made in building investment portfolios in each of the Company's three share pools.

### Share offer

The Company's fundraising was launched in December 2010 and closed in April 2011, having raised gross proceeds of £34 million. The Company issued 16 million General Ordinary Shares, 18 million General 'A' Shares, 11 million Structured Ordinary Shares, 13 million Structured 'A' Shares and 8 million Low Carbon Ordinary Shares. Net proceeds, after issue costs, were £32 million.

The number of Ordinary Shares and 'A' Shares issued to Shareholders in each pool who subscribed under the offers for subscription is detailed in the relevant Investment Manager's reports on the following pages.

### Investment activity

#### General Share pool

A good start has been made in investing the General Share pool's funds. During the first period, five investments were made that are either qualifying, part-qualifying or expected to become qualifying in due course, at a total cost of £2.4 million. This is equivalent to 16% of the pool. In addition to this, the pool made six non-qualifying secured loans at a total cost of £5.8 million. These investments generate a significantly higher yield than holding uninvested funds as cash deposits, whilst exposing the share pool to the relatively low additional risk.

A full review of the General Share pool's activities is covered in the Investment Manager's report and Review of Investments on pages 5 to 10.

#### Structured Share pool

In line with its strategy, the Structured Share pool invested the majority of its funds in a structured product portfolio soon after funds were raised. As at 30 November 2011, the share pool held a portfolio of 14 structured products with a total cost of £7.2 million. At the period end, these investments were valued at £6.8 million. Since then we have seen more stable market conditions and the valuations have recovered such that they now exceed original cost.

The Structured Share pool also made five qualifying or part-qualifying investments at a total cost of £1.6 million, equivalent to 16% of the pool.

A full review of the Structured Share pool's activities is covered in the Investment Manager's report and Review of Investments on pages 11 to 16.

### Low Carbon pool

As Shareholders may be aware, the task of investing VCT funds in renewable energy projects has been made extremely challenging by a number of significant changes to the regulations by the Government in the form of the Department for Energy and Climate Change. Despite stating an intention to maintain a stable regulatory regime, it has seen fit to "move the goal posts" on several occasions by cutting tariffs for solar energy projects at ridiculously short notice. This has created deadlines which had not been anticipated and has reduced expected returns from many renewable energy projects. At 30 November 2011, three investments had been made at a cost of £2.5 million. There has, however, been a significant level of activity since the period end, such that, at the current date, seven qualifying investments have been completed with a total cost of £6.0 million, representing in excess of 80% of the Low Carbon pool's funds. Under these circumstances, I believe this is a respectable outcome.

Full details of the Low Carbon pool's activities are included in the Investment Manager's report and Review of Investments on pages 18 to 20.

### Dividends

It is the Company's intention to pay dividends of 5p per annum in respect of each of the classes of Ordinary Shares.

The Board is proposing to pay final dividends in respect of the period ended 30 November 2011 of 5.0p per share for each Ordinary Share class on 18 May 2012 to Shareholders on the register at the close of business on 20 April 2012.

In future, it is intended that dividends of 2.5p per Ordinary Share will be paid twice each year.

### Share buybacks

The Company operates a share buyback policy whereby, subject to certain restrictions, it will buy in any of its own shares that become available in the market for cancellation. In its initial years, the Company has a policy of, subject to any regulatory and liquidity contracts, undertaking any buybacks at a price approximately equal to the latest published NAV (i.e. at a nil discount). No such shares were purchased in the period for cancellation.

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

## CHAIRMAN'S STATEMENT (continued)

### Annual General Meeting and Share Class Meetings

As stated above, the Company operates a share buyback policy where it intends to buy in any of its own shares that become available in the market for cancellation. The Company's Articles of Association are currently worded such that approval for the Company to purchase its own shares is required at a meeting of all Shareholders and also meetings of each separate share class.

The Company will hold its first AGM on 9 May 2012 at 11.15 a.m. at 10 Lower Grosvenor Place, London SW1W 0EN. The AGM will then be followed by separate share class meetings as follows:

Share class meeting	Start time
General Ordinary Shares	11.20 a.m.
General 'A' Shares	11.25 a.m.
Structured Ordinary Shares	11.30 a.m.
Structured 'A' Shares	11.35 a.m.
Low Carbon Ordinary Shares	11.40 a.m.

At the AGM, in addition to the ordinary business, two items of special business will be proposed. A resolution to approve the authority for share buybacks and, a resolution to amend the Articles of Association, by removing Article 82.2(C) will be put to Shareholders. These two resolutions will also be put to each share class meeting. If approved by all share classes, this will remove the requirement for the Company to obtain approval for the authority to purchase its own shares from each individual share class in future. Approval will still, however, be required from Shareholders at future AGMs. Notices of the Annual General Meeting and Class Meetings and Forms of Proxy are contained in a separate meeting notice booklet, enclosed with these Annual Accounts.

### Outlook

The Board is satisfied with the progress made to date by the Manager in investing the Company's funds. The investment rate has initially been a little slower than expected in the Low Carbon pool, however, there has been much activity since the period end. That pool is now essentially fully invested and each of the investee companies has commenced producing electricity and is accredited for Feed-in Tariffs. Over the coming year we expect to see each investee company start to deliver the anticipated income streams.

The structured products portfolio may suffer from further fluctuations in value while stock markets remain volatile and the Euro sovereign debt crisis continues to impact on perceived counterparty risk. However, as the Company seeks to hold many of its structured product investments until they mature, the Board believes that, despite any intermediate valuation fluctuations, the portfolio should deliver the expected returns over its full lifetime.

In terms of general venture capital investments, it seems clear that the difficult economic environment is likely to continue for some time, however, the Manager is still seeing a reasonable flow of good quality investment opportunities. We expect to see a fair proportion of these becoming new investments in the General and Structured pools over the coming year.



Sir Aubrey Brocklebank Bt

Chairman

28 March 2012

## INVESTMENT MANAGER'S REPORT – GENERAL SHARE POOL

### Introduction

As set out in the Company's prospectus, in the initial period the General Share pool will invest in non-qualifying secured loans and fixed income securities. During the next two years it will build a qualifying investment portfolio with a focus on asset backed businesses and those with predictable revenue streams.

### Share offer

Shareholders who subscribed under the offer received one General Ordinary Share at 93 5p and one General 'A' Share at 6 5p for every £1 subscribed.

Shareholders should note that they may have received additional shares as a result of arrangements with their financial adviser whereby commission was waived and rebated to them as extra shares.

Investors received equal numbers of Ordinary and 'A' Shares. The 'A' Shares are designed to facilitate the payment of a performance incentive to management should any such incentive become payable in the future. Additionally, 'A' Shares were issued to management such that they now hold 15% of the 'A' Shares in issue. When assessing the value of their investments, Shareholders should consider the combined value of their holdings of Ordinary Shares and 'A' Shares.

### Net asset value and results

The net asset value ("NAV") per General Ordinary Share at 30 November 2011 stood at 87 1p and the NAV per General 'A' Share at 6 9p, producing a combined Total Return of 94 0p per General Ordinary and 'A' Share.

The loss on ordinary activities after taxation for the period was £61,000 comprising a revenue profit of £94,000 and a capital loss of £155,000.

### Investment activity

During the Company's first period, £12.8 million was invested across 15 companies, of which four non-qualifying investments were disposed of for £4.6 million, bringing the net total invested by the Company at period end to £8.2 million.

Of the 11 investments held at the period end, four of the investments were VCT qualifying investments. An overview of the largest investments made during the period is detailed below.

The four VCT qualifying investments made during the period were:

In August 2011, a £0.7 million investment was made in Westcountry Solar Solutions Limited which installs solar panels on commercial buildings in the south west of England.

A £0.6 million investment was made in Avon Solar Energy Limited in September 2011 to install, own and manage solar panels on domestic rooftops in Bristol.

In November 2011, a £0.6 million investment was made in Angel Solar Limited which installs solar panels on the domestic rooftops owned by Islington Council in London.

A £0.3 million investment was also made in Residential PV Trading Limited which installs, owns and manages solar panels on domestic rooftops.

All four of the qualifying investments made in the period benefit from the receipt of Feed-in-Tariffs from solar energy generation.

During the year, £5.8 million of non-qualifying VCT investments were made, the largest of these being, a £2.1 million investment in West Tower Holdings Limited, £1.2 million into Hoole Hall Hotel Limited, £1.0 million into Manor Capital LLP, and a £0.8 million investment into Kidspace Adventures Limited. These investments are short-term loans and are made with the intention of the monies being repaid and invested into VCT qualifying investments in due course. These provide a significantly higher yield than holding funds as cash or deposits.

### Portfolio valuation

As all the investments were all made within the last 12 months, the majority of the investments were held at valuations equal to cost at the period end. The exception is a non-qualifying loan in Helcim Group Limited which was revalued to reflect that the business is currently operating behind the original business plan. This resulted in a reduction of £109,000 in the value of the portfolio as at 30 November 2011.

### Outlook

The General Share pool has made good progress in employing funds in secured loans over the period whilst sourcing qualifying investments in secure Government backed solar investments. Dealflow of potential VCT qualifying investments in 2012 is looking promising, due to the continued lack of traditional sources of funding. This should provide the General Share pool with the prospect of completing a number of new, good quality VCT qualifying investments over the next 12 months.

Downing LLP

28 March 2012



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

### Portfolio of investments

The following investments were held at 30 November 2011

	Cost £'000	Valuation £'000	Valuation movement in period £'000	% of portfolio
<b>Qualifying and part-qualifying investments</b>				
Westcountry Solar Solutions Limited*	713	713	-	4.9%
Avon Solar Energy Limited	600	600	-	4.1%
Angel Solar Limited	600	600	-	4.1%
Residential PV Trading Limited	300	300	-	2.0%
Helcim Group Limited**	219	110	(109)	0.8%
	<u>2,432</u>	<u>2,323</u>	<u>(109)</u>	<u>15.9%</u>
<b>Non-qualifying secured loans</b>				
West Tower Holdings Limited	2,100	2,100	-	14.3%
Hoole Hall Hotel Limited	1,200	1,200	-	8.2%
Manor Capital LLP	1,000	1,000	-	6.8%
Kidspace Adventures Limited	810	810	-	5.5%
Future Biogas (SF) Limited	350	350	-	2.4%
Antelope Pub Limited	337	337	-	2.3%
	<u>5,797</u>	<u>5,797</u>	<u>-</u>	<u>39.5%</u>
	<u>8,229</u>	<u>8,120</u>	<u>(109)</u>	<u>55.4%</u>
Cash at bank and in hand		<u>6,553</u>		<u>44.6%</u>
<b>Total investments</b>		<u>14,673</u>		<u>100.0%</u>

All of the above were additions in the period

\* Part-qualifying investment

\*\* Currently non-qualifying but will become qualifying in due course

All venture capital investments above are incorporated in England and Wales

### Investment movements for the period ended 30 November 2011

#### DISPOSALS/REDEMPTION

All of the investments below above were additions and disposals in the period

	Cost £'000	Proceeds £'000	Profit vs cost £'000	Realised gain £'000
<b>Non-qualifying secured loans</b>				
Woolmer Properties Limited	1,700	1,700	-	-
Edison House Limited	1,408	1,408	-	-
Bijou Wedding Venues Limited	900	900	-	-
Hoole Hall Country Club Holding Limited	625	625	-	-
	<u>4,633</u>	<u>4,633</u>	<u>-</u>	<u>-</u>

The basis of valuation for the main investments is set out on pages 7 to 9

Woolmer Limited is a company registered in the Isle of Man Edison House Limited is a company registered in Guernsey

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

### Further details of the main investments:

<b>West Tower Holdings Limited</b> <a href="http://www.westtower.com">www.westtower.com</a> <a href="http://www.mpwtheswan.co.uk">www.mpwtheswan.co.uk</a>	Cost	£2,100,000	Valuation at 30/11/11	£2,100,000
	Date of first investment	Jun 11		
	Investment comprises		Valuation method	Cost as reviewed for impairment
	Loan stock	£2,100,000	Proportion of loan stock held	30%
	Summary financial information from statutory accounts to 31/03/2011		Turnover	n/a
			Operating loss	£40,872
			Net assets	£3,211,697

West Tower Holdings Limited purchased West Tower Limited and The Swan Limited in 2008. West Tower has been re-launched as an exclusive wedding venue based in Aughton, Lancashire, and provides exclusive access to the property. The Swan Limited owns a nearby inn (traded through West Tower Limited) which was re-launched as a Marco Pierre White franchise restaurant in January 2010. The General Share pool has made a non-qualifying secured loan to the company.

<b>Hoole Hall Hotel Limited</b> <a href="http://www.theclubandspachester.co.uk">www.theclubandspachester.co.uk</a>	Cost	£1,200,000	Valuation at 30/11/11	£1,200,000
	Date of first investment	Jul 11		
	Investment comprises		Valuation method	Cost as reviewed for impairment
	Loan stock	£1,200,000	Proportion of loan stock held	60%
	Summary financial information from statutory accounts to 31/03/2011		Turnover	n/a
			Operating profit	n/a
			Net liabilities	£712,000

Hoole Hall Hotel owns a long lease of the hotel room blocks at Hoole Hall from Hoole Hall Country Club, and operates the hotel as an independent company. The General Share pool has made a non-qualifying secured loan to the company.

<b>Manor Capital LLP</b>	Cost	£1,000,000	Valuation at 30/11/11	£1,000,000
	Date of first investment	May 11		
	Investment comprises		Valuation method	Cost as reviewed for impairment
	Loan stock	£1,000,000	Proportion of loan stock held	67%
	Summary financial information from statutory accounts to 31/12/10		Turnover	n/a
			Operating loss	n/a
			Net assets	£400,000

Manor Capital LLP is a property development partnership set up to fund the final stage of the development of a freehold three storey block of 22 two-bedroom flats at Harvest End, Watford. The General Share pool has made a non-qualifying secured loan to the company.

<b>Kidspace Adventures Limited</b> <a href="http://www.kidspaceadventures.com">www.kidspaceadventures.com</a>	Cost	£810,000	Valuation at 30/11/11	£810,000
	Date of first investment	Jul 11		
	Investment comprises		Valuation method	Cost as reviewed for impairment
	Loan stock	£810,000	Proportion of loan stock held	43%
	Summary financial information from statutory accounts 31/01/2011		Turnover	n/a
			Operating profit	n/a
			Net assets	£1,478,644

Kidspace Adventures Limited owns two well established and profitable children's play centres in Croydon and Romford. The company is in the process of purchasing the lease of Horton Farm, an existing children's farm based in Epsom, Surrey. The General Share pool has made a non-qualifying secured loan to the company.

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

<b>Westcountry Solar Solutions Limited</b>	Cost	£712,500	Valuation at 30/11/11	£712,500
	Date of first investment	Aug 11		
			Valuation method	Cost as reviewed for impairment
	Investment comprises			
	Ordinary shares	£180,000	Proportion of equity held	15%
	Loan stock	£532,500	Proportion of loan stock held	30%
			Diluted equity	15%
	Summary financial information from statutory accounts			None filed

Westcountry Solar Solutions plans to install solar panels on the roofs of around 20 commercial buildings in South West England, typically offering free or discounted electricity to the occupiers of the buildings, whilst retaining the right to collect 'Feed-in Tariffs'

<b>Avon Solar Energy Limited</b> www.britanniasolar.co.uk	Cost	£600,000	Valuation at 30/11/11	£600,000
	Date of first investment	Sept 11		
			Valuation method	Cost as reviewed for impairment
	Investment comprises			
	Ordinary shares	£180,000	Proportion of equity held	15%
	Loan stock	£420,000	Proportion of loan stock held	30%
			Diluted equity	15%
	Summary financial information from statutory accounts			None filed

Avon Solar is a newly formed company that will install photovoltaic (PV) systems on the roofs of domestic properties in the south west of the UK. Britannia Solar, the investment partner, will be responsible for sourcing qualifying homes, installing the PV Systems and providing operational and maintenance services. Avon Solar will receive all Feed-in Tariff payments for the electricity generated, whilst the homeowners will benefit from free electricity when the PV systems are generating electricity. Electricity not used will be exported to the national grid, payment for which will go to Avon Solar.

<b>Angel Solar Limited</b> www.isis-solar.com	Cost	£600,000	Valuation at 30/11/11	£600,000
	Date of first investment	Aug 11		
			Valuation method	Cost as reviewed for impairment
	Investment comprises			
	Ordinary shares	£180,000	Proportion of equity held	15%
	Loan stock	£420,000	Proportion of loan stock held	30%
			Diluted equity	15%
	Summary financial information from statutory accounts			None filed

Angel Solar is a newly formed company that will install, manage and own solar panels on domestic rooftops owned by Islington Council.

<b>Future Biogas (SF) Limited</b> www.futurebiogas.com	Cost	£350,000	Valuation at 30/11/11	£350,000
	Date of first investment	Sept 11		
			Valuation method	Cost as reviewed for impairment
	Investment comprises			
	Loan stock	£350,000	Proportion of loan stock held	12%
	Summary financial information from statutory accounts			None filed

Future Biogas (SF) Limited is developing a 14MWh self-contained biogas plant in Norfolk. The company farms its own maize on nearby land which is fed into the biogas plant. Through an Anaerobic Digestion process biogas is produced which will be used to generate electricity which is then sold on. Under the Feed-in Tariffs introduced in April 2010 by the UK Government for small scale renewable energy operations, the minimum payment for electricity produced from renewable sources is fixed for 20 years with an annual increase in line with the Retail Prices Index.

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

### Antelope Pub Limited www.antic-ltd.com

Cost	£337,500	Valuation at 30/11/11	£337,500
Date of first investment	Nov 11		
Investment comprises		Valuation method	Cost as reviewed for impairment
Loan stock	£337,500	Proportion of loan stock held	20%
Summary financial information from statutory accounts 31/12/2010		Turnover	n/a
		Operating profit	n/a
		Net assets	60,614

The Antelope Pub Company Limited owns The Antelope, a pub in Tooting, South London. The pub is operated by Antic Limited which has also invested in the company. The General Share pool has made a non-qualifying secured loan to the company.

### Residential PV Trading Limited www.isis-solar.com

Cost	£300,000	Valuation at 30/11/11	£300,000
Date of first investment	Nov 11		
Investment comprises		Valuation method	Cost as reviewed for impairment
Ordinary shares	£90,000	Proportion of equity held	12%
Loan stock	£210,000	Proportion of loan stock held	60%
		Diluted equity	12%
Summary financial information from statutory accounts None filed			

Residential PV Trading Limited is a newly formed company that will install, own and manage domestic solar projects.

### Summary of loan stock interest income

	£'000
<b>Loan stock interest receivable from the largest investments in the period</b>	
West Tower Holdings Limited	79
Hoole Hall Hotel Limited	39
Manor Capital LLP	52
Kidspac Adventures Limited	26
Westcountry Solar Solutions Limited	-
Avon Solar Energy Limited	-
Angel Solar Limited	-
Future Biogas (SF) Limited	1
Antelope Pub Limited	5
Residential PV Trading Limited	-
	<u>202</u>
<b>Receivable from other investments</b>	<u>92</u>
	<u>294</u>

### Analysis of investments by type

The allocation of the General Share fund compared to the intended split at 30 November 2011 is summarised as follows

	Actual portfolio split at 30 November 2011	Target portfolio split at 30 November 2013
VCT qualifying investments	14%	75%
Non-qualifying investments (including cash at bank)	86%	25%
	<u>100%</u>	<u>100%</u>

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

### Analysis of investments by commercial sector

The split of the venture capital investment portfolio by commercial sector (by cost and by value at 30 November 2011) is as follows

## INVESTMENT MANAGER'S REPORT – STRUCTURED SHARE POOL

### Introduction

The Structured Share pool has focused on building its structured product portfolio over the first period. This is managed by Brewin Dolphin and will create added investment diversification and potential for return. During the next two years, the pool will build a qualifying investment portfolio with a focus on asset backed businesses and those with predictable revenue streams.

### Share offer

Shareholders who subscribed under the offer received one Structured Ordinary Share at 93 5p and one Structured 'A' Share at 6 5p for every £1 subscribed.

Shareholders should note that they may have received additional shares as a result of arrangements with their financial adviser whereby commission was waived and rebated to them as extra shares.

Investors received equal numbers of Ordinary and 'A' Shares. The 'A' Shares are designed to facilitate the payment of a performance incentive to management should any such incentive become payable in the future. Additionally, 'A' Shares were issued to management such that they now hold 15% of the 'A' Shares in issue. When assessing the value of their investments, Shareholders should consider the combined value of their holdings of Ordinary Shares and 'A' Shares.

### Net asset value and results

The net asset value ("NAV") per Structured Ordinary Share at 30 November 2011 stood at 82 5p and the NAV per Structured 'A' Share at 6 5p, producing a combined Total Return of 89 0p per Structured Ordinary and 'A' Share.

The loss on ordinary activities after taxation for the period was £577,000 comprising a revenue loss of £149,000 and a capital loss of £428,000. This resulted from the reduction in valuation of the structured product portfolio at the period end and also the fact that structured products do not produce any investment income, which could offset the running costs of the pool.

### Venture capital investment portfolio

During the Company's first period, £16 million was invested across five companies that are either VCT qualifying or intended to become qualifying in due course.

An overview of the largest qualifying investments made during the period is detailed below.

In August 2011, a £0.5 million investment was made in Westcountry Solar Solutions Limited which installs solar panels on commercial buildings in the south west of England.

A £0.4 million investment was made in Avon Solar Energy Limited in September 2011 to install, own and manage solar panels on domestic rooftops in Bristol.

In November 2011, a £0.4 million investment was made in Angel Solar Limited which installs solar panels on the domestic rooftops owned by Islington Council in London. A £0.2 million investment was also made in Residential PV Trading Limited which installs, owns and manages solar panels on domestic rooftops.

All four of the qualifying investments made in the period benefit from the receipt of Feed-in-Tariffs from solar energy generation.

The Board has reviewed the investment valuations at the year end and, as all of the investments were all made within the last 12 months, valued most of them at amounts equal to cost at the period end. The exception was a non-qualifying loan in Helcim Group Limited which was revalued downwards to reflect that the business is currently operating behind the original business plan. This resulted in a reduction of £72,000 in the value of the portfolio as at 30 November 2011.

### Structured product portfolio

The objective of the structured product portfolio is to produce positive returns over the holding life of each individual structured product and for those returns to significantly exceed the returns that could be achieved by cash or Treasury bonds within an acceptable and agreed level of risk.

Between April and August 2011, 16 structured product purchases were made. Of these, 14 were defensive "auto-callables", one was a "synthetic zero" and one an "absolute return" product. These were purchased at a total cost of £7.7 million.

The concerns over the Eurozone sovereign debt crisis took hold in August and the combination of falling equity markets, increasing volatility and higher funding levels on bank debt which ensued were three factors which impacted particularly negatively on the types of structured products in which the fund is invested. Consequently, through much of August and the final quarter of 2011, secondary market prices of the portfolio products fell in value. At 30 November 2011, the portfolio showed an unrealised loss of £356,000. In addition the portfolio generated £31,000 of realised gains.

Since the end of November, some stability has returned to markets. Equity markets have shown some recovery, volatility levels have fallen back a little and bank credit default swap rates have eased. As a result, the valuations of the pool's structured products have recovered and, at 29 February 2012, were valued at £180,000 above original cost.

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

### Outlook

The structured product portfolio has a defensive focus and, as such, the investments do not need rising markets to generate positive returns. In addition, the level of cover on them, before capital protection is compromised, is very high. The structured products are also spread across a range of counterparties with the capital protection standing in the senior unsecured part of their balance sheets. Accordingly, we are confident that the structured product portfolio can deliver the anticipated returns over the life of the share pool.

Although the challenging economic environment is expected to continue throughout 2012, this is likely to provide the share pool with opportunities to invest in VCT qualifying businesses which do not have access to traditional sources of funding. We expect to see a reasonable level of investment activity over the coming year, with funds for new qualifying investments being provided by structured products that mature or are sold as required.

Downing LLP

28 March 2012

Structured

## REVIEW OF INVESTMENTS – STRUCTURED SHARE POOL

### Portfolio of investments

The following investments were held at 30 November 2011

	Cost £'000	Valuation £'000	Valuation movement in period £'000	% of portfolio
<b>Qualifying and part-qualifying investments</b>				
Westcountry Solar Solutions Limited*	475	475	-	5.0%
Avon Solar Energy Limited	400	400	-	4.2%
Angel Solar Limited	400	400	-	4.2%
Residential PV Trading Limited	200	200	-	2.1%
Helcim Group Limited**	145	73	(72)	0.8%
	<b>1,620</b>	<b>1,548</b>	<b>(72)</b>	<b>16.3%</b>
<b>Structured products investments</b>				
Credit Suisse 7% FTSE Autocall	1,003	990	(13)	10.4%
JP Morgan 7% Defensive FTSE AC	1,003	977	(26)	10.2%
Morgan Stanley 10% Def FTSE Autocall	519	497	(22)	5.2%
Elders (Merrill Lynch) 10% Def FTSE Autocall	501	496	(5)	5.2%
HSBC 6Y W/O FTSE/S&P Auto-Call (303)	516	489	(27)	5.1%
Goldman Sachs GB86 9 6% Res Auto-call	504	487	(17)	5.1%
Barclays 10% FTSE/S&P Worst of Defensive AC	501	475	(26)	4.9%
SocGen 9 6% Def FTSE Auto-Call (258)	500	468	(32)	4.9%
Elders Cap Accumulation II 16A (Rollover)	502	452	(50)	4.7%
Goldman Sachs 10 5% Defensive FTSE	501	448	(53)	4.6%
Morgan Stanley 11% Def FTSE	352	310	(42)	3.2%
RBS Dual Index Defensive Autocall	249	257	8	2.7%
BNP Paribas Harewood ABS Progression 2	253	242	(11)	2.5%
RBS 6yr Dual Index Synthetic Zero 10 16%	251	211	(40)	2.2%
	<b>7,155</b>	<b>6,799</b>	<b>(356)</b>	<b>70.9%</b>
	<b>8,775</b>	<b>8,347</b>	<b>(428)</b>	<b>87.2%</b>
Cash at bank and in hand		1,223		12.8%
<b>Total investments</b>		<b>9,570</b>		<b>100.0%</b>

All of the above were additions in the period

\* Part-qualifying investment

\*\* Currently non-qualifying but will become qualifying in due course

All venture capital investments are incorporated in England and Wales

### Investment movements for the period ended 30 November 2011

#### DISPOSALS/REDEMPTIONS

Both of the investments below were additions and redemptions in the period

	Cost £'000	Proceeds £'000	Profit vs cost £'000	Realised gain £'000
<b>Structured products investments</b>				
Goldman Sachs Defensive FTSE Autocall	252	264	12	12
Morgan Stanley Defensive Auto-callable	247	266	19	19
	<b>499</b>	<b>530</b>	<b>31</b>	<b>31</b>

The basis of valuation for the main investments is set out on pages 14 to 16



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

### Further details of the main investments:

<b>Westcountry Solar Solutions Limited</b>	Cost	£475,000	Valuation at 30/11/11	£475,000
	Date of first investment	Aug 11		
	Investment comprises		Valuation method	Cost as reviewed for impairment
	Ordinary shares	£120,000	Proportion of equity held	10%
	Loan stock	£355,000	Proportion of loan stock held	20%
			Diluted equity	10%
	Summary financial information from statutory accounts			None filed
	Westcountry Solar Solutions plans to install solar panels on the roofs of around 20 commercial buildings in south west England, typically offering free or discounted electricity to the occupiers of the buildings, whilst retaining the right to collect 'Feed-in Tariffs'			
<b>Avon Solar Energy Limited</b> www.britanniasolar.co.uk	Cost	£400,000	Valuation at 30/11/11	£400,000
	Date of first investment	Sept 11		
	Investment comprises		Valuation method	Cost as reviewed for impairment
	Ordinary shares	£120,000	Proportion of equity held	10%
	Loan stock	£280,000	Proportion of loan stock held	20%
			Diluted equity	10%
	Summary financial information from statutory accounts			None filed
	Avon Solar is a newly formed company that will install photovoltaic (PV) systems on the roofs of domestic properties in the south west of the UK. Britannia Solar, the investment partner, will be responsible for sourcing qualifying homes, installing the PV Systems and providing operational and maintenance services. Avon Solar will receive all Feed-in Tariff payments for the electricity generated, whilst the homeowners will benefit from free electricity when the PV systems are generating electricity. Electricity not used will be exported to the national grid, payment for which will go to Avon Solar.			
<b>Angel Solar Limited</b> www.isis-solar.com	Cost	£400,000	Valuation at 30/11/11	£400,000
	Date of first investment	Nov 11		
	Investment comprises		Valuation method	Cost as reviewed for impairment
	Ordinary shares	£120,000	Proportion of equity held	10%
	Loan stock	£280,000	Proportion of loan stock held	20%
			Diluted equity	10%
	Summary financial information from statutory accounts			None filed
	Angel Solar is a newly formed company that will install, manage and own solar panels on domestic rooftops owned by Islington Council.			
<b>Residential PV Trading Limited</b> www.isis-solar.com	Cost	£200,000	Valuation at 30/11/11	£200,000
	Date of first investment	Nov 11		
	Investment comprises		Valuation method	Cost as reviewed for impairment
	Ordinary shares	£60,000	Proportion of equity held	8%
	Loan stock	£140,000	Proportion of loan stock held	40%
			Diluted equity	8%
	Summary financial information from statutory accounts			None filed
	Residential PV Trading Limited is a newly formed company that will install, own and manage domestic solar projects.			

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

### Helcim Group Limited

www.plexus-uk.com  
www.rehouseuk.com

Cost	£145,000	Valuation at 30/11/11	£73,070
Date of first investment	Jun 11		
		Valuation method	Impairment to cost
Investment comprises			
Loan stock	£145,000	Proportion of loan stock held	5%
Summary financial information from statutory accounts			None filed

Helcim Group Limited organises and manages housing for vulnerable tenants, by working with local authorities and local private landlords. Helcim has over 400 private properties let to local authority residential tenants.

### Analysis of investments by type

The allocation of the Structured Share fund compared to the intended split at 30 November 2011 is summarised as follows

	Actual portfolio split at 30 November 2011	Target portfolio split at 30 November 2013
VCT qualifying investments	15%	75%
Non-qualifying investments (including cash at bank)	14%	-
Structured products	71%	25%
	<u>85%</u>	<u>25%</u>
	<u>100%</u>	<u>100%</u>

Structured

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

### Analysis of investments by commercial sector

The split of the venture capital investment portfolio by commercial sector (by cost and by value at 30 November 2011) is as follows

Structured

## INVESTMENT MANAGER'S REPORT – LOW CARBON SHARE POOL

### Introduction

As set out in the Company's prospectus, the Low Carbon Share pool intends to build a VCT qualifying investment portfolio with a focus on solar energy and wind power businesses to benefit from the Feed-in-Tariffs and the reliable income streams that can be anticipated in this area

### Share offer

Shareholders who subscribed under the offer were issued Low Carbon Ordinary Shares at 93 5p per share. No 'A' Shares were issued due to the smaller size of the pool. This means Ordinary Shares make up the whole of the investment and investors have received a greater number of shares than they would have done if 'A' Shares had also been issued. For example, a Shareholder who invested £10,000 would have received 10,695 Low Carbon Ordinary Shares.

Shareholders should note that they may have received additional shares as a result of arrangements with their financial adviser whereby commission was waived and rebated to them as extra shares.

### Net asset value and results

The net asset value ("NAV") per Low Carbon Ordinary Share at 30 November 2011 and the Total Return stood at 87 1p compared to the initial value of 88 4p per share.

The loss on ordinary activities after taxation for the period was £103,000 comprising a revenue loss of £81,000 and a capital loss of £22,000.

### Feed-in Tariffs and VCT qualification

Shareholders may be aware that there have been significant developments since the Company's launch regarding Feed-in-Tariffs ("FITs") and VCT qualification.

The FITs scheme was introduced to encourage investment in low carbon electricity generation of less than 5MW. In February 2011, the Government announced a comprehensive review of the FITs scheme including a fast track review to reduce the tariff for large scale installations (50kW and above). This significantly reduced the potential returns to investors for large scale installation which were not completed before 1 August 2011.

The Government later announced in the March 2011 budget that businesses benefiting from FITs will no longer qualify for VCT investment if they start generating electricity after 31 March 2012.

As a result of the proposed changes, the Board agreed to restrict the Low Carbon Share pool to a size of approximately £7 million, which it felt could be comfortably invested in line with the investment policy before the relevant deadlines.

A second review of FIT rates was announced in October 2011, with the intention of reducing tariff levels significantly and to bring forward the date of change from April 2012 to December 2011. Again, this has the effect of significantly reducing potential returns to investors from investments made after 12 December 2011. This review process is, however, under legal challenge and the eligibility date may ultimately be set at 3 March 2012, which would enhance yields on projects accredited between those two dates.

### Investment activity

During the Company's first period £2.5 million was invested across three companies. No disposals were made. Two of these investments were VCT qualifying, with the third being part-qualifying. An overview of the investments made during the period is detailed below.

In May 2011, a £1.0 million investment was made in Green Electricity Generation Limited to install solar panel systems on the roofs of domestic properties in the UK. Green Electricity installs and maintains the panels and will receive all FIT payments for the electricity generated.

A £1.4 million investment was made in Progressive Energies Limited in July 2011. Progressive Energies Limited installs solar panels on the rooftops of social housing in Colchester and receives all FIT payments for the electricity generated whilst the home owners benefit from the free electricity.

In November 2011, £0.1 million was invested in Progressive Power Generation Limited which has begun investing in commercial solar projects.

### Portfolio valuation

All the investments were all made within the last 12 months and, accordingly, have been valued at cost at the period end.

### Outlook

Since the period end, there has been a significant level of further investment activity, with five new investments being completed. The share pool now holds in excess of 90% of its funds in investments that are either VCT qualifying or will become qualifying shortly. The focus has now shifted to close monitoring of the investee companies to ensure that they remain on track to deliver the projected returns.

Downing LLP

28 March 2012

## REVIEW OF INVESTMENTS – LOW CARBON SHARE POOL (continued)

### Portfolio of investments

	Cost £'000	Valuation £'000	Valuation movement in period £'000	% of portfolio
<b>Qualifying and part-qualifying investments</b>				
Progressive Energies Limited*	1,400	1,400	-	19.6%
Green Electricity Generation Limited	1,000	1,000	-	14.1%
Progressive Power Generation Limited	144	144	-	2%
	<u>2,544</u>	<u>2,544</u>	<u>-</u>	<u>35.7%</u>
Cash at bank and in hand		4,586		64.3%
<b>Total investments</b>		<u>7,130</u>		<u>100.0%</u>

All of the above were additions in the period

\* Part-qualifying investment

All venture capital investments are incorporated in England and Wales

### Further details the main investments:

<b>Progressive Energies Limited</b>	Cost	£1,400,000	Valuation at 30/11/11	£1,400,000
	Date of first investment	Jul 11		
	Investment comprises		Valuation method	Cost as reviewed for impairment
	Ordinary shares	£300,000	Proportion of equity held	30%
	Loan stock	£1,100,000	Proportion of loan stock held	61%
			Diluted equity	30%
	Summary financial information from statutory accounts			None filed

Progressive Energies is a newly formed company that will install photovoltaic (PV) systems on the roofs of domestic properties in the UK. The company will receive all Feed-in Tariff payments for the electricity generated, whilst the homeowners will benefit from free electricity when the PV systems are generating electricity. Electricity not used will be exported to the national grid, payment for which will go to the company.

<b>Green Electricity Generation Limited</b>	Cost	£1,000,000	Valuation at 30/11/11	£1,000,000
	Date of first investment	May 11		
	Investment comprises		Valuation method	Cost as reviewed for impairment
	Ordinary shares	£300,000	Proportion of equity held	30%
	Loan stock	£700,000	Proportion of loan stock held	50%
			Diluted equity	30%
	Summary financial information from statutory accounts			None filed

Green Electricity Generation is a newly formed company that, in common with Progressive Energies above, will install photovoltaic (PV) systems on the roofs of domestic properties in the UK. Feed-in-Tariff payments will be received by the company and the homeowners will benefit from free electricity. Excess electricity produced will be exported to the national grid and attract additional payments to the company.

## REVIEW OF INVESTMENTS – LOW CARBON SHARE POOL (continued)

<b>Progressive Power Generation Limited</b> www.wss-gb.co.uk	Cost	£143,833	Valuation at 30/11/11	£143,833
	Date of first investment	Nov 11		
			Valuation method	Cost as reviewed for impairment
	Investment comprises			
	Ordinary shares	£43,150	Proportion of equity held	10%
	Loan stock	£100,683	Proportion of loan stock held	100%
			Diluted equity	9.7%
	Summary financial information from statutory accounts			None filed
	Progressive Power Generation Limited is a newly formed company that will install, manage and own commercial solar projects. The company is acquiring a 194 kWp solar installation on the roof of a commercial property in Rotherham. The company will receive all Feed-in Tariffs and payment for any electricity exported to the regional grid.			

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

### Summary of loan stock interest income

	£'000
Loan stock interest receivable in the period	
Progressive Energies Limited	-
Green Electricity Generation Limited	-
Progressive Power Generation	-
	<u>-</u>

The allocation of the Low Carbon Share fund compared to the intended split at 30 November 2011 is summarised as follows:

	Actual portfolio split at 30 November 2011	Target portfolio split at 30 November 2013
VCT qualifying investments	30%	75%
Non-qualifying investments (including cash at bank)	70%	25%
	<u>100%</u>	<u>100%</u>

## REVIEW OF INVESTMENTS – LOW CARBON SHARE POOL (continued)

### Analysis of investments by commercial sector

The split of the venture capital investment portfolio by commercial sector (by cost and by value at 30 November 2011) is as follows

## REPORT OF THE DIRECTORS

The Directors present the first Annual Report and Accounts of the Company for the period ended 30 November 2011. The Company was incorporated on 1 November 2010 and commenced activities from 8 December 2010.

### Principal activity and status

The Directors initially obtained provisional approval for the Company to act as a venture capital trust from HM Revenue & Customs and have continued to comply with the VCT regulations.

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

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

### Directors

The following directors were appointed during the period:

Aubrey Brocklebank	(appointed 17/11/10)
Russell Catley	(appointed 17/11/10)
Robin Chamberlayne	(appointed 17/11/10)
A Banes	(appointed 11/11/10, resigned 17/11/10)
A Davies	(appointed 1/11/10, resigned 11/11/10)
A Hunt	(appointed 11/11/10, resigned 17/11/10)

### Business review and developments

The Company's business review and developments during the period are set out in the Chairman's Statement, Investment Manager's Reports, and the Reviews of Investments.

### Share capital

At the period end, the Company had in issue 15,705,016 General Ordinary Shares, 18,476,489 General 'A' Shares, 10,714,500 Structured Ordinary Shares, 12,605,294 Structured 'A' Shares and 8,109,363 Low Carbon Ordinary Shares. There are no other share classes in issue.

All shares have voting rights, each Ordinary Share has 935 votes and every 'A' Share has 65 votes. Where there is a resolution in respect of a variation of the rights of 'A' Shareholders or a Takeover Offer, the voting rights of the 'A' Shares rank pari-passu with those of Ordinary Shares.

The Company operates a share buyback policy whereby, subject to certain restrictions, it intends to buy in any of its own shares that become available in the market for cancellation. In its initial years the Company has a policy of undertaking any buybacks at a price equal to the latest published NAV (i.e. at nil discount). No such shares were purchased in the period for cancellation.

### Results and dividends

	Profit/(loss) for period £'000	Pence per share
General pool Ordinary Shares	(61)	(0.4)
Structured pool Ordinary Shares	(577)	(5.5)
Low Carbon pool Ordinary Shares	(103)	(1.3)

Your Board is proposing to pay a final dividend of 5p per Ordinary Share, payable on 18 May 2012 to Shareholders on the register at 20 April 2012.

On 16 December 2011, the share premium account was cancelled following receipt of court approval. The amount standing to the share premium account on 31 May 2011 has therefore been transferred to a special reserve. The special reserve is a distributable reserve, which was created to enable the Company to purchase its own shares in the market and to pay dividends.

### Performance incentive fees

#### General Share pool and Structured Share pool

The structure of 'A' Shares enables a payment, by way of a distribution of income, of the performance incentive fees to Management (as defined in the prospectus, includes Downing LLP). Management have subscribed for 15% of the total General 'A' Shares and Structured 'A' Shares respectively, at a price of 6.5p per 'A' Share, which was the same price paid by Investors. As Management holds 15% of the total 'A' Shares for these two share pools, this cost of 6.5p per 'A' Share is equivalent to 1.15p per General Ordinary Share and Structured Ordinary Share in issue. The maximum Performance Incentive (at Total Proceeds of 120p) is effectively limited to 7.5p per General Ordinary Share and Structured Ordinary Share in issue. Therefore, the maximum benefit (after deducting the cost of 1.15p) to Management would be 6.35p per General Ordinary Share and Structured Ordinary Share in issue. As the Company intends to wind-up in six years from the close of the Offers, the maximum Performance Incentive will be equivalent to approximately 1p per year per General Ordinary Share and Structured Ordinary Share in issue.

Total Proceeds will be distributed as follows (measured separately for the General and Structured Share pools):

Approximate split of Total Proceeds			
Total Proceeds per Ordinary Share	Shareholder Proceeds Ordinary Shareholders	Management	Shareholders
Up to 70p		0%	100%
Above 70p and below 120p	'A' Shareholders	15%	85%
120p and above	Ordinary Shareholders	0%	100%



## REPORT OF THE DIRECTORS (continued)

### Performance incentive fees (continued)

Management will receive approximately 15% of the Total Proceeds between 70p and 120p per Ordinary Share

### Low Carbon Share pool

In respect of the Low Carbon pool, no 'A' Shares were issued due to the smaller size of the pool. The Performance Incentive will be calculated on the same basis as that for the General Shares and Structured Shares, however, it will be payable by way of a fee to the Manager.

As Total Proceeds paid per Ordinary Share are not above 70p, no fee is due to be paid for the period ended 30 November 2011. It will be recalculated for the year ended 30 November 2012, and annually thereafter, following approval of the audited accounts by Shareholders.

### Directors

The Directors of the Company during the period and their beneficial interests in the issued General Ordinary Shares, General 'A' Shares, Structured Ordinary Shares, Structured 'A' Shares and Low Carbon Ordinary Shares at 30 November 2011 and the date of this report were as follows:

Directors	30 November 2011 and date of this report		
	Structured Ords	Structured 'A's	Low Carbon Ords
Aubrey Brocklebank	-	-	5,535
Russell Catley	10,200	10,200	-
Robin Chamberlayne	10,300	10,300	22,033

The Directors of the Company did not hold any General Ordinary Shares or General 'A' Shares at 30 November 2011 or at the date of this report.

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

Each of the Directors entered into a letter of appointment with the Company dated 8 December 2010. These agreements are for a period of three years and thereafter are terminable on three months' notice by either side. Each Director is required to devote such time to the affairs of the Company as the Board reasonably requires.

### Insurance cover

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

### Investment policy

#### Asset allocation

There are three separate share pools: General Shares, Low Carbon Shares and Structured Shares, each representing a pool of capital and as such will hold their own portfolio of assets. Further information is set out below.

Initially, all the funds were held in cash prior to making non-qualifying investments. Progressively, over a three year period, the Company will make venture capital investments and the non-qualifying investments will reduce accordingly.

By 30 November 2013, and thereafter, it is estimated that approximately 75% of the Company's funds will be invested in venture capital investments, with the balance held in non-qualifying investments, comprising secured loans, fixed income securities and/or a portfolio of institutional structured products.

#### Risk diversification

The Directors control the overall risk of the Company. The Manager ensures that the Company has exposure to a diversified range of venture capital investments from different sectors and no more than 15% of the proceeds of the Offers and no more than 15% of the proceeds of each share class will be invested in any one company or any one issue of fixed income securities (except UK Government gilts or deposit accounts with UK clearing banks).

### General Shares

#### Venture capital investments

Venture capital investments will be sought in UK trading companies. These companies will own substantial assets such as children's nurseries, health clubs, pubs, stock or works-in-progress. Venture capital investments will also be sought in companies with predictable revenue streams from financially sound customers. The Company will generally seek to take a charge over the investee companies' assets. In the event of a material default by an investee company, it would be the Board's intention to exercise its security over the assets and seek to recover the Company's loan.

In addition to maximising the use of its loans to investee companies (subject to the VCT rules), the risks normally associated with VCTs will also be reduced by building a diversified portfolio of unquoted company investments from a number of different sectors.

## REPORT OF THE DIRECTORS (continued)

### Investment policy (continued)

#### General Shares (continued)

##### Non-qualifying Investments

The funds not employed in venture capital investments will be invested in

- Secured loans, and/or
- Fixed income securities

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

#### Structured Shares

##### Venture capital investments

Venture capital investments will be sought in UK trading companies. These companies will own substantial assets such as children's nurseries, health clubs, pubs, stock or works-in-progress. Venture capital investments will also be sought in companies with predictable revenue streams from financially sound customers. The Company will generally seek to take a charge over the investee companies' assets. In the event of a material default by an investee company, it would be the Board's intention to exercise its security over the assets and seek to recover the Company's loan.

In addition to maximising the use of its loans to investee companies (subject to the VCT rules), the risks normally associated with VCTs will also be reduced by building a diversified portfolio of unquoted company investments from a number of different sectors.

##### Non-qualifying investments

The funds attributable to the Structured Shares will be invested in a portfolio of between 7 and 25 institutional structured products (depending on the amount raised under the Offers).

The Structured Shares' holdings of structured products will be primarily designed to produce capital appreciation, rather than income. Therefore, profits arising from the disposal or maturity of the structured products will typically give rise to capital gains, which will be tax-free for the Company and can be distributed tax-free to Shareholders.

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

### Low Carbon Shares

#### Venture capital investments

Venture capital investments will be sought in trading companies that own and operate wind and solar installations in the UK.

##### Non-qualifying investments

The funds not employed in venture capital investments will be invested in

- Secured loans, and/or
- Fixed income securities

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

#### Venture capital trust regulations

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

- 1 The Company holds at least 70% of its investments in qualifying companies (as defined by Part 6 of the Income Tax Act 2007),
- 2 At least 30% of the Company's qualifying investments (by value) are held in "eligible shares" – ("eligible shares" generally being ordinary share capital) for funds raised before 6 April 2011 and at least 70% in "eligible shares" for funds raised on or after 6 April 2011,
- 3 At least 10% of each investment in a qualifying company is held in "eligible shares" (by cost at time of investment),
- 4 No investment constitutes more than 15% of the Company's portfolio (by value at time of investment),
- 5 The Company's income for each financial year is derived wholly or mainly from shares and securities,
- 6 The Company distributes sufficient revenue dividends to ensure that not more than 15% of the income from shares and securities in any one year is retained, and
- 7 A maximum unit size of £1 million in each VCT qualifying investment (per tax year)

## REPORT OF THE DIRECTORS (continued)

### Borrowings

Under its Articles, the Company has the ability to borrow a maximum amount equal to 15% of the aggregate amount paid on any shares issued by the Company (together with any share premium thereon). As at the date of this document, the Company has not made any borrowings. Although the Board does not intend to borrow, it has the flexibility to do so. In particular, as the Board intends to minimise cash balances, the Company may borrow on a short-term basis for cashflow purposes.

### Investment management and administration fees

In June 2011, Downing Corporate Finance (DCF) transferred its business to a limited liability partnership, Downing LLP. The Company's Investment Management and Administration Agreement with DCF was novated to Downing LLP. The terms of the agreement, services provided by Downing LLP and the provision of a running costs cap are identical to those provided under the original agreement.

Downing LLP ("Downing") provides investment management services to the Company. Downing is paid a fee equivalent to 1.8% of net assets per annum.

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

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

The agreement is for a minimum term of six years, with effect from 8 December 2010, with a twelve month notice period on either side thereafter.

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

### VCT status

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

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

Position at  
period ended  
30 Nov 11

- |   |          |
|---|----------|
| 1 To ensure that, by and from 1 December 2013, the Company holds at least 70% of its investments in qualifying companies,   | 17.7%    |
| 2 To ensure that, by and from 1 December 2013, at least 30% (70% in the case of funds raised after 6 April 2011) of the Company's qualifying investments are held in "eligible shares", | 30.0%    |
| 3 At least 10% of each investment in a qualifying company is held in eligible shares,   | Complied |
| 4 No investment constitutes more than 15% of the Company's portfolio,   | Complied |
| 5 To ensure that, by and from 1 December 2011, the Company's income for each financial year is derived wholly or mainly from shares and securities,                                     | 63.0%    |
| 6 The Company distributes sufficient revenue dividends to ensure that not more than 15% of the income from shares and securities in any one year is retained, and                       | Complied |
| 7 A maximum unit size of £1 million in each VCT qualifying investment (per tax year)  | Complied |

### Trail commission

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

### Creditor payment policy

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

### Environmental and social policy

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

### Key performance indicators

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

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

## REPORT OF THE DIRECTORS (continued)

### Principal risks and uncertainties

The principal financial risks faced by the Company, which include interest rate, market price, credit and liquidity risks, are summarised within note 17 to the financial statements

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

In addition to these risks, the Low Carbon pool invests in a sector which is currently subject to regular government review of policy which can significantly impact on the Company's investment strategy.

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

### Substantial interests

As at 30 November 2011, and the date of this report, the Company had not been notified of any beneficial interest exceeding 3% per cent of the issued share capital.

### Auditor

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

### Amended Articles of Association

The Company is proposing to amend the current Articles of Association, by removing Article 82.2 (C), which will allow the Company to purchase its own shares by obtaining approval at a General Meeting of Shareholders, and remove the requirement for approval at individual class meetings of each share class.

### Annual General Meeting

The Company's first Annual General Meeting ("AGM") will be held at 10 Lower Grosvenor Place, London SW1W 0EN at 10.30 a.m. on 9 May 2012.

### Share Class Meetings

Separate Share Class Meetings for holders of General Ordinary Shares, General 'A' Shares, Structured Ordinary Shares, Structured 'A' Shares and Low Carbon Ordinary Shares will be held at 10 Lower Grosvenor Place, London SW1W 0EN on 9 May 2012 at the following times:

Share Class Meeting	Start time
General Ordinary Shares	11.20 a.m.
General 'A' Shares	11.25 a.m.
Structured Ordinary Shares	11.30 a.m.
Structured 'A' Shares	11.35 a.m.
Low Carbon Ordinary Shares	11.40 a.m.

Notices of the Annual General Meeting and Share Class Meetings and Forms of Proxy are contained in a separate meeting booklet, enclosed with these Annual Accounts.

### Directors' responsibilities statement

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 Services Authority.

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

In preparing these financial statements, the Directors are required to:

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

## REPORT OF THE DIRECTORS (continued)

### Directors' responsibilities statement (continued)

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Manager's website maintained on behalf of the Company. 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 and the 2009 Statement of Recommended Practice, 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and
- that the management report, comprising the Chairman's Statement, Investment Manager's Reports, Reviews of Investments and Report of the Directors includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that it faces.

The names and functions of all the Directors are stated on page 2.

### Electronic publication

The financial statements are published on [www.downing.co.uk](http://www.downing.co.uk)

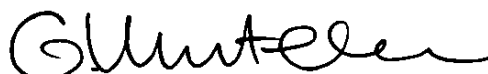
### Corporate governance

The Company's compliance with, and departures from, the Financial Reporting Council's UK Corporate Governance Code June 2010 ([www.frc.org.uk](http://www.frc.org.uk)) is shown on page 31.

### Statement as to disclosure of information to Auditor

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

By order of the Board



**Grant Whitehouse**

Secretary of Downing Planned Exit VCT 2011 plc

Company number 07425571

Registered office  
10 Lower Grosvenor Place  
London SW1W 0EN

28 March 2012

## DIRECTORS' REMUNERATION REPORT

The Board have prepared this report in accordance with the requirements of Section 420 to 422 of the Companies Act 2006. A resolution to approve this report will be put to Shareholders at the Annual General Meeting to be held on 9 May 2012.

Under the requirements of Section 497, the Company's Auditor is required to audit certain disclosures contained within the report. These disclosures have been highlighted and the audit opinion thereon is contained within the Auditor's Report on page 32.

### Directors' remuneration policy

Directors' remuneration is paid at levels as set out in the Company's prospectus published in December 2010. The Company's Articles of Association includes the following in respect of Directors' remuneration:

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

### Agreement for services

Each of the Directors has signed a letter of appointment with the Company dated 8 December 2010. The appointments are for a period of three years and thereafter are terminable on three months' notice by either side. Each Director is required to devote such time to the affairs of the Company as the Board reasonably requires.

### Directors' remuneration (audited)

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

	Current annual fee £	Period ended 30/11/11 £
Aubrey Brocklebank	17,500	17,104
Russell Catley	15,000	14,661
Robin Chamberlayne	15,000	14,661
	<u>47,500</u>	<u>46,426</u>

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

### 2011/2012 remuneration

The remuneration levels for the forthcoming year for the Directors of Downing Planned Exit VCT 2011 plc are expected to be at the current annual fee levels shown in the above table.

### Performance graph

The charts on the next page represent the Company's performance over the period since the Company's General Ordinary Shares, General 'A' Shares, Structured General Shares, Structured 'A' Shares and Low Carbon Ordinary Shares were first listed on the London Stock Exchange, and compares the Company's NAV Total Return (Net asset value plus dividends reinvested) and Share Price Total Return (share price plus dividends reinvested) to the FTSE All Share Total Return Index. Although the FTSE All Share Total Return Index is not a benchmark for the Company, it has been chosen as a comparison as the Board considers it is the most appropriate of the major publicly available indices. All series have been rebased to 100 at 26 April 2011, being the date the Company's shares were listed.

By order of the Board



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

28 March 2012

## CORPORATE GOVERNANCE

The Directors support the relevant principles of the UK Corporate Governance Code issued by the Financial Reporting Council in June 2010, being the principles of good governance and the code of best practice, as set out in the annex to the Listing Rules of the UK Listing Authority

### The Board

The Company has a Board comprising three non-executive Directors. The Chairman and senior Director is Sir Aubrey Brocklebank. The Company has not appointed a senior independent director. Biographical details of all Board members (including significant other commitments of the Chairman) are shown on page 2.

Directors are subject to re-election at the first AGM after their appointment and by rotation thereafter. In accordance with the UK Corporate Governance Code, all of the Directors are offering themselves for re-election at the next AGM.

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

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

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

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

The Board has authority to make market purchases of the Company's own shares. This authority for up to 14.9% of the Company's issued share capital was granted at the General Meeting on 17 November 2010. A resolution will be put to Shareholders to renew this authority at the forthcoming AGM.

The capital structure of the Company is disclosed on page 21.

### Audit Committee

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

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

The Audit Committee will normally meet twice each year.

At the Company's outset, the full Board agreed the internal financial controls to be put in place and concluded that they were appropriate. They also considered the need for an internal audit function and concluded that due to the size of the Company this would not be an appropriate function.

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

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

### Board and Committee meetings

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

	Board meetings attended (3 held)
Aubrey Brocklebank	3
Russell Catley	3
Robin Chamberlayne	3

No Audit, Nomination or Remuneration Committee meetings were held in the period.

## CORPORATE GOVERNANCE (continued)

### Remuneration Committee

The Committee meets as and when required to review the levels of Directors' remuneration. Details of the specific levels of remuneration to each Director are set out in the Directors' Remuneration Report on page 27, and this is subject to Shareholder approval.

### Nomination Committee

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

### Relations with Shareholders

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

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

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

### Financial reporting

The Directors' Responsibilities Statement for preparing the accounts is set out in the Report of the Directors on pages 25 to 26, and a statement by the Auditor about their reporting responsibilities is set out in the independent Auditor's report on page 32.

### Internal control

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

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

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

### Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on pages 3 and 4 of the Investment Manager's Reports, on pages 5, 11 and 17, and the Report of the Directors on page 21. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are shown in the Cash Flow Statement on page 36 and the Report of the Directors on page 24. In addition, note 17 to the financial statements include the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments, and its exposures to credit risk and liquidity risk.

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

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

### Share capital

The Company has five classes of share capital: General Ordinary Shares, General 'A' Shares, Structured Ordinary Shares, Structured 'A' Shares and Low Carbon Ordinary Shares. The rights and obligations attached to those shares, including the power of the Company to buy back shares and details of any significant shareholdings, are set out on pages 22 and 23 of the Report of the Directors.



## CORPORATE GOVERNANCE (continued)

### Compliance statement

The Listing Rules require the Board to report on compliance with the 52 UK Corporate Governance Code provisions throughout the accounting period. With the exception of the limited items outlined below, the Company has complied throughout the accounting period ended 30 November 2011 with the provisions set out in the UK Corporate Governance Code issued in June 2010.

- a) New Directors do not receive a full, formal and tailored induction on joining the Board. Such matters are addressed on an individual basis as they arise. Also the Company has no major Shareholders so Shareholders are not given the opportunity to meet any new non-executive Directors at a specific meeting other than the AGM (B 4.1 B 4.2, E 1.1).
- b) Due to the size of the Board and the nature of the Company's business, a formal performance evaluation of the Board, its Committees, the individual Directors and the Chairman has not been undertaken. Specific performance issues are dealt with as they arise. Similarly, a senior independent director has not been appointed (A 4.1, A 4.2, B 6.1, B 6.3, B 7.2).

- c) Non-executive Directors' contracts are on a three month rolling notice following an initial three year fixed term, whereas the recommendation is for fixed term renewable contracts. In the Directors' opinion this does not make a substantive difference to the circumstances of the Company (B 1.6).
- d) As the Company has no staff, other than Directors, there are no procedures in place relating to whistleblowing (C 3.4).
- e) Due to the size of the Company, the Audit Committee have concluded that an internal audit function is not appropriate (C 3.5).



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

28 March 2012

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DOWNING PLANNED EXIT VCT 2011 PLC

We have audited the financial statements of Downing Planned Exit VCT 2011 plc for the period ended 30 November 2011 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

## Respective responsibilities of Directors and Auditor

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

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

## Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 30 November 2011 and of its loss for the period then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and

- have been prepared in accordance with the requirements of the Companies Act 2006.

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

In our opinion

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006,
- the information given in the Report of the Directors for the financial period for which the financial statements are prepared is consistent with the financial statements, and
- the information given in the Corporate Governance Statement set out on pages 29 to 31 in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook issued by the Financial Services Authority (information about internal control and risk management systems in relation to financial reporting processes and about share capital structures) is consistent with the financial statements.

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

We have nothing to report in respect of the following

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

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

## Under the Listing Rules we are required to review

- the Directors' statement, set out on page 30, in relation to going concern, and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review, and
- certain elements of the report to the Shareholders by the board on Directors' remuneration.

**Rhodri Whitlock (Senior Statutory Auditor)**  
for and on behalf of PKF (UK) LLP, Statutory Auditor  
London UK  
28 March 2012

## INCOME STATEMENT

for the period ended 30 November 2011

	Note	13 months to 30 November 2011		
		Revenue £'000	Capital £'000	Total £'000
Income	2	473	-	473
Net loss on investments	9	-	(506)	(506)
		<u>473</u>	<u>(506)</u>	<u>(33)</u>
Investment management fees	3	(297)	(99)	(396)
Other expenses	4	(312)	-	(312)
Loss on ordinary activities before tax		(136)	(605)	(741)
Tax on ordinary activities	6	-	-	-
Loss attributable to equity shareholders		<u>(136)</u>	<u>(605)</u>	<u>(741)</u>
Basic and diluted return per share				
General Ordinary Share	8	0.6	(1.0)	(0.4)
General 'A' Share		-	-	-
Structured Ordinary Share	8	(1.4)	(4.1)	(5.5)
Structured 'A' Share		-	-	-
Low Carbon Ordinary Share	8	(1.0)	(0.3)	(1.3)

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

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

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

## RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Note	13 months to 30 November 2011			
		General Share pool £'000	Structured Share pool £'000	Low Carbon Share pool £'000	Total £'000
Opening Shareholders' funds		-	-	-	-
Proceeds from share issue		15,885	10,838	7,582	34,305
Share issue costs	12	(874)	(596)	(417)	(1,887)
Total gain/(loss) for the period		<u>(61)</u>	<u>(577)</u>	<u>(103)</u>	<u>(741)</u>
Closing Shareholders' funds		14,950	9,665	7,062	31,677

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

## INCOME STATEMENT (ANALYSed BY SHARE POOL)

for the period ended 30 November 2011

### General Share pool

13 months to 30 November 2011

	Revenue £'000	Capital £'000	Total £'000
Income	378	-	378
Net loss on investments	-	(109)	(109)
	<u>378</u>	<u>(109)</u>	<u>269</u>
Investment management fees	(138)	(46)	(184)
Other expenses	(146)	-	(146)
	<u>94</u>	<u>(155)</u>	<u>(61)</u>
<b>Return/(loss) on ordinary activities before tax</b>			
Tax on ordinary activities	-	-	-
	<u>94</u>	<u>(155)</u>	<u>(61)</u>
<b>Return/(loss) attributable to equity shareholders</b>			

### Structured Share pool

13 months to 30 November 2011

	Revenue £'000	Capital £'000	Total £'000
Income	42	-	42
Net loss on investments	-	(397)	(397)
	<u>42</u>	<u>(397)</u>	<u>(355)</u>
Investment management fees	(93)	(31)	(124)
Other expenses	(98)	-	(98)
	<u>(149)</u>	<u>(428)</u>	<u>(577)</u>
<b>Loss on ordinary activities before tax</b>			
Tax on ordinary activities	-	-	-
	<u>(149)</u>	<u>(428)</u>	<u>(577)</u>
<b>Loss attributable to equity shareholders</b>			

### Low Carbon Share pool

13 months to 30 November 2011

	Revenue £'000	Capital £'000	Total £'000
Income	53	-	53
Net gain on investments	-	-	-
	<u>53</u>	<u>-</u>	<u>53</u>
Investment management fees	(66)	(22)	(88)
Other expenses	(68)	-	(68)
	<u>(81)</u>	<u>(22)</u>	<u>(103)</u>
<b>Loss on ordinary activities before tax</b>			
Tax on ordinary activities	-	-	-
	<u>(81)</u>	<u>(22)</u>	<u>(103)</u>
<b>Loss attributable to equity shareholders</b>			

# **BALANCE SHEET** as at 30 November 2011

	Note	General Shares £'000	Structured Shares £'000	Low Carbon Shares £'000	Total £'000
<b>Fixed assets</b>					
Investments	9	8,120	8,347	2,544	19,011
<b>Current assets</b>					
Debtors	10	444	208	12	664
Cash at bank and in hand		<u>6,553</u>	<u>1,223</u>	<u>4,586</u>	<u>12,362</u>
		6,997	1,431	4,598	13,026
<b>Creditors amounts falling due within one year</b>	11	<u>(167)</u>	<u>(113)</u>	<u>(80)</u>	<u>(360)</u>
<b>Net current assets</b>		<u>6,830</u>	<u>1,318</u>	<u>4,518</u>	<u>12,666</u>
<b>Net assets</b>		<u>14,950</u>	<u>9,665</u>	<u>7,062</u>	<u>31,677</u>
<b>Capital and reserves</b>					
Called up Ordinary Share capital	12	16	11	8	35
Called up 'A' Share capital	12	18	13	-	31
Share premium account	13	14,977	10,218	7,157	32,352
Revaluation reserve	13	(109)	(428)	-	(537)
Capital reserve - realised	13	(46)	-	(22)	(68)
Revenue reserve	13	<u>94</u>	<u>(149)</u>	<u>(81)</u>	<u>(136)</u>
<b>Total equity shareholders' funds</b>		<u>14,950</u>	<u>9,665</u>	<u>7,062</u>	<u>31,677</u>
<b>Basic and diluted net asset value per share</b>					
Ordinary Share	14	87 1p	82 5p	87 1p	
'A' Share	14	6 9p	6 5p	n/a	

The financial statements on pages 33 to 48 were approved and authorised for issue by the Board of Directors on 28 March 2012 and were signed on its behalf by



Sir Aubrey Brocklebank Bt  
Chairman  
Company number 07425571

The accompanying notes form an integral part of these financial statements

## CASH FLOW STATEMENT

for the period ended 30 November 2011

		General Shares £'000	Structured Shares £'000	Low Carbon Shares £'000	Total £'000
	Note				
<b>Net cash outflow from operating activities</b>	15	(230)	(274)	(35)	(539)
<b>Taxation</b>					
Corporation tax paid		-	-	-	-
<b>Capital expenditure</b>					
Purchase of investments	9	(12,862)	(9,274)	(2,544)	(24,680)
Proceeds from disposal of investments	9	4,633	530	-	5,163
Net cash outflow from capital expenditure		(8,229)	(8,744)	(2,544)	(19,517)
<b>Equity dividends paid</b>	7	-	-	-	-
<b>Net cash outflow before financing</b>		(8,459)	(9,018)	(2,579)	(20,056)
<b>Financing</b>					
Proceeds from Ordinary Share issue	12	14,685	10,018	7,582	32,285
Proceeds from 'A' Share issue	12	1,201	819	-	2,020
Proceeds from Preference Share issue	12	13	-	-	13
Redemption of Preference Shares	12	(13)	-	-	(13)
Share issue costs	12	(874)	(596)	(417)	(1,887)
<b>Net cash inflow from financing</b>		15,012	10,241	7,165	32,418
<b>Increase in cash</b>	16	6,553	1,223	4,586	12,362

The accompanying notes form an integral part of these financial statements

## NOTES TO THE ACCOUNTS

### for the period ended 30 November 2011

#### 1 Accounting policies

##### Basis of accounting

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

The financial statements are prepared under the historical cost convention except for certain financial instruments measured at fair value and cover a 12 month period

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

##### Presentation of Income Statement

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

##### Investments

All investments are designated as "fair value through profit or loss" assets due to investments being managed and performance evaluated on a fair value basis. A financial asset is designated within this category if it is both acquired and managed on a fair value basis, with a view to selling after a period of time, in accordance with the Company's documented investment policy. The fair value of an investment upon acquisition is deemed to be cost. Thereafter, investments are measured at fair value in accordance with the International Private Equity and Venture Capital Valuation Guidelines ("IPEV") together with FRS26

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

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

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

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

Gains and losses arising from changes in fair value are included in the Income Statement for the period as a capital item and transaction costs on acquisition or disposal of the investment are expensed

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

##### Income

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

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

## NOTES TO THE ACCOUNTS (continued)

### for the period ended 30 November 2011

#### 1 Accounting policies (continued)

##### Expenses

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

- Expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment.
- Expenses are split and presented partly as capital items where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated. The Company has adopted a policy of charging 75% of the investment management fees to the revenue account and 25% to the capital account to reflect the Board's estimated split of investment returns which will be achieved by the company over the long term.

##### Taxation

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

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

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

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

##### Issue costs

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

#### 2. Income

	2011 £'000
<b>Income from investments</b>	
Loan stock interest	294
<b>Other income</b>	
Bank interest	174
Other	5
	<u>473</u>

#### 3. Investment management fees

The management fee, which is charged to the Company, is based on an annual amount of 1.8% of net assets. The Manager also provides administration services for a fee of £65,000 (plus RPI) per annum. Fees in relation to these services are shown within note 4.

	2011 £'000
<b>Investment management fees</b>	<u>396</u>



# **NOTES TO THE ACCOUNTS (continued)** **for the period ended 30 November 2011**

## **4 Other expenses**

	<b>2011 £'000</b>
Administration services	45
Trail commission	159
Directors' remuneration	46
Social security costs	3
Auditor's remuneration for audit	19
Auditor's remuneration for non-audit services (taxation)	2
Other	38
	<b>312</b>

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

## **5 Directors' remuneration**

Details of remuneration (excluding employer's NIC) are given in the audited part of the Directors' Remuneration Report on page 27

The Company had no employees (other than Directors) during the period. Costs in respect of these are referred to in note 4 above.

No other emoluments or pension contributions were paid by the Company to, or on behalf of, any Director.

## **6 Tax on ordinary activities**

	<b>2011 £'000</b>
<b>(a) Tax charge for the period</b>	
UK corporation tax at 28%	-
<b>Charge for the period</b>	<b>-</b>
<b>(b) Factors affecting tax charge for the period</b>	
Loss on ordinary activities before taxation	(741)
Tax charge calculated on loss on ordinary activities before taxation at the applicable rate of 28%	(207)
Effects of	
Expenses disallowed for tax purposes	44
Losses on investments	142
Losses available to carry forward	21
<b>Current tax charge</b>	<b>-</b>

## **7 Dividends**

	<b>Period ended 30 November 2011</b>		
	<b>Revenue £'000</b>	<b>Capital £'000</b>	<b>Total £'000</b>
<b>Proposed for General Shares</b>			
2011 Final – 5 Op	139	646	785
<b>Proposed for Structured Shares</b>			
2011 Final – 5 Op	-	536	536
<b>Proposed for Low Carbon Shares</b>			
2011 Final – 5 Op	-	405	405

## NOTES TO THE ACCOUNTS (continued)

### for the period ended 30 November 2011

#### 8. Basic and diluted return per share

		Weighted average number of shares in issue	Revenue return/(loss) £'000	Capital loss £'000
Return per share is calculated on the following				
Period ended 30 November 2011	General Ordinary Shares	15,396,361	94	(155)
	General 'A' Shares	18,076,261	-	-
	Structured Ordinary Shares	10,381,145	(149)	(428)
	Structured 'A' Shares	11,889,445	-	-
	Low Carbon Ordinary Shares	7,960,630	(81)	(22)

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

#### 9 Fixed assets - investments

	Structured products £'000	Unquoted investments £'000	Total £'000
<b>Movement in the period</b>			
Purchased at cost	7,654	17,026	24,680
Disposals - proceeds	(530)	(4,633)	(5,163)
- realised gains on disposals	31	-	31
Unrealised loss in the Income Statement	(356)	(181)	(537)
<b>Closing value at 30 November 2011</b>	<b>6,799</b>	<b>12,212</b>	<b>19,011</b>
Closing cost at 30 November 2011	7,155	12,393	19,548
Losses at 30 November 2011	(356)	(181)	(537)
	<b>6,799</b>	<b>12,212</b>	<b>19,011</b>

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

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

	Level 1 £'000	Level 2 £'000	Level 3 £'000	2011 £'000
Structured products	6,799	-	-	6,799
Loan notes	-	-	10,519	10,519
Unquoted equity	-	-	1,693	1,693
	<b>6,799</b>	<b>-</b>	<b>12,212</b>	<b>19,011</b>

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

	Unquoted shares £'000	Loan notes £'000	Total £'000
<i>Movements in the income statement</i>			
Unrealised loss in the income statement	-	(181)	(181)
Realised gains in the income statement	-	-	-
	<b>-</b>	<b>(181)</b>	<b>(181)</b>
Purchases at cost	1,693	15,333	17,026
Sales proceeds	-	(4,633)	(4,633)
Balance at 30 November 2011	<b>1,693</b>	<b>10,519</b>	<b>12,212</b>

## NOTES TO THE ACCOUNTS (continued)

### for the period ended 30 November 2011

#### 9 Fixed assets - investments (continued)

There is an element of judgment in the choice of assumptions for unquoted investments and it is possible that, if different assumptions were used, different valuations could have been attributed to certain of the VCT's investments. FRS29 requires disclosure to be made of the possible effect of changing one or more of the inputs to reasonable possible alternative assumptions where this would result in a significant change in the fair value of the Level 3 investments. In respect of the VCT's portfolio, as all investments were acquired within twelve months of the period end the Directors and Investment Manager do not believe that there are reasonable, possible alternative assumptions which, if used, would lead to a significant change in the fair value of the portfolio. Consequently, no sensitivity analysis is presented.

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

	Company £'000	Other Downing LLP funds £'000	Equity held by other Downing LLP funds %	Equity held by Other Funds %
Angel Solar Limited	1,000	1,000	25%	-
Antelope Pub Limited	337	1,837	30%	-
Avon Solar Energy Limited	1,000	500	13%	13%
Future Biogas (SF) Limited	350	1,720	36%	26%
Green Electricity Generation Limited	1,000	500	15%	15%
Helcim Group Limited	364	3,101	21%	-
Hooie Hall Hotel Limited	1,200	800	-	-
Kidspace Adventures Limited	810	820	-	-
Manor Capital LLP	1,000	500	-	-
Progressive Energies Limited	1,400	660	20%	10%
Progressive Power Generation Limited	144	-	-	-
Residential PV Trading Limited	500	-	-	-
West Tower Holdings Limited	2,100	1,567	-	33%
West Country Solar Solutions Limited	1,188	594	13%	13%
	<u>12,393</u>	<u>13,599</u>		

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

#### 10 Debtors

	2011 £'000
Prepayments and accrued income	159
Other debtors	505
	<u>664</u>

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

	2011 £'000
Corporation tax	-
Taxation and social security	1
Accruals and deferred income	198
Other creditors	161
	<u>360</u>

## NOTES TO THE ACCOUNTS (continued)

### for the period ended 30 November 2011

#### 12. Called up share capital

	2011 £'000
<b>Allotted, called up and fully-paid</b>	
15,705,016 General Ordinary Shares of 0 1p each	16
18,476,489 General 'A' Shares of 0 1p each	18
10,714,500 Structured Ordinary Shares of 0 1p each	11
12,605,294 Structured 'A' Shares of 0 1p each	13
8,109,363 Low Carbon Shares of 0 1p each	8
	66

The Company's capital is managed in accordance with its investment policy as shown in the Directors' report, in pursuit of its principal investment objectives as stated on page 2

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

On 1 November 2010, the two Ordinary Shares issued to the subscribers were paid up in full. On 17 November 2010, 50,000 Redeemable Preference Shares of £1 each were issued to Downing Corporate Finance Limited, one-quarter paid up, to enable the Company to obtain a certificate under Section 761 of the Companies Act 2006

On 11 May 2011, the 50,000 Redeemable Preference Shares of £1 each were paid up in full and then subsequently redeemed out of the proceeds of the offers

Between 21 March 2011 and 15 April 2011, 15,705,016 General Ordinary Shares were issued at 93 Sp per share, 18,476,489 General 'A' Shares were issued at 6 Sp per share pursuant to the offers for subscription by way of a prospectus. The aggregate consideration for the shares was £15,011,000 which excludes issue costs of £874,000

Between 21 March 2011 and 15 April 2011, 10,714,500 Structured Ordinary Shares were issued at 93 Sp per share, 12,605,294 Structured 'A' Shares were issued at 6 Sp per share, pursuant to the offers for subscription by way of a prospectus. The aggregate consideration for the shares was £10,241,000 which excludes issue costs of £596,000

Between 21 March 2011 and 15 April 2011, 8,109,363 Low Carbon Ordinary Shares were issued at 93 Sp per share pursuant to the offers for subscription by way of a prospectus. The aggregate consideration for the shares was £7,165,000 which excludes issue costs of £417,000

#### General Share pool and Structured Share pool

Distributions of income and returns of capital (whether by way of reduction of capital or otherwise) shall be made on the following basis to the holders of General Ordinary Shares, General 'A' Shares, Structured Ordinary Shares and Structured 'A' Shares

#### Total Proceeds per Ordinary Share

	Shareholder proceeds	
	Ordinary Shareholders	'A' Shareholders
Up to 70p	Remainder	1/( x total shares in issue)
Above 70p and below 120p	1/( x total shares in issue)	Remainder
120p and above	Remainder	1/( x total shares in issue)

"Shareholder proceeds" means amounts paid by way of dividend or other distributions, share buybacks, proceeds on a sale or winding-up of the Company and any other proceeds or value received or deemed to be received, by Ordinary Shareholders and 'A' Shareholders (excluding any income tax relief on subscription) out of the assets attributable to the Ordinary Shares and the 'A' Shares

"Remainder" is the dividends not paid to the Ordinary Shareholders/'A' Shareholders as applicable

#### Low Carbon Share pool

The Low Carbon Share pool does not have 'A' Shares so all proceeds are distributable to the Ordinary Shareholders

The Company does not have any externally imposed capital requirements

**NOTES TO THE ACCOUNTS (continued)**  
for the period ended 30 November 2011

**13 Reserves**

	Share premium account £'000	Revaluation reserve £'000	Capital Reserve - realised £'000	Revenue reserve £'000
At incorporation	-	-	-	-
Issue of new shares	34,239	-	-	-
Share issue costs	(1,887)	-	-	-
Expenses capitalised	-	-	(99)	-
(Loss)/Gains on investments	-	(537)	31	-
Retained net revenue	-	-	-	(136)
At 30 November 2011	<u>32,352</u>	<u>(537)</u>	<u>(68)</u>	<u>(136)</u>
<b>Split as.</b>				
<b>General Share pool</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At incorporation	-	-	-	-
Issue of new shares	15,851	-	-	-
Share issue costs	(874)	-	-	-
Expenses capitalised	-	-	(46)	-
Loss on investments	-	(109)	-	-
Retained net revenue	-	-	-	94
At 30 November 2011	<u>14,977</u>	<u>(109)</u>	<u>(46)</u>	<u>94</u>
<b>Structured Share pool</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At incorporation	-	-	-	-
Issue of new shares	10,814	-	-	-
Share issue costs	(596)	-	-	-
Expenses capitalised	-	-	(31)	-
(Loss)/Gains on investments	-	(428)	31	-
Retained net revenue	-	-	-	(149)
At 30 November 2011	<u>10,218</u>	<u>(428)</u>	<u>-</u>	<u>(149)</u>
<b>Low Carbon Share pool</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At incorporation	-	-	-	-
Issue of new shares	7,574	-	-	-
Share issue costs	(417)	-	-	-
Expenses capitalised	-	-	(22)	-
Gains on investments	-	-	-	-
Retained net revenue	-	-	-	(81)
At 30 November 2011	<u>7,157</u>	<u>-</u>	<u>(22)</u>	<u>(81)</u>

At 30 November 2011 there were no distributable reserves. On 16 December 2011, the share premium account was cancelled following receipt of court approval. The amount standing to the share premium account on 31 May 2011 has therefore been transferred to a special reserve. The special reserve is a distributable reserve, which was created to enable the Company to purchase its own shares in the market and to pay dividends.

## NOTES TO THE ACCOUNTS (continued)

### for the period ended 30 November 2011

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

	2011 Shares in issue	Pence per share	£'000
General Ordinary Shares	15,705,016	87.1	13,677
General 'A' Shares	18,476,489	6.9	1,273
Structured Ordinary Shares	10,714,500	82.5	8,841
Structured 'A' Shares	12,605,294	6.5	824
Low Carbon Ordinary Shares	8,109,363	87.1	7,062
Net assets per Balance Sheet			<u>31,677</u>

The Directors allocate the assets and liabilities of the Company between the General Share pool, Structured Share pool and Low Carbon Share pool such that each share class has sufficient net assets to represent its dividend and return of capital rights as described in note 12

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

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

	General Shares £'000	Structured Shares £'000	Low Carbon Shares £'000	2011 Total £'000
Return on ordinary activities before taxation	(61)	(577)	(103)	(741)
Gains on investments	109	397	-	506
Increase in debtors	(445)	(207)	(12)	(664)
Increase in creditors	167	113	80	360
Net cash inflow from operating activities and returns on investments	<u>(230)</u>	<u>(274)</u>	<u>(35)</u>	<u>(539)</u>

#### 16 Analysis of changes in cash at bank during the period

	2011 £'000
Beginning of period	-
Net cash inflow	<u>12,362</u>
End of period	<u>12,362</u>

#### 17. Financial instruments

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

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

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

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

- Market risks
- Credit risk
- Liquidity risk

## NOTES TO THE ACCOUNTS (continued)

### for the period ended 30 November 2011

#### 17 Financial instruments (continued)

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

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

#### **Market risks**

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

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

- Market price risk
- Interest rate risk

#### **Market price risk**

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

At 30 November 2011, the structured product portfolio was valued at £6,799,000.

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

		Risk exposure at 30 November 2011 £'000	
Structured products*		6,557	
FTSE 100 at 30 November 2011		5,505	
Movement in FTSE 100 Index	Estimated impact on NAV £'000	Estimated impact on NAV	
		Ordinary Share	pence per 'A' Share
20% increase to 6,606	700	6 Op	1 Op
20% decrease to 4,404	(700)	(6 Op)	(1 Op)

\*This excludes the BNP Paribas Harewood Absolute Progression 2 which is not directly linked to FTSE 100 Index performance.

## NOTES TO THE ACCOUNTS (continued)

### for the period ended 30 November 2011

#### 17. Financial instruments (continued)

##### *Market price risk (continued)*

The BNP Harewood Absolute Progression 2 fund aims to produce absolute returns irrespective of the direction of equity markets. The return is based upon the performance of the basket of 15 blue-chip stocks split between sectors. The sensitivity is shown below.

Movement in relevant markets	Estimated impact on NAV £'000	Estimated impact on NAV	
		Ordinary Share	pence per 'A' Share
20% increase	7	0.1p	-
20% decrease	(7)	(0.1p)	-

At 30 November 2011, the unquoted portfolio was valued at £12,212,000.

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

##### 10% movement in unquoted investment valuations

Unquoted investments	Impact on net assets £'000	2011 Impact on NAV per share
		Pence
General Share pool	812	5.2p
Structured Share pool	154	1.4p
Low Carbon Share pool	254	3.1p

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



## NOTES TO THE ACCOUNTS (continued)

### for the period ended 30 November 2011

#### 17 Financial instruments (continued)

##### *Interest rate risk*

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

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

- "Fixed rate" assets represent investments with predetermined yield targets and comprise certain loan note investments and Preference Shares.
- "Variable rate" assets represent investments with predetermined interest rates that vary at set dates in accordance with loan agreements.
- "Floating rate" assets predominantly bear interest at rates linked to Bank of England base rate or LIBOR and comprise cash at bank and liquidity fund investments and certain loan note investments.
- "No interest rate" assets do not attract interest and comprise equity investments, certain loan note investments, loans and receivables (excluding cash at bank) and other financial liabilities.

	Average interest rate	Average period until maturity	2011 £'000
Fixed rate	9.3%	1,235 days	9,068
Variable rate	10.0%	1,070 days	1,451
Floating rate	0.5%		12,362
No interest rate			9,156
			<u>32,037</u>

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

It is estimated that an increase of 1% in interest rates would have increased total return before taxation for the period by £66,000. As the Bank of England base rate stood at 0.5% per annum throughout the period, it is not believed that a reduction from this level is likely.

##### *Credit risk*

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

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

	2011 £'000
Investments in loan stocks	10,519
Investments in structured products	6,799
Cash and cash equivalents	12,362
Interest, dividends and other receivables	141
	<u>29,821</u>

## NOTES TO THE ACCOUNTS (continued)

### for the period ended 30 November 2011

#### 17. Financial instruments (continued)

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

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

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

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

##### *Liquidity risk*

Liquidity risk is the risk that the Company encounters difficulties in meeting obligations associated with its financial liabilities. Liquidity risk may also arise from either the inability to sell financial instruments when required at their fair values or from the inability to generate cash inflows as required. As the Company has a relatively low level of creditors (£360,000) and has no borrowings, the Board believes that the Company's exposure to liquidity risk is low. The Company always holds sufficient levels of funds as cash in order to meet expenses and other cash outflows as they arise. For these reasons the Board believes that the Company's exposure to liquidity risk is minimal.

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

The carrying value of loan stock investments held at fair value through the profit and loss account at 30 November 2011 as analysed by the expected maturity date is as follows:

As at 30 November 2011	Not later than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 3 years £'000	Between 3 and 5 years £'000	More than 5 years £'000	Total £'000
Full performing loan stock	2,148	-	-	4,888	-	7,036
Past due loan stock	183	3,300	-	-	-	3,483
	<u>2,331</u>	<u>3,300</u>	<u>-</u>	<u>4,888</u>	<u>-</u>	<u>10,519</u>

The loan stock classified as "past due" above relates entirely to the principal of loan notes where, although the principal remains within term, the investee company is not fully servicing the interest obligations under the loan note and is thus in arrears. As at the balance sheet date, the extent to which the interest giving rise to the classification of the loan notes as past due comprised loan notes of £183,000 falling within the banding of 0 to 6 months, and £3,300,000 falling within the banding 1 to 2 years. Notwithstanding the arrears of interest, the Directors do not consider that the loan note itself has been impaired or the maturity of the principal has altered.

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

### **for the period ended 30 November 2011**

**18 Contingencies, guarantees and financial commitments**

At 30 November 2011, the Company was committed to one further investment of £500,000 in Residential PV Trading Limited, the investment completed on 11 January 2012. Other than as described above, at 30 November 2011, the Company had no contingencies, guarantees or financial commitments.

**19 Controlling party and related party transactions**

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

**20. Post balance sheet event**

On 16 December 2011, the share premium account was cancelled following receipt of court approval. The amount standing to the share premium account on 31 May 2011 (which is equal to that at 30 November 2011) has therefore been transferred to a special reserve. The special reserve is a distributable reserve, which was created to enable the Company to purchase its own shares in the market and to pay dividends.