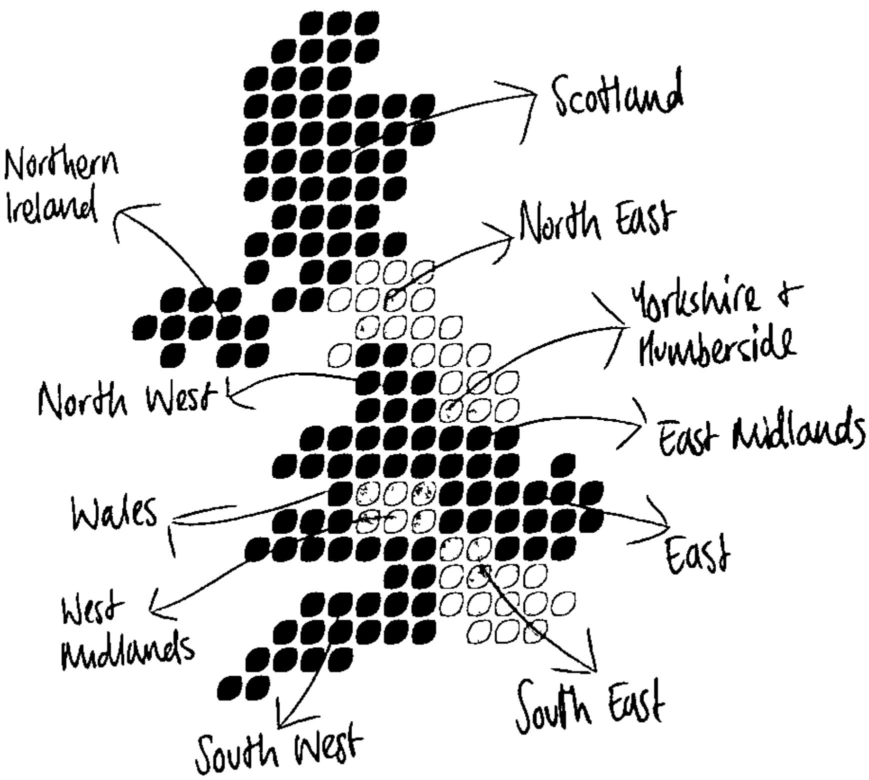
Company registration number 07514847

Business GrowthFund

Business Growth Fund Plc

Directors' report and financial statements

For the year ended 31 December 2012



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Company registration number	07514847
Registered Office	21 Palmer Street London SW1H 0AD
Auditor	KPMG Audit Plc 8 Salisbury Square London EC4Y 8BB
Bankers	Barclays Bank Plc One Churchill Place London E14 5HP

The directors' present their report and audited financial statements for the year ended 31 December 2012

Principal activities and status

The Company is registered as a Public Limited Company under the Companies Act 2006 The principal activity of the Company and its subsidiaries is to provide long-term capital to UK based companies

The target for this investment is growing small and medium-sized UK businesses that need long-term capital to drive their future success These companies will typically have sales of around £5 million to £100 million and a strong growth trajectory The aim is to invest around £2 million to £10 million in return for a minority equity stake and a seat on the board, through a variety of different instruments

Business review

The Group made good progress in 2012, moving from start-up mode into its first full year of operation

The Group provided more than £100m of growth capital to 21 exciting businesses, expanding the level of investment going into the UK SME sector and highlighting that, despite challenging economic conditions, good businesses can prosper Across the UK we have invested in companies employing from 7 to over 600 people and in 13 different sectors – from healthcare to oil & gas services, and from leisure & hospitality to IT & telecoms

Our investment activity should be seen in the context of a growth capital market that has historically made fewer than 50-60 investments a year So it is fair to say that until now there simply has not been enough capacity to create profile and momentum for minority equity providers, and therefore, to see the market expand

We believe our success to date also demonstrates that there is a clear and addressable market with increasing demand for growth equity among the UK's small and medium sized businesses The Group now offers a critical additional source of funding and is playing an increasingly central role in expanding the pool of long term capital available to growing companies

We continued to develop our infrastructure as we recruited additional experienced investment professionals and opened our seventh office in Leeds Today we have a very effective platform centred around a strong local office network and the basis of a scalable business model Of note in this regard we would highlight in 2012 the recruitment of a Head of Portfolio, completing the senior leadership team, the roll out of a new CRM system, and overall IT infrastructure development, the steps we have taken to create an effective risk/regulatory/compliance framework in what is a very young operation, and the strength of the Group's own culture and ethos We have a committed and passionate team

The key targets for 2013 are to continue to expand the investment pipeline, to meet hundreds of new companies across the UK and increase the number and breadth of completed investments In addition to these targets, we have implemented a portfolio management function to further develop oversight, created a Talent Network to add outside expertise to investee company boards, both of which will drive long term value growth of the portfolio Whilst the business environment in the UK remains challenging, the directors remain confident that the Group will continue to be able to identify and support growing UK companies

Principal risks and uncertainties

The key risks that the Group faces relate to the investment portfolio Making equity linked investments in small unquoted companies, by its nature, carries a higher degree of risk than investments in quoted or listed assets This risk is managed through the Group's investment and portfolio management processes drawing on the extensive experience of the investment team As the Group expands its investments the directors will mitigate some of this risk by ensuring that it maintains a diverse portfolio across business sectors, asset classes and geography

The nature of these investments also gives rise to a liquidity risk as there is not generally a ready market for the sale of the assets and the Group does not have the ability to force a sale of the companies in which we have invested, which is an underlying principle of being a minority investor The directors mitigate this risk by ensuring that sufficient cash reserves are maintained to cover any short term liabilities

The group operates in a highly regulated market and the Company is authorised by the Financial Services Authority to carry out its investment business The directors have put in place procedures and controls to ensure that this authorisation is maintained

A more detailed analysis of the risks facing the Group is shown in notes 20 to 23

Results and dividends

The Group made a loss after taxation of £24,381,000 (2011 £12,078,000) The directors do not recommend the payment of a dividend for the period (2011 £nil)

The year-end operating loss excluding unrealised losses of £12,452,000 was £12,398,000 which was a lower loss than budgeted The positive variance was driven primarily via ensuring headcount additions were aligned with deal flow growth and the inclusion of greater use of interest bearing loan notes in our deals to cater for our portfolio company needs

In terms of portfolio performance, we have taken an appropriate approach to valuations, the outcome of which has been within our business plan expectations and reflects both the maturity of our portfolio and the relative age of the companies we are investing in It is clearly too early to expect any uplifts in valuation, but we are recognising provisions where a business is materially off plan or struggling more generally

The 2012 year-end unrealised valuation provision of approximately 11% is in line with our expectations and our team's experience We prioritise those situations which warrant most help and are working with the relevant boards to put in place robust longer term plans A key objective is to ensure that future budgets within our investments, which we will have influenced at board level and are made with the knowledge we have gained inside the business, are robust and provide the long term road map which will see these businesses grow

The provisions follow accounting standards of fair value today but do not reflect our view of the long term value of our investments which we expect to hold for between 5-10 years As is common practice with unquoted investments the key metric of financial success is the actual cash realised on each investment relative to its cost, so a precise Multiple of Money can be derived and then across a whole portfolio of investments the actual cash returned on that portfolio relative to its cost looked at on an annual vintage basis

Creditor payment policy

The Group's payment policy is to settle supplier invoices in accordance with agreed terms At 31 December 2012, the Company had 10 days (2011 10 days) of purchases held in creditors

Employees

The Group considers it is critical to its success that it continues to nurture the different and diverse talents across the business and has designed employment policies to achieve this The Group aims to provide equal opportunities, regardless of age, sex, race, religion or belief, sexual orientation, disability or ethnic origin The Group does all that is practicable to meet its responsibilities towards the employment and training of disabled people Where an employee becomes disabled, every effort is made to provide continuity of employment in the same job or a suitable alternative The Group aims to ensure that all of its employees are informed about, and engaged with, their part of the business, augmented by a deeper understanding of the Group overall and its future direction

During the year the Group implemented a long term incentive plan ("the LTIP") to strengthen the alignment between the shareholders and employees of the Group The LTIP gives relevant employees a direct interest in the long term performance of the portfolio of investee companies subject to a certain minimum rate of return on those investments and the employees' continuing employment with the Group More detail on the LTIP is given in note 3

Corporate Social Responsibility

At the Group we recognise that the way in which we conduct our business has a direct impact on our employees, the environment, our portfolio companies and the business and local communities in which we operate We embrace our CSR obligations as a critical part of our mission and by working with our employees, shareholders and portfolio companies, we feel that our combined strengths can lead to a more efficient and effective CSR programme Where possible the Group will collaborate on CSR initiatives with the companies in which we invest and encourage them to consider the benefits of CSR to their own organisations and the wider community within which they interact Our strong ethical standards are reflected in our core business values and throughout our business including, Anti-Bribery & Corruption Policies and our Ethical Trading & Ethical Supply Chain philosophies We will provide our employees with the best possible working environment and work with them in a culture of mutual respect, honesty & fairness Investing in our employees means investing in our long-term success and that of the portfolio businesses that we support

Political and charitable donations

The Group recognises the value of charitable and social contributions both it and its employees can make An example of this is the drive to provide work experience and advice to young people and we will fully engage with on-going programmes to encourage and educate people at the start of their working lives We support and encourage our employees to contribute skills, knowledge and time to the wider community around us

The Group made charitable donations of £1,146 in 2012 (2011 £nil) as part of its policy to match employee donations up to a maximum of £250 per employee The Group did not make any contributions to political parties during either the current or the previous year

Environment

The Group recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to mitigate any adverse impact that might be caused by its activities Initiatives aimed at minimising the Group's impact on the environment include recycling and reducing energy consumption

Substantial shareholdings

As at 31 December 2012, the ordinary share capital was issued as follows

	No of shares	% of issued share capital
HSBC (BGF) Investments Limited	49,591,500	22 525%
RBS SME Investments Limited	49,591,500	22 525%
Uberior Investments Limited	49,591,500	22 525%
Barclays Funds Investments Limited	49,591,500	22 525%
Standard Chartered Bank	21,796,042	9 900%
	220,162,042	100%

Uberior Investments Limited is a member of the Lloyds Banking Group

Directors and Corporate Governance

The Board is accountable to the Group's stakeholders, including its shareholders, for the standards of governance operated throughout the organisation

The Board has adopted a formal schedule of matters that are specifically reserved for its decision including, the approval of annual results, the recommendation of dividends, approval of annual budgets, review of Group strategic plans, review of the overall system of internal control and risk management, and the review of corporate governance arrangements

Specific responsibilities are delegated to a number of sub-committees such as the Audit & Risk, Nomination, Remuneration, and Investment Committees and these are documented through the relevant committee terms of reference The matters reserved for Board decision and the committee terms of reference are reviewed on an annual basis

The Board delegates authority, within clearly defined limits, to the Group Chief Executive Officer and the Group Finance Director ("Executive") for operational matters

The directors who served during the year were

	Audit & Risk	Nominations	Remuneration
Sir Nigel Rudd (Chairman)		X	
Stephen Welton (Chief Executive Officer)		X	
Tim Boag			X
James Chew	X		
Tim Hinton (resigned 18 September 2012)	X		
John Kelting			X
John Watson (resigned 19 June 2012)	X		
Audrey Baxter			
John Burgess			
Stephen Murphy	X		X
Neil Johnson		X	X
William Holmes (appointed 1 November 2012)	X		
Karen Bothwell (appointed 19 June 2012)	X		

A summary of the Group's corporate governance can be found on the Group's website www bgf co uk

The directors have no interest in the shares of the company

Statement of disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are aware, there is no relevant audit information of which the company's auditors are unaware and that each director has taken all steps that ought to have been taken as director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

Auditor

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit Plc as auditor of the company is to be proposed at the forthcoming Annual General Meeting

This report was approved by the Board of Directors on 21 March 2013 and signed on its behalf by

Stephen Welton (Chief Executive Officer)

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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 group and company and of their profit or loss for that period In preparing each of the group and parent company financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and 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 group and parent company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that the financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Independent auditor's report to the members of Business Growth Fund Plc

We have audited the financial statements of Business Growth Fund Plc for the year ended 31 December 2012 set out on pages 10 to 22 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of directors' responsibilities set out on page 8, 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

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2012 and of the group's loss for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial period for which the financial statements are prepared 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 matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements 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

Rockley

Lord Rockley (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
8 Salisbury Square
London
EC4Y 8BB

21st March 2013

Consolidated profit and loss account

For the year ended 31 December 2012

	Notes	**12 months 2012 £'000**	11 months 2011 £'000
Investment income		**3,806**	129
Operating expenses	2	**(16,204)**	(12,328)
Operating loss before unrealised loss		**(12,398)**	(12,199)
Net unrealised loss	7	**(12,452)**	-
Operating loss		**(24,850)**	(12,199)
Interest receivable	5	**469**	121
Loss on ordinary activities before taxation		**(24,381)**	(12,078)
Taxation on ordinary activities	6	**-**	-
Loss on ordinary activities after taxation		**(24,381)**	(12,078)

All income and expenditure arose from continuing operations There was no profit or loss attributable to minority interests in the year

A consolidated statement of total recognised gains and losses has not been prepared as all gains and losses are recognised in the consolidated profit and loss account

There is no difference between the profit or loss on ordinary activities before taxation and the retained loss for the period stated above and their historical equivalents

Consolidated and Company reconciliation of movement in shareholders' funds

For the year ended 31 December 2012

	Notes	**12 months**		11 months	
		2012 Consolidated Group £'000	**2012 Company £'000**	2011 Consolidated Group £'000	2011 Company £'000
Opening shareholders' funds		**74,584**	**74,329**	-	-
Loss for the period		**(24,381)**	**(16,484)**	(12,078)	(12,333)
Increase in issued share capital	13	**133,500**	**133,500**	86,662	86,662
Increase in minority interest	14	**19**	**-**	-	-
Closing shareholders' funds		**183,722**	**191,345**	74,584	74,329

The notes on pages 13 to 22 form an integral part of these financial statements

Consolidated and Company balance sheet — Business Growth Fund Plc

As at 31 December 2012

	Notes	2012 Consolidated Group £'000	2012 Company £'000	2011 Consolidated Group £'000	2011 Company £'000
Fixed assets					
Investments	7	100,182	-	11,650	11,650
Investment in group entities	8	-	108,524	-	-
Tangible fixed assets	9	1,264	1,264	1,186	1,186
		101,446	109,788	12,836	12,836
Current assets					
Debtors	10	16,265	16,213	640	602
Cash at bank and in hand		71,516	71,472	64,291	64,268
		87,781	87,685	64,931	64,870
Creditors amounts falling due within one year	11	(5,195)	(5,818)	(2,953)	(3,147)
Net current assets		82,586	81,867	61,978	61,723
Total assets less current liabilities		184,032	191,655	74,814	74,559
Provisions	12	(310)	(310)	(230)	(230)
Net assets		183,722	191,345	74,584	74,329
Capital and reserves					
Called up share capital	13	220,162	220,162	86,662	86,662
Retained earnings	15	(36,459)	(28,817)	(12,078)	(12,333)
Minority interest	14	19	-	-	-
Equity		183,722	191,345	74,584	74,329

These financial statements were approved by the Board of Directors on 21 March 2013 and were signed on its behalf by

Stephen Welton (Chief Executive Officer)

Company registration number 07514847

The notes on pages 13 to 22 form an integral part of these financial statements

Consolidated cash flow statement

For the year ended 31 December 2012

	Notes	12 months 2012 £'000	11 months 2011 £'000
Net cash outflow from operating activities	16	**(11,153)**	(9,583)
Returns on investment and servicing of finance		**406**	30
Capital expenditure and financial investment			
Purchase of investments		**(99,361)**	(11,645)
Purchase of tangible fixed assets		**(417)**	(1,173)
Net cash outflow from capital expenditure and financial investment		**(99,778)**	(12,818)
Net cash outflow before financing		**(110,525)**	(22,371)
Financing			
Increase in share capital issued		**117,731**	86,662
Minority interest		**19**	-
Increase in cash		**7,225**	64,291

Reconciliation of net cash flow to movement in net cash

		2012	2011
Increase in cash		**7,225**	64,291
Opening cash position		**64,291**	-
Closing cash position		**71,516**	64,291

The notes on pages 13 to 22 form an integral part of these financial statements

1 Accounting policies

a Basis of preparation

These financial statements have been prepared under UK Generally Accepted Accounting Practice (UK GAAP)

b Going concern

The Group's business activities, together with the factors likely to affect future development, performance and position are set out in the Business Review on page 4 In addition notes 19 – 23 to the financial statements include the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments, and its exposure to credit risk and liquidity risk

The Group is required by the shareholders to produce a review of the business during the second, fifth and eighth years of operation During 2012 the Group produced the first of these reviews and it was concluded that the Group was operating in accordance with the original business plan and to the satisfaction of the shareholders

The directors therefore have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future Thus they continue to adopt the going concern basis of accounting in preparing these annual financial statements

c Basis of consolidation

The consolidated financial statements include the financial statements of all the Company's subsidiaries Subsidiaries are entities controlled by the parent company, directly or indirectly Under Section 408 of the Companies Act 2006, the Company is exempt from the requirement to present its own profit and loss account

The Group has investments which may be regarded as associated undertakings under Financial Reporting Standard 9 which would require these to be consolidated using the equity method of accounting As these investments are held to earn investment income and to achieve capital gains on subsequent disposals, they have not been consolidated in the accounts of the Group

d Recognition and measurement of investments

The purchase or sale of investments is recognised at the date of completion

The Group makes and holds investments with a view to earning investment income and realising gains on subsequent disposals Investments are included in the balance sheet at fair value Investments by the Group are typically made through a combination of equity shares and unsecured loan notes Investments are valued by applying the International Private Equity and Venture Capital Valuation Guidelines, which have been adopted by the British Private Equity and Venture Capital Association They are included in the financial statements at fair value through the Profit and Loss and a rigorous valuation process is undertaken half-yearly

Unlisted investments are typically valued using one of the following methodologies

1 Earnings Multiple (based on comparable quoted multiples and significant third party transactions),
2 Price of Recent Investment,
3 Net Assets, or
4 Discounted Cash Flows or Earnings from Underlying Business

When applying an Earnings Multiple, the Group uses its best estimate of maintainable earnings In accordance with the guidelines, discounts to the multiple are applied for marketability, size, quality of earnings and other relevant factors where appropriate

e Income

Income on loan notes and preference shares is recognised on an accruals basis Appropriate provisions are made against this income where the recovery becomes doubtful

Dividends on unquoted equity shares are recognised on the date that the right to receive the income is established

f Operating expenses

Operating expenses are recorded on an accruals basis

g Taxation

The charge for taxation is based on the result for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19

Deferred tax assets are only recognised to the extent that it is more likely than not that there will be suitable taxable profits against which the underlying timing difference can reverse

h Tangible fixed assets and depreciation

Depreciation is provided by the Group to write off the cost less estimated residual value of tangible fixed assets by instalments on a straight line basis over their estimated useful economic lives as follows

Leasehold improvements	- over the lease term
Office equipment	- 5 years
Computer equipment	- 3 years

i Dilapidations provision

A provision is recognised for the cost of dilapidations which are due to be paid to the landlord when the property lease ends These are accrued for on a straight line basis over the life of the lease

j Related party transactions

The Company is exempt from the requirements of Financial Reporting Standard No 8 (Related Party Disclosures) to disclose transactions with other wholly owned group undertakings of Business Growth Fund Plc

k Operating leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease

l Post retirement benefits

The Group operates a defined contribution pension scheme The assets of the scheme are held separately from those of the Group in an independently administered fund The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period

2 Operating expenses

Operating expenses for the Group include the following amounts

	12 months 2012 £'000	11 months 2011 £'000
Auditor's remuneration – Audit of these financial statements	**22**	22
Auditor's remuneration – Audit of financial statements of subsidiaries of the Company	**50**	5
Auditor's remuneration – Other assurance services	**3**	3
Operating lease costs	**409**	296
Loss on disposal of fixed assets	**(25)**	-
Depreciation	**413**	217
Staff costs (note 3)	**11,966**	4,079
Net unrealised loss (note 7)	**12,452**	-

3 Staff costs

The average number of persons employed by the Group (including directors) during the period, analysed by category, was as follows

	12 months 2012	11 months 2011
Non-executive directors	**10**	7
Senior management team	**9**	4
Investment staff	**39**	11
Support staff	**15**	4
Total	**73**	26

The aggregate payroll costs of these persons were as follows

	12 months £'000	11 months £'000
Wages & salaries	**10,011**	3,471
Social security costs	**1,380**	437
Other pension costs	**575**	171
Total staff costs	**11,966**	4,079

At 31 December 2012, the total number of staff (including non-executive directors) was 82 (2011 51)

During the year the Group implemented a long term incentive plan ("the LTIP") Under this plan, the Group's investments will be held by BGF Investment LP ("the Partnership"), a limited partnership registered in England & Wales The Partnership is part of the Group and is administered by the Company as General Partner Employees of the Group who participate in the LTIP are admitted as limited partners of the Partnership

All investments made by the Group are allocated to an annual vintage within the LTIP based on the calendar year of the investment If the realised return on a given vintage exceeds a minimum hurdle rate then the LTIP participants are entitled to a share of those realised returns

As part of the annual performance appraisal and remuneration reviews, employees may be offered a number of points in relation to these vintages in return for the employee making a capital contribution to the LTIP These points entitle them to a share of the returns allocated to the LTIP and vest over a number of years subject to the participant remaining in employment with the Group The operation of the LTIP was approved by the Board of Directors and any points allocated to members of the senior management team are reviewed and approved by the Remuneration Committee and the Board of Directors

4 Director's remuneration

	Salary and fees £'000	Bonus for the year £'000	Pension and other benefits £'000	**12 months 2012 Total £'000**	11 months 2011 Total £'000
Executive Director					
S Welton	385	365	46	**796**	610
Other directors	365	-	-	**365**	209
Total director's remuneration	750	365	46	**1,161**	819

S Welton was the highest paid director and has a share in the returns allocated to the LTIP for each vintage as described in note 3 Due to the long term nature of the incentive plan there have been no payments made during the year nor are there any amounts outstanding at the year end

5 Interest receivable

	12 months 2012 £'000	11 months 2011 £'000
Interest on bank deposits	**469**	121

6 Taxation

a Analysis of tax charge in the period

	12 months 2012 £'000	11 months 2011 £'000
UK corporation tax (note 6(b))	-	-

b Factors affecting the tax charge for the period

	12 months 2012 £'000	11 months 2011 £'000
Loss on ordinary activities before taxation	**(24,381)**	(12,078)
Corporation tax at 24 50% (2011 26 33%)	**(5,973)**	(3,180)
Effect of		
Disallowed administrative expenses	**103**	580
Depreciation in excess of capital allowances	**70**	7
Unrealised loss	**3,051**	-
Excess management expenses carried forward	**2,749**	2,593
Tax charge for the period (note 6(a))	-	-

The 2012 Budget and subsequent 2012 Autumn Statement announced that the UK corporation tax rate will reduce to 21% (from the rate applicable at 31 December 2012 of 24%) Subject to substantive enactment the rates of corporation tax will fall to 22% on 1 April 2013 and 21% on 1 April 2014 This will reduce the Company's future tax charge accordingly

As at December 2012, the Group had accumulated excess management expenses amounting to £21,691,000 (2011 £9,900,000) and depreciation in excess of capital allowances of £183,000 (2011 £27,000) for which no deferred tax asset has been recognised The deferred tax asset is not recognised because of the uncertainty of the timings of the future taxable profits against which to offset the losses

7 Investments

Group

	Equıty	Preference Shares	Loan notes	Accrued Interest	Total
	£'000	£'000	£'000	£'000	£'000
As at 1 January 2012	5,294	-	6,356	-	11,650
Reclassıfied from debtors	-	-	-	104	104
New ınvestment	53,586	3,098	42,672	1,892	101,248
Valuatıon movement	(7,402)	-	(5,050)	(368)	(12,820)
Closıng valuatıon at 31 December 2012	51,478	3,098	43,978	1,628	100,182
Represented by					
Closıng book cost	58,880	3,098	49,028	1,996	113,002
Closıng unrealısed deficıt	(7,402)	-	(5,050)	(368)	(12,820)
	51,478	3,098	43,978	1,628	100,182

Company

	Equıty	Preference Shares	Loan notes	Accrued Interest	Total
	£'000	£'000	£'000	£'000	£'000
As at 1 January 2012	5,294	-	6,356	-	11,650
Reclassıfied from debtors	-	-	-	104	104
New ınvestment	24,302	1,200	25,084	597	51,183
Transfer to LP	(29,596)	(1,200)	(31,440)	(701)	(62,937)
Closıng valuatıon at 31 December 2012	-	-	-	-	-

Durıng the year the Group made ınvestments ın 21 (2011 3) companıes brıngıng the total portfolıo to 24 companıes

All ınvestments are desıgnated as faır value through profit or loss at ınıtıal recognıtıon, therefore all gaıns and losses arıse on ınvestments desıgnated at faır value through profit or loss As at 31 December 2012 the Group had made provısıons agaınst the value of 6 ınvestments totallıng £12,820,000 (2011 £nıl)

Fınancıal reportıng standard 29 'Fınancıal Instruments Dısclosures' requıres an analysıs of ınvestments valued at faır value based on the relıabılıty and sıgnıficance of the ınformatıon used to measure theır faır value The level ıs determıned by the lowest (least relıable or ındependently observable) level of ınput that ıs sıgnıficant to the faır value measurement for the ındıvıdual ınvestment ın ıts entırety

All the Group's ınvestments are valued at level 3 – ınvestments whose faır value ıs determıned usıng a valuatıon technıque based on assumptıons that are not supported by observable current market prıces or based on observable market data

Durıng the year all the ınvestments were transferred from the Company to BGF Investments LP whıch wıll hold these assets on behalf of the group Net ınvestment ıncome relatıng to these ınvestments of £1,657,000 was also transferred from the Company to BGF Investments LP

8 Investment in group entities

	2012 Company £'000	2011 Company £'000
Investment in subsidiary undertakings	**114**	-
Long term loan to subsidiaries	**108,410**	-
Total	**108,524**	-

The significant subsidiary undertakings are

Name	Share Holding	Nature of business	Country of incorporation
BGF Services Ltd	100%	Management employment services	England
BGF Investments LP	n/a	Investments	England

During the year, the Company made capital contributions to BGF Investments LP of £114,000 BGF Investments LP has been setup up to provide long term incentive to staff members As a limited partnership, BGF Investments LP does not have issued share capital

Additionally, the Company advanced a long term loan to BGF Investments LP to fund the purchase of the Group's investments This loan is repayable out of the proceeds of these investments and has no fixed repayment schedule

9 Tangible fixed assets

Group and Company	Leasehold improvements £'000	Office equipment £'000	Computer equipment £'000	Total £'000
Cost				
As at 1 January 2012	703	233	467	1,403
Additions	330	58	129	517
Disposals	-	-	(44)	(44)
As at 31 December 2012	1,033	291	552	1,876
Accumulated depreciation				
As at 1 January 2012	71	26	120	217
Charge for the period	188	57	168	413
On disposals	-	-	(18)	(18)
As at 31 December 2012	259	83	270	612
Net book value				
As at 1 January 2012	632	207	347	1,186
As at 31 December 2012	**774**	**208**	**282**	**1,264**

There are no assets held under finance leases

10 Debtors

	2012 Consolidated Group £'000	2012 Company £'000	2011 Consolidated Group £'000	2011 Company £'000
Trade debtors	**165**	**165**	15	15
Other debtors	**5**	**5**	292	292
Unpaid share capital	**15,768**	**15,768**	-	-
Prepayments & accrued income	**327**	**275**	333	295
	16,265	**16,213**	640	602

11 Creditors amounts falling due within one year

	2012 Consolidated Group £'000	2012 Company £'000	2011 Consolidated Group £'000	2011 Company £'000
Trade creditors	**100**	**96**	248	248
Taxation & social security	**267**	**-**	190	-
Pensions payable	**52**	**-**	60	-
Other creditors	**-**	**-**	4	4
Amount owed to other group companies	**-**	**5,160**	-	1,906
Accruals & deferred income	**4,776**	**562**	2,451	989
	5,195	**5,818**	2,953	3,147

12 Provisions

	2012 Consolidated Group £'000	2012 Company £'000	2011 Consolidated Group £'000	2011 Company £'000
Dilapidations provisions	**310**	**310**	230	230
	310	**310**	230	230

The increase in the provision relates wholly to additions in the year

13 Share capital

	2012 £'000	2011 £'000
Allotted, called-up and fully paid		
204,394,542 (2011 86,662,042) Ordinary shares of £1 each	**204,394**	86,662
Allotted, called-up and unpaid		
15,767,500 (2011 nil) Ordinary shares of £1 each	**15,768**	-
Total	**220,162**	86,662

All amounts outstanding for called up share capital were received by 3 January 2013

14 Minority interest

	2012 £'000
As at 1 January 2012	-
Investment in subsidiary undertakings	**19**
As at 31 December 2012	**19**

The minority interest represents capital contributions made by employees of the Group to BGF Investments LP in respect of the LTIP as disclosed in note 3 This amount includes £3,270 contributed by S Welton

15 Reserves

Consolidated Group	Retained earnings £'000	Total £'000
As at 1 January 2012	(12,078)	(12,078)
Loss on ordinary activities for the year (after taxation)	(24,381)	(24,381)
As at 31 December 2012	(36,459)	(36,459)

Company	Retained earnings £'000	Total £'000
As at 1 January 2012	(12,333)	(12,333)
Loss on ordinary activities for the year (after taxation)	(16,484)	(16,484)
As at 31 December 2012	(28,817)	(28,817)

16 Reconciliation of profit on ordinary activities to net cash outflow from operating activities

	2012 Consolidated Group £'000	2011 Consolidated Group £'000
Loss before finance costs and taxation	**(24,850)**	(12,199)
Unrealised loss on investments	**12,452**	-
Decrease/(Increase) in debtors	**207**	(549)
Increase in creditors	**2,228**	2,948
Increase in accrued income	**(1,628)**	-
Depreciation	**413**	217
Loss on disposals of fixed assets	**25**	-
Net cash outflow from operating activities	**(11,153)**	(9,583)

17 Commitments

There are no capital commitments as at 31 December 2012

Annual commitments under non-cancellable operating leases are as follows

Group and Company	Land and buildings 2012 £'000	2011 £'000
Operating leases which expire		
Within one year	-	72
In the second to fifth years inclusive	**493**	362

18 Related party transactions

The Group has placed cash deposits with Barclays Bank plc, which is a member of a group including one of the company's shareholders The interest receivable from these deposits was £469,000 (2011 £121,000) during the period The balance on deposit at the period end was £71,516,000 (2011 £64,291,000) All transactions have been made on an arm's length basis

19 Contingent liabilities

As at 31 December 2012, the Group had committed to additional funding totalling £8,545,000 (2011 £800,000) to 7 (2011 1) investees, being payable subject to the achievement of various commercial milestones

20 Market risk

Market risk embodies the potential for both gains and losses on investments

The management of this risk is dealt with through the investment management process and is in line with typical unquoted equity investment Investment in unquoted equity and loans is, by its nature, exposed to a higher degree of risk than investment in quoted or listed assets Some of this risk can be mitigated by maintaining a diverse portfolio across various business sectors and asset classes

All of the Group's investments are in unquoted companies held at fair value Valuation methods include the use of earnings multiples derived from similar listed companies or recent comparable transactions A 5% increase in the valuation of unquoted investments at 31 December 2012 would have resulted in an increase to shareholders' funds of £4,928,000 (2011 £583,000) A 5% decrease in valuations would have decreased shareholders' funds by an equal amount

21 Interest rate risk

The Group has a number of interest bearing financial assets, some at fixed rates and some at variable rates Consequently, the Group is exposed to fair value interest rate risk arising from variations in the prevailing level of market interest rates

As at 31 December 2012, the Group held £49,029,000 (2011 £6,356,000) of fixed rate loan notes (shown in note 7) The weighted average interest rate on these loan notes is 8 58% (2011 7 16%) Due to the uncertainty surrounding the timing of realisation of these assets, the weighted average time for which this rate is fixed has not been calculated

As at 31 December 2012, the Group has cash balances of £71,516,000 (2011 £64,184,000) on deposit Interest on £46,426,000 of these deposits is fixed at 0 65% (2011 0 75%) and on the remaining £25,090,000 is variable at LIBOR plus 0 2%

22 Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to meet an obligation or commitment that it has entered into with the Group The Board of Directors' has in place a monitoring procedure in respect of counterparty risk which is reviewed on an on-going basis The maximum credit risk exposure at the balance sheet date is best represented by the carrying value

As at 31 December 2012, the Group and Company had the following credit risk exposure

	2012		2011	
	Group	**Company**	Group	Company
	£'000	**£'000**	£'000	£'000
Cash at bank and on hand	**71,516**	**71,472**	64,291	64,268
Interest, dividends and other receivables	**334**	**334**	219	219
	71,850	**71,806**	64,510	64,487

All of the cash of the Group and the Company is held by Barclays Bank plc The Board monitor the credit quality and financial position of Barclays regularly and would seek to move the cash holdings if this position deteriorated

Credit risk on unquoted loan stock and accrued interest investment loans is considered as part of the market risk discussed in note 20

23 Liquidity risk

The Group's financial instruments include investments in unquoted equity investments which are not traded on a recognised public market and which are generally illiquid As a result, the Group may not be able to quickly liquidate some of its investments in these instruments at an amount close to their fair value in order to meet its liquidity requirements

The Group's liquidity risk is monitored on an on-going basis by the Board of Directors in accordance with the policies and procedures in place

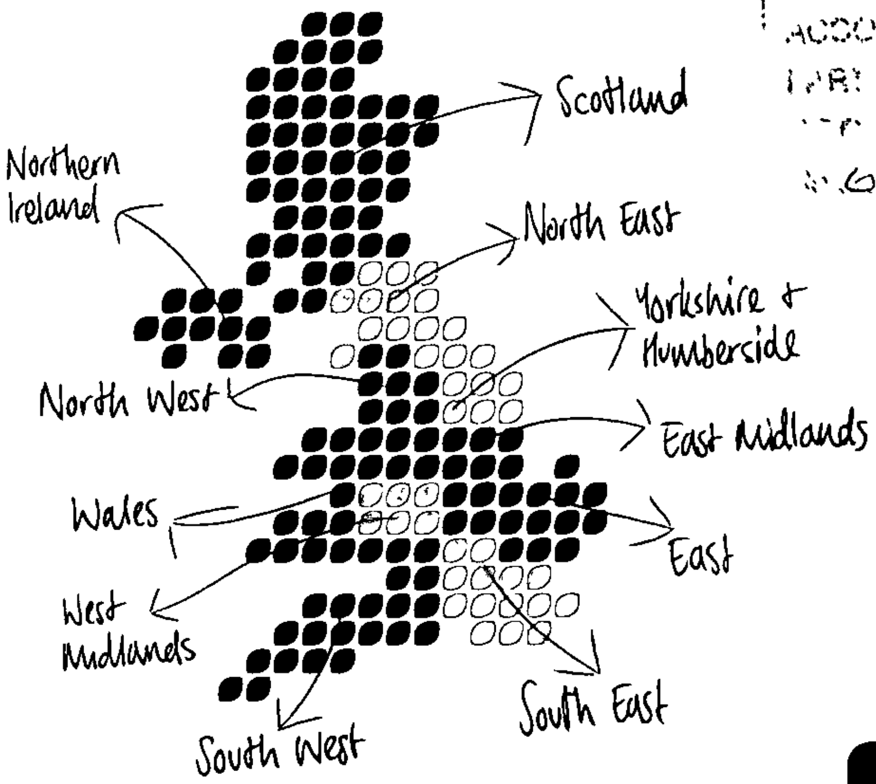
The Group maintains sufficient investments in cash to pay any short term liabilities In addition, the Company can issue new share capital in accordance with the Master Subscription Agreement with its Shareholders This additional share capital is available to fund both investment and operational expenditure

Limited Partnership number LP14928

BGF Investments LP

General Partner's report and financial statements

For the period ended 31 December 2012



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Partnership registration number	LP14928
General Partner	Business Growth Fund Plc 21 Palmer Street London SW1H 0AD
Auditor	KPMG LLP 8 Salisbury Square London EC4Y 8BB

The General Partner is pleased to present its report and audited financial statements from incorporation to the 31 December 2012

Principal activities

BGF Investments LP ("the Partnership") was incorporated on 8 March 2012 as an English Limited Partnership in accordance with its Limited Partnership Agreement, dated 28 February 2012

The Partnership was established by Business Growth Fund Plc, the General Partner, to invest in growing small and medium-sized UK businesses that need long-term capital to drive their future success These companies will typically have sales of around £5 million to £100 million and a strong growth trajectory The aim is to invest around £2 million to £10 million in return for a minority equity stake and a seat on the board, through a variety of different instruments

Partnership interests

Partners are contributing capital of up to £66,667 per annum Additional funding will be supplied by Business Growth Fund Plc by way of loans

General Partner

Business Growth Fund Plc, the General Partner, is responsible for the management and operation of the Partnership The General Partner receives no fee for these services

Results

In the period, the Partnership has made a loss of £8,517,000

Taxation

The Partnership as a transparent entity is not subject to UK income tax Where relevant for UK tax purposes each Limited Partner is required to report its share of the income, gains, losses, deductions and credits of the Partnership A Limited Partner is taxable, if applicable, on Partnership income or gain whether or not any distribution of money or property is made to the Limited Partner during its fiscal year It is possible that a Limited Partner's income or tax liability related to the transactions of the Partnership could exceed amounts distributed to such Limited Partner in a particular year

Limited Partners subject to tax in jurisdictions other than the UK may be taxed by their home tax authority differently from UK Limited Partners

The country in which an investment is made may impose withholding tax on dividends and interest paid to the Partnership and may tax gains on investments made by the Partnership in that country Limited Partners resident in countries with appropriate double taxation treaties may be entitled to reclaim part or all of such tax

Disclosure of information to auditor

The General Partner confirms that, so far as it is aware, there is no relevant audit information of which the Partnership's auditor is unaware, and the General Partner has taken all the steps that ought to have been taken as a General Partner to make itself aware of any relevant audit information and to establish that the Partnership's auditor is aware of that information

Auditor

KPMG LLP have been appointed auditors in accordance with Clause 11 2 of the LP Agreement and will be deemed reappointed pursuant to this agreement

This report was approved by the General Partner on 21 March 2013 and signed on its behalf by

Stephen Welton (Chief Executive Officer)
On behalf of Business Growth Fund Plc

Statement of General Partner's responsibilities in respect of the General Partner's report and the financial statements

The General Partner is responsible for preparing the General Partners' Report and the financial statements in accordance with applicable law and regulations

The General Partner is required to prepare audited financial statements for each financial year in accordance with the amended Limited Partnership Agreement dated 29 June 2012

The Limited Partnership Agreement requires the General Partner to prepare financial statements for each financial year, which present the state of affairs of the Partnership and the income or deficit for that period

In preparing these financial statements, the General Partner has decided to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Partnership will continue in business

The General Partner is responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Partnership and enable them to ensure that its financial statements comply with the Limited Partnership Agreement They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Partnership and to prevent and detect fraud and other irregularities

Under applicable law the General Partner is also responsible for preparing a General Partners' Report that complies with that law

Independent auditor's report to the partners of BGF Investments LP

We have audited the financial statements of BGF Investments LP for the year ended 31 December 2012 set out on pages 7 to 11 which have been prepared on the basis of the accounting policies set out in note 1 to the financial statements

This report is made solely to the partners, as a body, in accordance with the terms of our engagement Our audit work has been undertaken so that we might state to the partners those matters we have been engaged to state to them in this 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 partners, as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of the General Partner and auditor

As explained more fully in the Statement of General Partners' Responsibilities set out on page 5, the General Partner is responsible for the preparation of the financial statements in accordance with the amended Limited Partnership Agreement dated 29 June 2012

Our responsibility is to audit, and express an opinion on, the financial statements in accordance with the terms of our engagement letter dated and having regard to 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 partnership's circumstances and have been consistently applied and adequately disclosed, and the reasonableness of significant accounting estimates made by the General Partner

In view of the purpose for which these non-statutory financial statements have been prepared, however, we did not assess the overall presentation of the financial statements which would have been required if we were to express an audit opinion under International Standards on Auditing (UK and Ireland)

In addition we read all the financial and non-financial information in the Report of the General Partner 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 for the year ended 31 December 2012 have been properly prepared, in all material respects, in accordance with the accounting policies set out in note 1 to the financial statements and in accordance with the amended Limited Partnership Agreement dated 29 June 2012

Rockley

Lord Rockley (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
8 Salisbury Square
London
EC4Y 8BB

21st March 2013

Profit and loss Account

For the period ended 31 December 2012

	Notes	10 months 2012 £'000
Investment income	2	**4,286**
Operating expenses	3	**(351)**
Operating profit before unrealised loss		**3,935**
Net unrealised loss	7	**(12,452)**
Operating loss		**(8,517)**

The net loss for the period is wholly allocated to Business Growth Fund Plc

A Partnership statement of total recognised gains and losses has not been prepared as all gains and losses are recognised in the Partnership Profit and Loss account

There is no difference between the net loss for the period stated above and its historical cost equivalent

The notes on pages 9 to 11 form an integral part of these financial statements

	Notes	2012 £'000
Fixed assets		
Investments	7	**100,182**
Current assets		
Debtors	4	**8**
Cash at bank and in hand		**18**
		26
Creditors amounts falling due within one year	5	**(182)**
Net current liabilities		**(156)**
Net assets		**100,026**
Partner's accounts		
General Partner - loan	8	**108,410**
General Partner - capital		**114**
Limited Partners - capital	9	**19**
Income and capital accounts		**3,935**
Total Partners' funds		**112,478**
Revaluation reserve	6	**(12,452)**
		100,026

These financial statements were approved by the General Partner on 21 March 2013 and were signed on its behalf by

Stephen Welton (Chief Executive Officer)

Company registration number LP14928

The notes on pages 9 to 11 form an integral part of these financial statements

1 Accounting policies

The particular accounting policies adopted by the General Partner are set out below

a Basis of preparation
These financial statements have been prepared under UK Generally Accepted Accounting Practice (UK GAAP)

Under FRS 1 (revised 1996), the Partnership is exempt from the requirement to prepare a cash flow statement on the grounds that the parent undertaking, Business Growth Fund Plc, includes the Partnership in its own published consolidated financial statements

b Recognition and measurement of investments
The purchase or sale of investments is recognised at the date of completion

The Partnership makes and holds investments with a view to earning investment income and realising gains on subsequent disposals Investments are included in the balance sheet at fair value Investments by the Partnership are typically made through a combination of equity shares and unsecured loan notes Investments are valued by applying the International Private Equity and Venture Capital Valuation Guidelines, which have been adopted by the British Private Equity and Venture Capital Association They are included in the financial statements at fair value through the Profit and Loss and a rigorous valuation process is undertaken half-yearly

Unlisted investments are typically valued using one of the following methodologies
1 Earnings Multiple (based on comparable quoted multiples and significant third party transactions),
2 Price of Recent Investment,
3 Net Assets, or
4 Discounted Cash Flows or Earnings from Underlying Business

When applying an Earnings Multiple, the Partnership uses its best estimate of maintainable earnings In accordance with the guidelines, discounts to the multiple are applied for marketability, size, quality of earnings and other relevant factors where appropriate

c Income
Income on loan notes and preference shares is recognised on an accruals basis Appropriate provisions are made against this income where the recovery becomes doubtful

Dividends on unquoted equity shares are recognised on the date that the right to receive the income is established

d Operating expenses
Operating expenses are recorded on an accruals basis

e Taxation
No provision for taxation has been made as the individual Partners are responsible for settling their own tax liabilities The Partnership as a transparent entity is not subject to UK income tax

f Consolidation
The Partnership has investments which may be regarded as associated undertakings under Financial Reporting Standard 9 which would require these to be consolidated using the equity method of accounting As these investments are held to earn investment income and to achieve capital gains on subsequent disposals, they have not been consolidated in the accounts of the Partnership

2 Income

	10 months 2012 £'000
Loan note interest – investee companies	1,960
Investment fee income	2,326
Total	4,286

3 Expenditure

	10 months 2012 £'000
Abort costs	204
Other expenses	147
Total	351

Auditor's remuneration for the audit of these financial statements is wholly borne by the General Partner, Business Growth Fund Plc

4 Debtors

	2012 £'000
Other debtors	8
Total	8

5 Creditors amounts falling due within one year

	2012 £'000
Deferred income	182
Total	182

6 Revaluation reserve

	2012 £'000
Net unrealised losses for the period	(12,452)
As at 31 December 2012	(12,452)

7 Investments

	Equity £'000	Preference Shares £'000	Loan notes £'000	Accrued Interest £'000	Total £'000
Transferred from BGF Plc	29,596	1,200	31,440	701	62,937
New investment	29,284	1,898	17,588	1,295	50,065
Valuation movement	(7,402)	-	(5,050)	(368)	(12,820)
Closing valuation at 31 December 2012	51,478	3,098	43,978	1,628	100,182
Represented by					
Closing book cost	58,880	3,098	49,028	1,996	113,002
Closing unrealised deficit	(7,402)	-	(5,050)	(368)	(12,820)
	51,478	3,098	43,978	1,628	100,182

All investments are designated as fair value through profit or loss at initial recognition, therefore all gains and losses arise on investments designated at fair value through profit or loss As at 31 December 2012 the Partnership has recognised an unrealised loss against the value of 6 investments totalling £12,820,000 (2011 £nil)

8 General Partner's capital contributions and loan

	2012 £'000
General Partner committed initial capital	**114**
General Partner committed capital	**114**
Loan capital advanced during the year	**108,410**
Loan capital carried forward	**108,410**

9 Limited Partners' capital contributions

	2012 £'000
Limited Partner committed initial capital	**19**
Limited Partner committed capital	**19**

10 Related party transactions

Related party transactions are covered by notes 8 and 9

11 Ultimate controlling party

The General Partner of the Partnership is Business Growth Fund Plc, a public limited company registered in England and Wales Business Growth Fund Plc is the ultimate controlling partner and copies of its financial statements can be obtained from Companies House

12 Limited partners

If the net assets of the Limited Partnership were realised at fair value at 31 December 2012, £nil would be allocated to the Limited Partners