# The Income & Growth VCT plc

A VENTURE CAPITAL TRUST

## Annual Report & Accounts
for the year ended 30 September 2012

mobeus
EQUITY PARTNERS

# Investment Objective

The Income & Growth VCT plc ("I&G", "the VCT" or "the Company") is a Venture Capital Trust ("VCT") listed on the London Stock Exchange. Its investment portfolio is managed by Mobeus Equity Partners LLP (formerly Matrix Private Equity Partners LLP) ("Mobeus").

The objective of The Income & Growth VCT plc is to provide investors with an attractive return, by maximising the stream of dividend distributions from the income and capital gains generated by a diverse and carefully selected portfolio of investments.

The Company invests in companies at various stages of development. In some instances this may include investments in new and secondary issues of companies which may already be quoted on the Alternative Investment Market ("AiM") or the ICAP Securities and Derivatives Exchange (ISDX).

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# Financial highlights

This has been an exceptional year for disposals. A total of £26.64 million was realised, primarily through the sales of the VCT's investments in App-DNA, DiGiCo and Iglu.

Dividends totalling 24 pence per share were paid during the year. An interim dividend of 6 pence per share has also been declared. This payment will bring cumulative dividends paid to date to 34.5 pence per share (48.22 pence per original share invested for shareholders who invested in 2000/01)

Increase of 10.62% in net asset value (NAV) total return for the year to Shareholders

Increase of 32.05% in share price total return for the year to Shareholders

## Performance Summary

### The net asset value (NAV) per share at 30 September 2012 was 109.62 pence

The table below shows the recent past performance of funds raised in 2007/08 for the existing class of ordinary shares. Detailed performance data, including a table of dividends paid to date, for all fundraising rounds is shown in the Appendix on pages 65 – 66

| | Net assets (£m) | NAV per Share (p) | Cumulative dividends paid per Share (p) | NAV total return to Shareholders since launch per Share (p) | Share price (p)[1] | Share price total return to Shareholders (p) |
|---|---|---|---|---|---|---|
| **Ordinary Shares** | | | | | | |
| As at 30 September 2012 | 50.55 | 109.62 | 28.50 | 138.12 | 97.00 | 125.50 |
| As at 30 September 2011 | 49.15 | 120.79 | 4.50 | 125.29 | 91.63 | 96.13 |
| As at 30 September 2010 | 36.60 | 99.01 | 0.50 | 99.51 | 87.00 | 87.50 |

[1] Source: London Stock Exchange.

### Discount

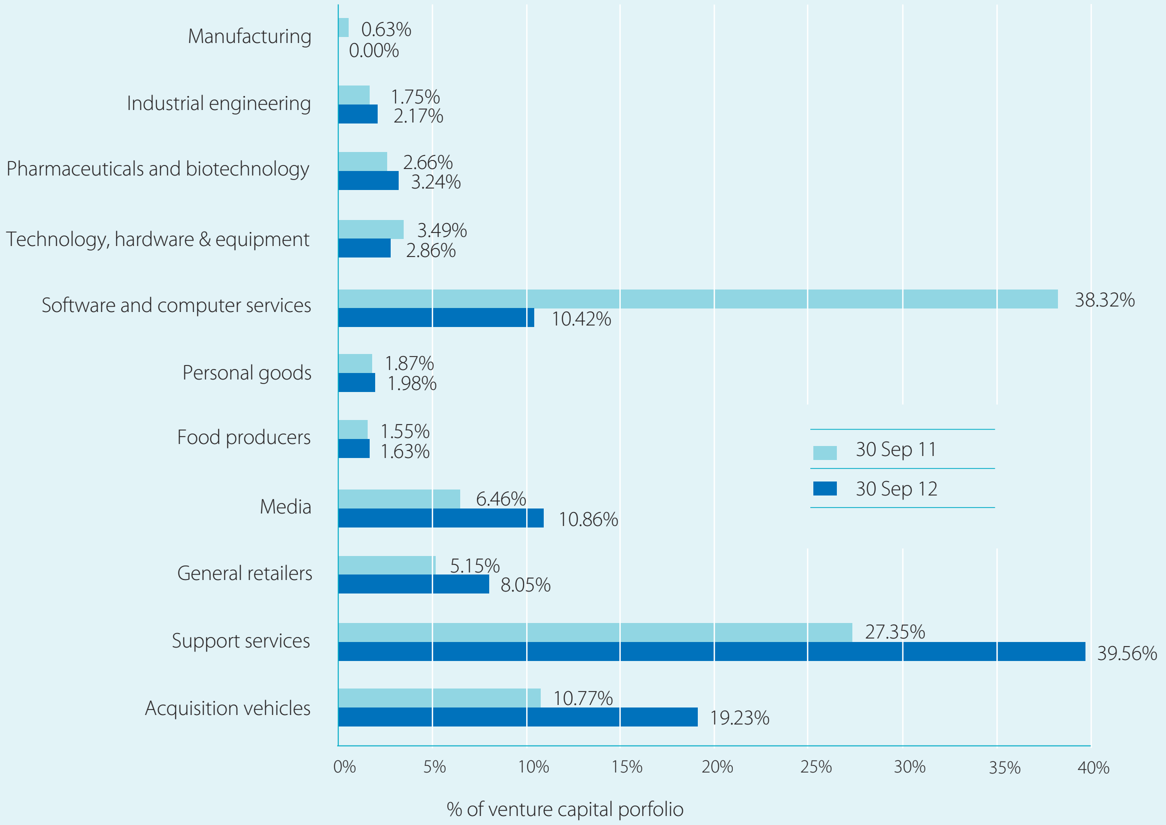
The Board's current intention is to continue with its existing buy-back policy with the objective of maintaining the discount to NAV at which the shares trade at 10% or less. The discount for the Company's Ordinary Shares at 30 September 2012 was 9.4% (2011: 10.9%) based on an NAV at 30 June 2012 of 107.11 pence.

### Dividends proposed

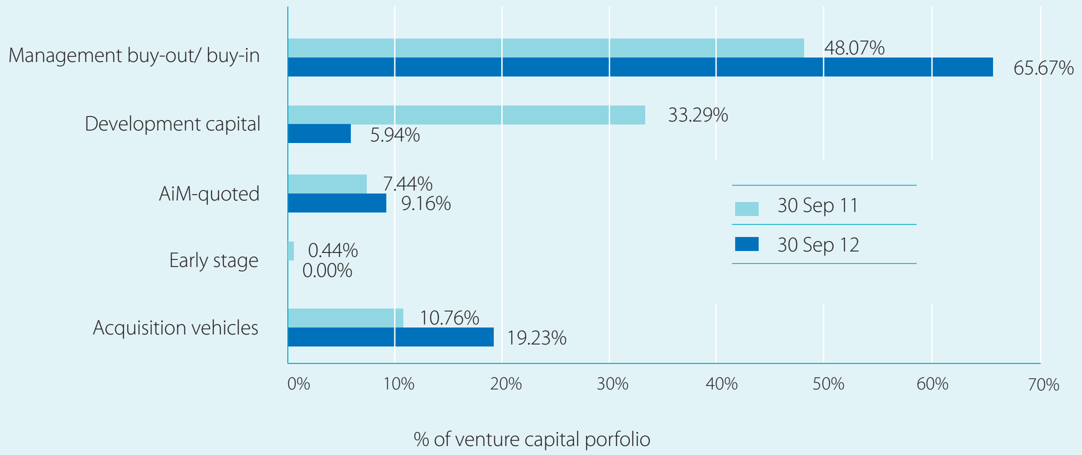
An interim dividend of 6 pence per share comprising 3 pence from income and 3 pence from capital has been declared and will be paid on 8 February 2013 to Shareholders on the Register on 18 January 2013.

## **Investments at valuation** at 30 September 2012

### Investments by market sector




### Investments by stage of development



# Chairman's Statement

I am pleased to present to Shareholders the twelfth Annual Report of the Company, for the year ended 30 September 2012.

## Overview

As referred to in my statement at the half year stage, the UK and global economies are still struggling to come to terms with the persisting volatility caused in part by the continuing unresolved debt problems in several of the Eurozone countries. We expect the recovery to be slow and uncertain.

However, despite the macro-economic situation, there is good progress in the portfolio and in the Manager's investment activity. The VCT has made three new investments during the year to support the MBOs of EMaC, EOTH (the holding company for the Rab and Lowe Alpine brands) and Tessella. These have all made promising starts. The Board and the Manager continue to adopt the cautious approach of waiting to identify the right opportunities in this challenging market. Even though the rate of investment may still be low compared to some previous periods, the Manager is currently considering a number of potentially strong opportunities. The year under review has been the most successful year to date in the history of the Company for realisations which have totalled £26.643 million. The most noteworthy of these was App-DNA, which was sold to Citrix Systems Inc in November 2011 resulting in the substantial return on investment of 32 times original investment cost. Other realisations included DiGiCo (where the Company retains a residual loan stock and equity investment), Camwood, Iglu and Letraset. With the exception of Letraset, which returned a disappointing 1.13 times cost on our original investment, all of these achieved returns of 2.5 – 4.4 times the cost of investment.

## Performance

As at 30 September 2012 the Company's NAV per Ordinary Share was 109.62 pence (30 September 2011: 120.79 pence). Adjusted for dividends paid to Shareholders during the year, this represents an increase of 10.62% over the twelve month period. This compares with an increase of 14.61% in the FTSE SmallCap Index and an increase of 0.77% in the FTSE AiM All-Share Index, both on a capital return basis.

Cumulative dividends paid and proposed to date amount to 48.22 pence per original share invested for shareholders who invested in 2000/01 (the 28.00 pence per share paid following the Merger has, therefore, been adjusted using the Merger ratio of 0.7578) and 34.50 pence per Ordinary Share for shareholders who originally invested in 2007/08 (the existing share class following the Merger).

Please note that we have added performance data for each allotment in each fundraising in the Performance Data Appendix on pages 65 – 66.

## The portfolio

Over the year, the portfolio as a whole achieved a net increase of £2.364 million in unrealised, and £5.243 million in realised, gains net of transaction costs. The portfolio under management was valued at £31.206 million at the year-end representing 86.73% of cost.

During the year, £5 million was placed into new investments (including the £1 million already invested into the acquisition vehicle Sawrey). I included details of the investments of £1.383 million into EOTH and of £1.878 million into EMaC in my Statement in last year's Annual Report, as both of these completed shortly after the beginning of the year under review in October 2011.

More recently, in July 2012, the Company made a third new investment of £1.745 million (including £1 million from the acquisition vehicle Sawrey) into Tessella, an international provider of science-powered technology and consulting services. Founded in 1980, this company delivers innovative and cost-effective solutions to complex real-world commercial and technical challenges, such as developing smarter drug trials and minimising risk in oil and gas exploration.

The VCT made a further loan of £1.450 million to Image Source, an existing investment, in December 2011 to fund the settlement of a legal dispute with a former employee and shareholder in that company. I am now pleased to report that shortly after the year-end in October 2012, Image Source merged with a similar company working in its sector, Cultura Creative, to create Europe's largest independent branded image business. The Board believes that the combined company will be better positioned to deal with the challenges it faces in a competitive marketplace for independent distributors.

Full details of the investment activity during the year and a summary of the performance highlights can be found in the Investment Manager's Review on pages 8 – 14 of this Annual Report.

## Change of name and control at the Manager

With effect from 30 June 2012, the Manager, together with all its staff, became a fully independent firm owned by its partners and renamed itself, Mobeus Equity Partners LLP ("Mobeus"). The Company's investment strategy and its arrangements with Mobeus remain unchanged. The management team continues to be wholly dedicated to the management and administration of VCTs. The Board looks forward with confidence to this new phase of working with its Manager.

## Cash available for investment

We have experienced a prolonged period of low interest rates on cash deposits which continues to inhibit the Company's ability to pay dividends out of interest income from cash held. The Board strongly believes that, at this time, the security and protection of the Company's capital is more important than striving for a small increase in deposit rates at the cost of much higher risk. However, in recent months we have started to place some funds in carefully selected bank deposit accounts offering improved returns.

Cash and liquidity fund balances as at 30 September 2012 amounted to £22.385 million.

## Revenue Account

The revenue account has again achieved a strong return this year, with a positive return of £990k compared to last year's positive return of £864k, a further improvement of £126k.

A further increase in income over the year of £350k has been the principal reason for this improvement. This rise is due to an increase in loan stock interest of £328k. This year's figure was boosted by an exceptional £412k, as several investee companies paid interest that had been in arrears, although last year's income was itself boosted by an exceptional £427k earned from Amaldis. New investments in the year and during last year (primarily Motorclean, EOTH and EMaC) have contributed to substantial increases in loan stock, and there have also been lesser reductions from loan repayments and realisations made in this year and last.

Dividend income fell by £60k, mainly as DiGiCo had contributed a dividend of £89k in 2011, but an increased dividend from Brookerpaks, as well as new dividends from Vectair and RDL, reduced some of this fall. Higher cash balances contributed to higher liquidity fund income and bank interest of £80k.

Fund management fees charged to revenue return have increased by £53k, in line with the rise in net assets over the last twelve months. Other expenses have also risen by £123k in the year to £499k (2011: £376k). This increase was due firstly to higher directors' fees of £35k, due to a one-off payment of £10k (plus employers' National Insurance Contributions) made to each of the Directors in respect of additional work carried out on specific projects for the Company. In addition, registrars' fees, printing costs, listing fees and trail commission costs all rose, by an aggregate £56k, partly reflecting a larger number of shareholders and higher postage costs.

Finally, the tax charge borne by the revenue account rose by £48k, mainly due to the increase in loan stock interest which is taxable. However, as the Company has the ability to offset some capital costs against revenue profits, the Company overall has no charge to tax.

## Dividends

On 5 December 2012, the Directors declared a further interim dividend in respect of the year ended 30 September 2012 of 6 pence per share, comprising 3 pence from capital and 3 pence from income. The dividend will be paid to Shareholders on the Register on 18 January 2013, on 8 February 2013.
An interim capital dividend of 20 pence per share was also paid, in respect of the year ended 30 September 2012, on 27 January 2012. Thus total dividends paid and declared in respect of this year were 26 pence per share comprising 23 pence from capital and 3 pence from income (2011: 4 pence per share comprising 2 pence from capital and 2 pence from income).

The Directors will not be recommending a final dividend to Shareholders in respect of the year ended 30 September 2012 at the Annual General Meeting of the Company to be held on 13 February 2013.

The Company's Dividend Investment Scheme will apply to this dividend and elections under the Scheme should be received by the Scheme Administrator, Capita Registrars, by no later than 24 January 2013.

## Dividend Investment Scheme

The Scheme is a convenient, easy and cost effective way to build up your shareholding in the Company. Instead of receiving cash dividends, you can elect to receive new shares in the Company. By opting to receive your dividend in this manner, there are three benefits to Shareholders:

- The dividend is tax free to you;

- Shareholders are allotted new ordinary shares which will, subject to your particular circumstances, attract VCT tax reliefs applicable for the tax year in which the shares are allotted. The tax relief currently available to investors in new VCT shares is 30% for the 2012/13 tax year for investments up to £200,000 in any one tax year; and

- The Scheme also has one other, particular advantage. Under its terms, a member is able to re-invest at an advantageous price, being the average market price of the shares for the five business days prior to the dividend being paid. This price is likely to be at a discount of 10% to the underlying net asset value (provided that this is greater than 70% of the latest published net asset value per share).

## Share buy-backs

During the year ended 30 September 2012, the Company bought back 996k Ordinary Shares (year to 30 September 2011: 1.650 million) representing 2.45% of the Shares in issue at the beginning of the year at a total cost of £913k (year to 30 September 2011: £1.475 million) net of expenses. These shares were subsequently cancelled by the Company.

The Board regularly reviews its buyback policy and, has maintained the discount to NAV at which the Company's shares trade over the last year at around 10%. At 30 September 2012, the mid-market price for the Company's shares was 97.00 pence, representing a discount of 9.44% to the last published NAV, which at that time was the NAV at 30 June 2012 of 107.11 pence. When compared to the NAV at 30 September 2012 shown by these results, the discount has moved to 12.88% at 17 December 2012. The share price peaked towards the end of last year following the realisation of App-DNA and has since stabilised at a discount of approximately 10% to the latest published NAV per share.

## Selling your shares

The Company's shares are listed on the London Stock Exchange and as such they can be sold in the same way as any other quoted company through a stockbroker. **However, to ensure that you obtain the best price if you wish to sell your shares, you are strongly advised to contact the Company's stockbroker, Panmure Gordon, by telephoning 020 7886 2716/7 before agreeing a price with your stockbroker.** Shareholders are also advised to discuss their individual tax position with their financial advisor before deciding to sell their shares.

## Changes to VCT legislation

Further to changes set out in the note to the Investment Policy at the half year stage, the enactment of the Finance Act 2012 has ended a period of uncertainty in finalising the changes to the tax legislation that will apply to VCTs going forward. Funds raised after 6 April 2012 can no longer be used to support certain types of management buy-out transactions (MBOs). However, the Company has a significant amount of cash raised prior to this date that it will continue to use to pursue its successful strategy of investing in MBOs of profitable and cash generative companies.

# Chairman's Statement

A number of the tests for VCT investment have been revised by this Act, enabling VCTs to invest in larger companies with up to 250 staff and gross assets of up to £15 million immediately before and £16 million immediately after the investment. Investee companies can now receive up to £5 million in any rolling 12 month period from state-aided sources, which includes VCTs.

## Fundraising

The Company raised £5.168 million gross of issue costs in the Mobeus (formerly Matrix) Linked VCT Offer launched on 20 January 2012.

A further Linked Offer to raise £21 million in aggregate for the Company, together with Mobeus Income & Growth VCT plc and Mobeus Income & Growth 4 VCT plc (both former Matrix Income & Growth named VCTs) was launched on 29 November 2012. The funds raised will spread our fixed running costs over a larger asset base and support the Company's existing investment strategy by providing new money to meet its year on year expenses, thus enabling it to preserve its funds raised prior to 6 April 2012 to invest in new MBO deals.

## Enhanced share buyback facility (EBF)

Shareholders should note that the Company intends to offer an enhanced buyback facility to shareholders early in the New Year, which may be of interest to Shareholders who have held their shares for more than five years. An enhanced buyback facility is a loyalty scheme offered to a shareholder whereby the VCT buys back a proportion of the shareholder's existing shares at net asset value. The proceeds must then be used by the shareholder to purchase new shares in the same VCT at net asset value plus costs. Further up front tax reliefs are then available to qualifying shareholders. No new monies are required to participate in an enhanced buyback facility; rather, the shareholder's proceeds from the buyback are used to acquire new shares in the same VCT.

## Industry awards for the Manager

The Manager received the award for VCT of the Year 2012 in respect of your Company at ***Investor AllStars 2012***. It was also named VCT House of the Year 2012 at the ***unquote" British Private Equity Awards 2012***. The citations for these awards recognised the Manager's outstanding performance in achieving record realisations during the year and promoting a successful fundraising. The Board is delighted that the work of the Manager has been acknowledged in this way.

## Outlook

Whilst stockmarkets appear to be taking the view that US politicians will ultimately broker a deal to address the country's so-called 'fiscal cliff', both political parties seem to be positioning themselves for what could be a war of attrition, despite the positive noises emanating from Capitol Hill. While the politicians are still talking, it has been US businesses that have responded to the call for action and probably not in the way President Obama would like. Faced with uncertainty over future tax rates, a swathe of American companies have decided to take matters into their own hands by announcing special dividends in order to escape possible higher taxes on equity income payments come next year. The current rate is 15% but this could spike to 40% unless a deal is agreed. So, against this backdrop, and with many companies being flush with cash, it is no real surprise that, in the fourth quarter, a record of some 103 businesses have announced that they will pay a special dividend before the year-end. Some companies, such as retail giant Wal-Mart, have even brought forward their scheduled dividend payment date to avoid the possibility of being taxed more heavily.

The implications of an impasse have been highlighted by the US Federal Reserve in its latest Beige Book report, saying it had picked up "concern and uncertainty about the federal budget, especially the fiscal cliff". The Report went on to note that a number of Federal districts had expressed concern about business conditions for the months ahead as firms and their customers waited for the outcome of the budget negotiations. Whilst the raft of special dividends will be welcomed by shareholders, there is a downside. For one thing, companies declaring special dividends will enter 2013 with less cash, reducing their ability to invest in their businesses or make acquisitions. Coupled with this, it is likely that there will be more share buy-backs as corporations try to find other ways to get cash back to shareholders without paying dividends that are likely to be taxed more severely. Given this scenario, it is no surprise that Wall Street has been jittery; but so far investors continue to take the view that a compromise will be reached, with confidence being boosted by signs that the economy continues to make progress. US growth for the third quarter was revised up from 2.0% to 2.7% and the latest S&P/Case-Schiller housing data showed prices rising for the sixth consecutive month. This coincided with news that consumer confidence rose to its highest level for four years and that US companies increased their orders for durable goods.

In Europe in the last few weeks, the troika – the IMF, ECB and EU – finally agreed to release the latest €34.4 billion tranche of bailout funding for Greece, giving the country more time to reduce its mountain of debt: some €350 billion. It seems that desperate EU officials are also exploring other ways to help Greece hit target, including access to EU development funds which would trim another 2.6% off the deficit.

Nearer to home in the United Kingdom, the surprise appointment of Canadian Mark Carney as the new Governor of the Bank of England was one of the few moments of excitement in recent weeks as markets spent much of their time trading sideways. Mr Carney's appointment as Sir Mervyn King's successor was generally well received, with his experience at Canada's central bank likely to be invaluable given Mr Osborne's apparent desire to see the UK's central bank undergo reform. George Osborne's recent Autumn Statement delivered a neutral budget that endeavoured to give both growth and business a boost. The Chancellor, however, received no help from the Office for Budget Responsibility, whose forecasts for UK growth were cut, whilst also expecting the Government to borrow some £52.5 billion more than expected over the next five years. So with little room for manoeuvre, Mr Osborne made a judgement that the best course of action was to try and boost growth by bolstering business confidence and encouraging greater investment by companies and the public sector..

Against this backdrop, the Board also continues to face many challenges in advancing its strategy in the face of developments in the legislative and regulatory environment in which the Company operates. We are continuing to monitor developments in the industry, including the recent consultation paper published by the FSA on the promotion of VCT shares to retail investors and the implementation of the Retail Distribution Review.

The valuation of the portfolio as a whole has held up well, and a number of the investee companies continue to show good potential for growth. The Manager has reported that deal flow is improving and is considering a number of attractive investment opportunities. We are hopeful that a number of these will be completed over the coming months.

## Mobeus website

The Manager has established a new website, which can be accessed by going to www.mobeusequity.co.uk. This is regularly updated with information on your investments including case studies of portfolio companies. The Company continues to have its own dedicated section of the website which Shareholders may prefer to access directly by going to www.incomeandgrowthvct.co.uk. This includes performance tables and details of dividends paid as well as copies of past reports to shareholders.

## Shareholder workshop

We have received positive feedback from the shareholder workshop, held in January 2012, which was attended by nearly 100 Mobeus VCT shareholders. It is intended that this will be an annual event. Shareholders should have received an invitation to attend the next workshop to be held on 29 January 2013. The workshop will include presentations from the Manager on the portfolio as a whole and from at least one successful entrepreneur from one of the VCT's investee companies.

Once again, I would like to take this opportunity to thank Shareholders for their continued support.

Colin Hook
*Chairman*

17 December 2012

# Investment Policy

The Company's policy is to invest primarily in a diverse portfolio of UK unquoted companies. Investments are structured as part loan and part equity in order to receive regular income and to generate capital gains from trade sales and flotations of investee companies.

Investments are made selectively across a number of sectors, primarily in management buy-out transactions (MBOs) i.e. to support incumbent management teams in acquiring the business they manage but do not yet own. Investments are primarily made in companies that are established and profitable.

The Company has a small legacy portfolio of investments in companies from the period prior to 30 September 2008, when it was a multi-manager VCT. This includes investments in early stage and technology companies and in companies quoted on the AiM or ISDX.

The Company's cash and liquid resources are invested in a range of instruments of varying maturities, subject to the overriding criterion that the risk of loss of capital be minimised.

## VCT regulation

The investment policy is designed to ensure that the Company continues to qualify and is approved as a VCT by HM Revenue & Customs ("HMRC").

Amongst other conditions, the Company may not invest more than 15% of its investments in a single company and must have at least 70% by value of its investments throughout the period in shares or securities comprised in VCT qualifying holdings of which a minimum overall of 30% by value (70% for funds raised after 6 April 2011) must be in ordinary shares which carry no preferential rights (save as may be permitted under VCT rules). In addition, although the VCT can invest less than 30% (70% for funds raised after 6 April 2011) of an investment in a specific company in ordinary shares it must have at least 10% by value of its total investments in each VCT qualifying company in ordinary shares which carry no preferential rights (save as may be permitted under VCT rules).

The companies in which investments are made must have no more than £15 million of gross assets at the time of investment and £16 million immediately following the investment to be classed as a VCT qualifying holding.

## Asset mix

The Company initially holds its funds in a portfolio of readily realisable interest-bearing investments and deposits. The investment portfolio of qualifying investments is built up over a three year period with the aim of investing and maintaining at least 70% of net funds raised in qualifying investments.

## Risk diversification and maximum exposures

Risk is spread by investing in a number of different businesses across different industry sectors. To reduce the risk of high exposure to equities, each qualifying investment is structured to maximise the amount which may be invested in loan stock.

## Co-investment

The Company aims to invest in larger, more mature unquoted companies through investing alongside the three other VCTs advised by the Investment Manager with a similar investment policy. This enables the Company to participate in combined investments advised on by the Investment Manager of up to £5 million.

## Borrowing

The Company's Articles permit borrowing up to 10% of the adjusted capital and reserves (as defined therein). However, it has never borrowed and the Board has no current plans to undertake any borrowing.

## Management

The Board has overall responsibility for the Company's affairs including the determination of its investment policy. Investment and divestment proposals are originated, negotiated and recommended by the Manager and are then subject to approval by the Directors.

# Investment Manager's Review

## Overview

This has been a busy year for the portfolio, which has achieved a record level of realisations totaling £26.643 million. In the early part of the year new investment activity was also strong, with the company supporting the MBO of EMaC and financing the acquisition of Lowe Alpine through an investment in Equip Outdoor Technologies (EOTH Limited). However, the environment for new investment became much more problematic in the latter months, for a number of reasons. First of these was the second dip into recession which revived uncertainty surrounding the extent and depth of the recovery. Lack of clarity regarding changes to VCT regulations further dampened the fragile market. Nonetheless, dealflow has improved in recent months, in terms of the number of deals coming forward, although concluding transactions has continued to be difficult. We have a number of interesting opportunities in the pipeline and are therefore hopeful that the pace of new investment will increase again. Uncertainty over the future persists, particularly amongst potential sellers of businesses, but our investment approach combining debt and equity continues to be compelling to companies seeking investment in a market where availability of bank finance remains patchy at best. This means that management buy-out teams are increasingly turning to us as a reliable source of funding for their plans.

The VCT has an exceptionally strong liquidity position at present, so is well placed to invest. In response, we are widening the scope of the deals which we target. We are also seeking to identify opportunities to invest more capital to support the expansion of successful businesses in the existing portfolio, including where appropriate, deploying loan funding to support portfolio companies' growth plans.

We believe that the VCT's strategy of investing in well-structured MBO deals; supporting highly motivated management teams; focusing on acquiring established, profitable, positive cashflow businesses; and investing partly in income yielding loan stocks substantially increases the degree of downside protection to Shareholders' capital. We have noted the recent change in VCT legislation preventing certain types of MBOs, but also note that this restriction does not apply to the substantial level of funds held by the VCT from earlier fundraisings.

The strategy above is executed by retaining and developing a portfolio of successful companies until each has reached the optimal point for a profitable realisation. In the meantime, the portfolio routinely benefits from returns of loan stock interest, dividends and loan repayments, during the life of an investment.

## New Investment

Three new investments were completed during the year under review totalling £5.007 million, in addition to £6 million invested into six new acquisition vehicle investments. An additional investment of £1 million into a further acquisition vehicle, Sawrey, was also completed and used to support the MBO of Tessella as explained below.

The first two of these new investments were completed shortly after the last year-end in October 2011. Firstly, the VCT made an investment of £1.383 million to provide mezzanine finance as part of a £4.45 million transaction by the Manager to support the acquisition of the international intellectual property and assets of Lowe Alpine Srl from administration in Italy by Equip Outdoor Technologies Limited, a company specialising in owning and distributing brands focused on the outdoor sector, including the world-renowned Rab range of mountaineering clothing. This investment continues to be valued at cost. It has two very strong brands and is making steady progress and gaining market share despite well-publicised volatility in the sector.

Secondly, a new investment of £1.878 million was made, as part of £6 million deal, to support the MBO of EMaC Limited, the UK's leading provider of outsourced service plans to franchised dealers in the automotive sector. EMaC employs 55 people and currently manages over 350,000 plans for over 1,000 motor dealers in the UK. Despite a promising start, we are prudently valuing this investment at cost.

The third new investment was made in July 2012, when the Company invested £1.745 million to support the MBO of Tessella, an international provider of science-powered technology and consulting services, using the Company's existing investment of £1 million in the acquisition vehicle Sawrey and an additional £745k from its cash reserves. Founded in 1980, the company delivers innovative and cost-effective solutions to complex real-world commercial and technical challenges such as developing smarter drug trials and minimising risk in oil and gas exploration. This company has made an encouraging start since investment.

We are confident that our Operating Partner programme will continue to generate successful investments for the Company and accordingly, seven investments have been made during the year into new acquisition vehicles of £1 million each, totalling £7 million. One of these, Sawrey, was used to complete the Tessella investment, referred to above. The remaining six companies continue to pursue an active search for investment opportunities. Each of the acquisition vehicles is headed by an experienced Chairman, well-known to us, who is working closely with us in seeking to identify and complete investments in specific sectors relevant to their industry knowledge and experience. We have established these companies to provide time for us to identify and invest in suitable target companies at sufficiently attractive prices.

Four of the acquisition vehicles in which the Company invested in September 2010, Backbarrow, Bladon Castle Management, Rusland Management and Torvar, did not find sufficiently attractive investment opportunities at the right price. These companies have therefore repaid their loan stock, and been sold to a new acquisition vehicle, Watchgate Limited, which has the intention of continuing to seek similar opportunities, building on the work of these companies to date.

## Follow-on Investments

Two investee companies received further funds in the year. Only Image Source has required a significant injection of further cash. This was made in the form of a loan of £1.450 million in December 2011 at the

# Investment Manager's Review

time of the resolution of a legal dispute with a former employee and shareholder in that company. This company has implemented changes to remain competitive in a challenging market where independent distributors have found it difficult to maintain revenue. The company merged with Cultura Creative in October 2012 to create Europe's largest independent image business. The combined business will benefit from significantly reduced overhead costs and routes to market.

A smaller follow-on investment of £45k was made into PXP in June 2012 as part of a major re-structuring of the company to enable PXP to continue to trade following a period of poor trading in a challenging market. Trading in recent months has started to show improvement.

## Realisations

The year under review has been notably strong for realisations. Taken as a whole, a total of £23.706 million was realised by the Company over the investment lives of App-DNA, DiGiCo, Camwood and Iglu.

The VCT realised its investment in App-DNA in November 2011 by way of a trade sale to Citrix Systems Inc. The net cash consideration from the sale of £14.542 million contributed to net proceeds to the Company over the life of the investment of £16.854 million, which, including contingent consideration, represented an exceptional 32 times return on the Company's original investment of £514k.

In December 2011, the VCT made a partial disposal of its investment in DiGiCo, a fast growing, technology-led business that designs market-leading digital sound-mixing consoles used by the live music market, theatres and many corporate users, to ISIS Equity Partners. The VCT received cash proceeds of £1.405 million, which contributed to total cash proceeds of £2.864 million over the life of the investment, representing a 4.36 times cash return on this investment to date. In addition, the VCT continues to hold a residual loan stock and equity (1.57%) investment valued at £876k, which represented another 1.4 times the original investment cost. Since the original investment by the VCT, the business has invested heavily in R&D and turnover has grown from £8 million in 2007 to an anticipated £25 million in 2012. The company, now called DiGiCo Global Limited, continues to trade strongly.

In April 2012, the VCT sold its investment in Camwood Enterprises, a company which was spun out of App-DNA in 2010, to the company's management team for a net cash consideration of £943k compared to a prior year-end valuation of £499k. Total proceeds to the VCT over the life of the investment amounted to £1.458 million, representing a 2.8 times return on the VCT's investment cost of £514k.

In May 2012, the Company realised its entire investment in Iglu.com Holidays, the specialist online ski and cruise holiday travel agent, for net cash proceeds and interest of £1.445 million through a sale to Growth Capital Partners. This realisation contributed to total cash proceeds of £2.530 million to the Company over the two and a half year life of the investment, representing a 2.5 times return on the Company's original investment of £1 million. We supported this established online ski agent through a period of rapid growth in its cruise holiday business since the MBO in December 2009. Iglu is now one of the leading distributors of cruise holidays, in the UK, in its sector, and the largest independent retailer of ski holidays. The company's revenues now exceed £90 million.

In June 2012, the VCT sold its entire investment in Letraset for a cash consideration of £369k compared to a valuation of £234k at 30 September 2011. Total proceeds to I&G VCT over the life of the investment amounted to £1.133 million representing a 1.13 times return on the VCT's original investment cost of £1 million. The sale of Letraset represented an uplift in the year of 58% over the opening value.

The Company sold a total of 2.750 million shares in IDOX plc during the year under review, realising total net proceeds of £1.018 million which represented a 3.53 times realised return on the VCT's original investment cost of £288k. The VCT continues to retain a residual holding in this company, which had a value of £2.058 million at the year-end. A further 1.250 million shares were sold following the year-end in November 2012 at an average price of 41 pence per share.

The Company sold a total of 87k shares in Tikit Group plc during the year under review, realising total net proceeds of £276k which represented a 2.75 times realised return on the VCT's original investment cost of £101k. The VCT continues to retain a residual holding in this company, which had a value of £247k at the year-end. A further 12,500 shares were sold following the year-end in October 2012 at a price of 325 pence per share.

A total of £1.278 million (including any premiums paid) has also been received in loan stock repayments from portfolio companies during the year to 30 September 2012. In January 2012, the company received partial loan stock pre-payments from Focus Pharma of £162k and Fullfield of £229k. Blaze Signs repaid a total of £323k in three separate payments received in May - August 2012, and in June 2012 the VCT received a payment of £564k from Aquasium.

Also in January 2012, the Company accepted a repayment of £250k from NexxtDrive in full repayment of this company's outstanding loan stock (held at a cost of £325k) and arrears of interest.

Further loan repayments of £125k and 609k were received from Duncary 8 and Blaze Signs respectively following the year-end.

Subsequent to the year-end, Tikit Group plc has received a recommended offer from British Telecommunications plc at 4.16 pence per share valuing the VCT's investment at £321,556 compared to the valuation at 30 September 2012 of £247,350.

In November 2012, subsequent to the year-end, the company realised its entire holding in Brookerpaks for proceeds of £600k.

Also subsequent to the year-end, Espial Group Inc, a company listed on the Toronto Stock Exchange, announced a recommended offer for ANT plc at 20.5 pence per share, valuing the VCT's investment at £134,602 compared to the valuation at 30 September 2012 of £131,319.

## Portfolio review

The portfolio at 30 September 2012 comprised 47 investments with a cost of £35.981 million and valued at £31.206 million.

The portfolio's performance as a whole continues to be robust. ATG Media, DiGiCo and IDOX continue to be the strongest performers. Blaze has made a steady recovery from the difficulties it experienced during the economic downturn, enabling it to repay part of its loans as noted above. CB Imports continues to trade well overall and is improving its performance compared to last year. Focus is expected to exceed its budget, is performing well on product development and has a healthy pipeline of new products. Fullfield has maintained its solid start and cash generation at this company has been strong, as evidenced by its early partial repayments of its loan stock during the year.

Aquasium is ahead of its budget after many years of disappointing performance with good prospects for 2013. The sale of its US subsidiary EBTEC to NASDAQ-listed EDAC Technologies Corporation was completed in June 2012; this enabled the company to repay some of its outstanding loan stock and interest to the VCT. Alaric is demonstrating sustained profit growth enabling it to repay your company's loan stock investment.

ASL made a small acquisition during the year of Arkle Reprographic Consultants Limited, a Midlands based printer and photocopier dealer, funded from the company's cashflow. The company has successfully integrated its acquisition of Transcribe in 2011, which is trading well, but the group's overall performance is behind its investment plan.

British International has had a difficult year, with the persistent and escalating reduction in passenger journeys on its scheduled route to the Isles of Scilly leading to a material reduction in profitability; this was compounded by the delays in completing the sale to Sainsbury of its heliport in Penzance, which was dependent on full planning permission being granted. Completion finally took place in October 2012 and this enabled the company to fully repay its bank borrowings.

The continuing downturn in the construction and house building sectors continues to affect the performance of PXP and Plastic Surgeon, although management have worked well to reposition both of these businesses and make the necessary cuts in costs. The market environment for Youngman remains uncertain, although it has now fully repaid its bank debt and is well positioned to benefit from any upturn in its markets. Westway suffered from lower revenues last year but is now growing profits again and has strong customer relationships. RDL had a disappointing first year with a net reduction in contract staff placements in its core pharmaceuticals and IT markets but has taken measures to improve performance. Faversham has been streamlining its operations although progress is slower than anticipated.

## Investment outlook

This has been an unprecedented year for realisations for the VCT, leaving us with ample liquidity to pursue our MBO strategy. We remain hopeful of completing a healthy period of new investment over the coming year. As part of our plans to increase the rate of investment, we will be seeking opportunities to provide further capital for expansion of successful existing investments.

We continue to pursue a prudent approach to making new investments and ensuring that the portfolio remains well capitalised. We are confident that good returns can be earned for investors.

Details of the Company's twelve largest investments by value as at 30 September 2012 (excluding the six acquisition vehicles in the portfolio which have yet to complete an investment, which each have a current cost and valuation of £1 million) are set out on the following pages.

# Twelve Largest Investments*

## ATG Media Holdings Limited

www.antiquestradegazette.com

| | |
|---|---|
| **Cost** | £888,993 |
| **Valuation** | £2,270,884 |

Basis of valuation:
Earnings multiple

Equity % held
8.53%

Income receivable in year
£71,889

Business
Publisher and on-line auction platform operator

Location
London

History
Management buyout

### Audited financial information

| | |
|---|---|
| Year ended | 30 September 2011 |
| Turnover | £8,927,000 |
| Operating profit | £1,831,000 |
| Net assets | £3,179,000 |

| | |
|---|---|
| Year ended | 30 September 2010 |
| Turnover | £7,215,000 |
| Operating profit | £1,261,000 |
| Net assets | £2,506,000 |

## IDOX plc

www.idoxplc.com

| | |
|---|---|
| **Cost** | £584,710 |
| **Valuation** | £2,058,371 |

Basis of valuation:
Bid price (AiM quoted)

Equity % held
1.55%

Income receivable in year
£44,296

Business
Development and supply of knowledge management products

Location
London

History
AiM flotation

### Audited financial information

| | |
|---|---|
| Year ended | 31 October 2011 |
| Turnover | £38,605,000 |
| Operating profit | £9,506,000 |
| Net assets | £34,371,000 |

| | |
|---|---|
| Year ended | 31 October 2010 |
| Turnover | £31,268,000 |
| Operating profit | £7,504,000 |
| Net assets | £31,012 |

## Ingleby (1879) Limited

THE SERVICE PLAN THAT REALLY WORKS

www.emac.co.uk

| | |
|---|---|
| **Cost** | £1,878,124 |
| **Valuation** | £1,878,124 |

Basis of valuation:
Cost

Equity % held
9.39% (fully diluted)

Income receivable in year
£144,181

Business
Provider of service plans for the motor trade

Location
Crewe

History
Management buyout

### Audited financial information

| | |
|---|---|
| Year ended | 31 December 2011[1] |
| Turnover | £4,990,000 |
| Operating profit | £867,000 |
| Net assets | £1,535,000 |

| | |
|---|---|
| Year ended | 31 December 2010[1] |
| Turnover | £4,042,000 |
| Operating profit | £1,596,000 |
| Net assets | £2,712,000 |

[1] The financial information quoted above relates to the operating subsidiary, EMaC Limited

* Excluding the six acquisition vehicles in the portfolio at 30 September 2012

Operating profit is stated before charging amortisation of goodwill where appropriate for all investee companies.

Further details of the investments in the portfolio may be found on the Mobeus website: www.mobeusequity.co.uk

## Tessella Holdings Limited

www.tessella.com

| | |
|---|---|
| **Cost** | £1,745,351 |
| **Valuation** | £1,745,351 |

Basis of valuation:
Cost

Equity % held
7.48%

Income receivable in year
£25,214

Business
Provider of science powered technology and consulting services

Location
Abingdon, Oxfordshire

History
Management buyout

### Audited financial information

| | |
|---|---|
| Year ended | 31 March 2012[1] |
| Turnover | £18,533,000 |
| Operating profit | £278,000 |
| Net assets | £2,404,000 |
| Year ended | 31 March 2011[1] |
| Turnover | £16,941,000 |
| Operating profit | £346,000 |
| Net assets | £2,403,000 |

[1] The financial information quoted above relates to the operating subsidiary, Tessella Limited (previously Tessella plc)

## Fullfield Limited

www.motorclean.net

| | |
|---|---|
| **Cost** | £1,489,097 |
| **Valuation** | £1,652,768 |

Basis of valuation:
Earnings multiple

Equity % held
11.74%

Income receivable in year
£144,215

Business
Provider of vehicle cleaning and valet services

Location
Laindon, Essex

History
Management buyout

### Audited financial information

| | |
|---|---|
| Year ended | 31 March 2012[1] |
| Turnover | £23,818,000 |
| Operating profit | £1,752,000 |
| Net assets | £9,044,000 |
| Year ended | 31 March 2011[1] |
| Turnover | £22,400,000 |
| Operating profit | £1,631,000 |
| Net assets | £2,344,000 |

[1] The financial information quoted above relates to the operating subsidiary, Motorclean Limited

## Blaze Signs Holdings Limited

www.blaze-signs.com

| | |
|---|---|
| **Cost** | £1,090,334 |
| **Valuation** | £1,448,159 |

Basis of valuation:
Earnings multiple

Equity % held
12.54%

Income receivable in year
£147,784

Business
Manufacturer and installer of signs

Location
Broadstairs, Kent

History
Management buyout

### Audited financial information

| | |
|---|---|
| Year ended | 31 March 2012 |
| Turnover | £20,878,000 |
| Operating profit | £1,761,000 |
| Net assets | £2,918,000 |
| Year ended | 31 March 2011 |
| Turnover | £20,127,000 |
| Operating profit | £1,889,000 |
| Net assets | £2,937,000 |

Operating profit is stated before charging amortisation of goodwill where appropriate for all investee companies.

Further details of the investments in the portfolio may be found on the Mobeus website: www.mobeusequity.co.uk

# Twelve Largest Investments

## EOTH Limited

www.equipuk.com

| | |
|---|---|
| **Cost** | £1,383,313 |
| **Valuation** | £1,383,313 |

Basis of valuation:
Cost

Equity % held
2.49% (fully diluted)

Income receivable in year
£124,080

Business
Supplier of branded outdoor equipment and clothing including the Rab and Lowe Alpine brands

Location
Alfreton, Derbyshire

History
Management buyout

### Audited financial information

| | |
|---|---|
| Year ended | 31 January 2012 |
| Turnover | £15,504,000 |
| Operating profit | £1,830,000 |
| Net assets | £6,173,000 |
| Year ended | 28 February 2011[1] |
| Turnover | £13,457,000 |
| Operating profit | £2,354,000 |
| Net assets | £4,706,000 |

[1] The financial information quoted above relates to the operating subsidiary, Equip Outdoor Technologies Limited

## RDL Corporation Limited

www.rdlcorp.com

| | |
|---|---|
| **Cost** | £1,441,667 |
| **Valuation** | £1,271,194 |

Basis of valuation:
Earnings multiple

Equity % held
13.04%

Income receivable in year
£133,012

Business
Recruitment consultants for the pharmaceutical, business intelligence and IT industries

Location
Woking, Surrey

History
Management buyout

### Audited financial information

| | |
|---|---|
| Year ended | 31 December 2011 |
| Turnover | £18,266,000 |
| Operating profit | £1,214,000 |
| Net assets | £1,501,000 |
| Year ended | 31 December 2010 |
| Turnover | £3,700,000 |
| Operating profit | £279,000 |
| Net assets | £1,846,000 |

## CB Imports Group Limited

www.countrybaskets.co.uk

| | |
|---|---|
| **Cost** | £1,000,000 |
| **Valuation** | £1,128,228 |

Basis of valuation:
Earnings multiple

Equity % held
5.79%

Income receivable in year
£76,355

Business
Importer and distributor of artificial flowers, floral sundries and home décor products

Location
East Ardsley, West Yorkshire

History
Management buyout

### Audited financial information

| | |
|---|---|
| Year ended | 31 December 2011 |
| Turnover | £23,130,000 |
| Operating profit | £969,000 |
| Net assets | £4,421,000 |
| Year ended | 31 December 2010 |
| Turnover | £21,197,000 |
| Operating profit | £2,139,000 |
| Net assets | £4,259,000 |

Operating profit is stated before charging amortisation of goodwill where appropriate for all investee companies.

Further details of the investments in the portfolio may be found on the Mobeus website: www.mobeusequity.co.uk

## Image Source Group Limited

www.imagesource.com

| | |
|---|---|
| **Cost** | £1,754,558 |
| **Valuation** | £925,470 |

Basis of valuation:
Earnings multiple

Equity % held
39.60% (diluted)

Income receivable in year
£58,569

Business
Royalty-free picture library

Location
London

History
Management buyout

### Audited financial information

| | |
|---|---|
| Year ended | 31 December 2011 |
| Turnover | £4,525,000 |
| Operating loss | £2,120,000 |
| Net assets | £260,000 |
| Year ended | 31 December 2010 |
| Turnover | £6,053,000 |
| Operating profit | £165,000 |
| Net assets | £2,547,000 |

## DiGiCo Global Limited

(non-qualifying)

www.digico.org

| | |
|---|---|
| **Cost** | £876,497 |
| **Valuation** | £876,497 |

Basis of valuation:
Cost supported by earnings multiple calculation

Equity % held
1.57%

Income receivable in year
£28,381

Business
Designer and manufacturer of digital audio mixing desks

Location
Chessington, Surrey

History
Secondary buyout

### Audited financial information

| | |
|---|---|
| Year ended | 31 December 2011 |
| Turnover | £21,314,000 |
| Operating profit | £6,466,000 |
| Net assets | £7,932,000 |
| Year ended | 31 December 2010 |
| Turnover | £18,757,000 |
| Operating profit | £5,501,000 |
| Net assets | £8,909,000 |

## Westway Services Holdings (2010) Limited

www.westwayservices.com

| | |
|---|---|
| **Cost** | £353,589 |
| **Valuation** | £838,782 |

Basis of valuation:
Earnings multiple

Equity % held
4.72%

Income receivable in year
£31,708

Business
Installation, service and maintenance of air conditioning systems

Location
Greenford, Middlesex

History
Management buyout

### Audited financial information

| | |
|---|---|
| Year ended | 28 February 2011 |
| Turnover | £27,521,000 |
| Operating profit | £3,942,000 |
| Net assets | £3,769,000 |
| Year ended | 28 February 2010[1] |
| Turnover | £13,352,000 |
| Operating profit | £1,638,000 |
| Net assets | £1,826,000 |

[1] For the eight month period ended 28 February 2010

The remaining 35 investments in the portfolio (including the six acquisition vehicles in the portfolio at 30 September 2012) had a current cost of £21.495 million and were valued at 30 September 2012 at £13.729 million.

Operating profit is stated before charging amortisation of goodwill where appropriate for all investee companies.

Further details of the investments in the portfolio may be found on the Mobeus website: www.mobeusequity.co.uk

# Investment Portfolio Summary
*for the year ended 30 September 2012*

| | Ordinary Shares Cost at 30-Sep-12 £ | Ordinary Shares Valuation at 30-Sep-12 £ | Other Investments[1] Cost at 30-Sep-12 £ | Other Investments[1] Valuation at 30-Sep-12 £ | Total Cost at 30-Sep-12 £ |
|---|---|---|---|---|---|
| **ATG Media Holdings Limited**<br>Publisher and online auction platform operator | 355,660 | 1,631,107 | 533,333 | 639,777 | 888,993 |
| **I-Dox plc[5]**<br>Developer and supplier of knowledge management products | 584,710 | 2,058,371 | – | – | 584,710 |
| **Ingleby (1879) Limited (trading as EMaC)**<br>Provider of service plans for the motor trade | 563,437 | 563,437 | 1,314,687 | 1,314,687 | 1,878,124 |
| **Tessella Holdings Limited (formerly Oval (2253) Limited)**<br>Provider of science powered technology and consulting services | 291,723 | 291,723 | 1,453,628 | 1,453,628 | 1,745,351 |
| **Fullfield Limited (trading as Motorclean)**<br>Vehicle cleaning and valet services | 544,093 | 168,662 | 945,004 | 1,484,106 | 1,489,097 |
| **Blaze Signs Holdings Limited**<br>Manufacturer and installer of signs | 401,550 | 557,759 | 688,784 | 890,400 | 1,090,334 |
| **EOTH Limited (trading as Equip Outdoor Technologies)**<br>Distributor of branded outdoor equipment and clothing including the Rab and Lowe Alpine brands | 138,331 | 138,331 | 1,244,982 | 1,244,982 | 1,383,313 |
| **RDL Corporation Limited**<br>Recruitment provider within the pharmaceutical, business intelligence and IT sectors | 250,752 | – | 1,190,915 | 1,271,194 | 1,441,667 |
| **CB Imports Group Limited (trading as Country Baskets)**<br>Importer and distributor of artificial flowers, floral sundries and home decor products | 175,000 | 128,228 | 825,000 | 1,000,000 | 1,000,000 |
| **Ackling Management Limited**<br>Company seeking to acquire businesses in the food manufacturing, distribution and brand management sectors | 400,000 | 400,000 | 600,000 | 600,000 | 1,000,000 |
| **Fosse Management Limited**<br>Company seeking to acquire businesses in the brand management, consumer products and retail sectors | 400,000 | 400,000 | 600,000 | 600,000 | 1,000,000 |
| **Peddars Management Limited**<br>Company seeking to acquire businesses in the database management, mapping, data mapping and management services to legal and building industries | 400,000 | 400,000 | 600,000 | 600,000 | 1,000,000 |
| **Almsworthy Trading Limited**<br>Company seeking to acquire businesses in the specialist construction, building support building products and related services sectors | 400,000 | 400,000 | 600,000 | 600,000 | 1,000,000 |
| **Culbone Trading Limited**<br>Company seeking to acquire businesses in the outsourced services sector | 400,000 | 400,000 | 600,000 | 600,000 | 1,000,000 |
| **Madacombe Trading Limited**<br>Company seeking to acquire businesses in the engineering services sector | 400,000 | 400,000 | 600,000 | 600,000 | 1,000,000 |
| **Image Source Group Limited**<br>Royalty free picture library | 300,000 | – | 1,454,558 | 925,470 | 1,754,558 |
| **DiGiCo Global Limited (formerly Newincco 1124 Limited)[4]**<br>Designer and manufacturer of digital audio mixing desks | 1,571 | 1,571 | 874,926 | 874,926 | 876,497 |
| **Westway Services Holdings (2010) Limited**<br>Installation, service and maintenance of air conditioning systems | 57,941 | 408,825 | 295,648 | 429,957 | 353,589 |
| **Duncary 8 Limited (trading as BG Consulting)**<br>Technical training business | 126,590 | 305,692 | 508,333 | 508,333 | 634,923 |
| **Youngman Group Limited**<br>Manufacturer of ladders and access towers | 100,052 | – | 900,000 | 700,992 | 1,000,052 |
| **Aquasium Technology Limited[6]**<br>Manufacturing and marketing of bespoke electron beam welding and vacuum furnace equipment | 166,667 | 344,638 | 333,333 | 333,333 | 500,000 |
| **ASL Technology Holdings Limited**<br>Printer and photocopier services | 418,321 | – | 1,351,469 | 654,155 | 1,769,790 |

| Total Valuation at 30-Sep-11 £ | Additional investments £ | Total Valuation at 30-Sep-12 £ | Interest receivable in period £ | Dividends receivable in period £ | Unrealised gains/(losses) in period £ | Realised gains in period £ | Gross proceeds £ | % of equity held [2 3] | % of portfolio by value |
|---|---|---|---|---|---|---|---|---|---|
| 1,675,368 | – | 2,270,884 | 53,222 | 18,667 | 595,516 | – | – | 8.5% | 7.28% |
| 1,796,667 | 36 | 2,058,371 | – | 44,296 | 854,499 | 426,962 | 1,019,793 | 1.6% | 6.60% |
| – | 1,878,124 | 1,878,124 | 144,181 | – | – | – | – | 9.4% | 6.02% |
| – | 1,745,351 | 1,745,351 | 25,214 | – | – | – | – | 7.5% | 5.59% |
| 1,718,189 | – | 1,652,768 | 144,215 | – | 163,671 | – | 229,092 | 11.7% | 5.29% |
| 1,354,238 | – | 1,448,159 | 147,784 | – | 416,537 | – | 322,616 | 12.5% | 4.64% |
| – | 1,383,313 | 1,383,313 | 124,080 | – | – | – | – | 2.5% | 4.43% |
| 1,383,792 | – | 1,271,194 | 119,007 | 14,005 | (112,598) | – | – | 13.0% | 4.07% |
| 1,025,448 | – | 1,128,228 | 72,023 | 4,332 | 102,780 | – | – | 5.8% | 3.62% |
| – | 1,000,000 | 1,000,000 | – | – | – | – | – | 12.5% | 3.20% |
| – | 1,000,000 | 1,000,000 | – | – | – | – | – | 12.5% | 3.20% |
| – | 1,000,000 | 1,000,000 | – | – | – | – | – | 12.5% | 3.20% |
| – | 1,000,000 | 1,000,000 | – | – | – | – | – | 12.5% | 3.20% |
| – | 1,000,000 | 1,000,000 | – | – | – | – | – | 12.5% | 3.20% |
| – | 1,000,000 | 1,000,000 | – | – | – | – | – | 12.5% | 3.20% |
| 238,977 | 1,449,558 | 925,470 | 58,569 | – | (763,065) | – | – | 20.0% | 2.97% |
| – | 876,497 | 876,497 | 28,381 | – | 874,926 | – | – | 1.6% | 2.81% |
| 928,577 | – | 838,782 | 31,708 | – | (89,795) | – | – | 4.7% | 2.69% |
| 535,699 | – | 814,025 | 28,780 | – | 278,326 | – | – | 25.5% | 2.61% |
| 682,203 | – | 700,992 | 103,857 | 11,714 | 18,789 | – | – | 8.5% | 2.25% |
| 486,319 | – | 677,971 | 311,427 | – | 374,022 | 381,269 | 563,639 | 16.7% | 2.17% |
| 1,674,630 | – | 654,155 | 34,064 | – | (1,020,475) | – | – | 9.6% | 2.10% |

# Investment Portfolio Summary
*for the year ended 30 September 2012*

| | Ordinary Shares Cost at 30-Sep-12 £ | Ordinary Shares Valuation at 30-Sep-12 £ | Other Investments[1] Cost at 30-Sep-12 £ | Other Investments[1] Valuation at 30-Sep-12 £ | Total Cost at 30-Sep-12 £ |
|---|---|---|---|---|---|
| **Focus Pharma Holdings Limited**<br>Licensor and distributor of generic pharmaceuticals | 180,914 | 311,692 | 224,493 | 324,882 | 405,407 |
| **British International Holdings Limited**<br>Helicopter service operator | 112,500 | – | 478,409 | 590,909 | 590,909 |
| **Original Additions Topco Limited[8]**<br>Sale of false nails, nail accessories, false eyelashes, depilatory products, hair lightening and perming products | – | – | 25,696 | 537,948 | 25,696 |
| **Brookerpaks Limited**<br>Importer and distributor of garlic and vacuum-packed vegetables | 50,000 | 504,209 | 5,000 | 5,000 | 55,000 |
| **Machineworks Software Limited**<br>Provider of software for CAD and CAM vendors | 20,471 | 479,459 | – | – | 20,471 |
| **Alaric Systems Limited[6]**<br>Software developer and provider of support services for retail credit card payment systems | 565,156 | 468,495 | – | – | 565,156 |
| **Omega Diagnostics Group plc**<br>In-vitro diagnostics for food intolerance, autoimmune diseases and infectious diseases | 279,996 | 373,328 | – | – | 279,996 |
| **The Plastic Surgeon Holdings Limited**<br>Supplier of snagging and finishing services to the property sector | 40,610 | – | 365,472 | 248,878 | 406,082 |
| **Tikit Group plc[5]**<br>Supplier of IT solutions and support services to legal and accounting businesses | 88,892 | 247,350 | – | – | 88,892 |
| **Faversham House Holdings Limited**<br>Publisher, exhibition organiser and operator of websites for the environmental, visual communications and building services | 185,060 | – | 302,684 | 192,385 | 487,744 |
| **Vectair Holdings Limited**<br>Designer and distributor of washroom products | 53,207 | 163,985 | 193 | 193 | 53,400 |
| **ANT plc[6]**<br>Provider of embedded browser/email software for consumer electronics and Internet appliances | 462,816 | 131,319 | – | – | 462,816 |
| **Lightworks Software Limited**<br>Provider of software for CAD and CAM vendors | 20,471 | 84,060 | – | – | 20,471 |
| **Racoon International Holdings Limited**<br>Supplier of hair extensions, hair care products and training | 165,256 | – | 385,596 | 79,026 | 550,852 |
| **PXP Holdings Limited (trading as Pinewood Structures)**<br>Designer, manufacturer and supplier of timber frames for buildings | 965,371 | 45,195 | – | – | 965,371 |
| **Monsal Holdings Limited**<br>Supplier of engineering services to the water and waste sectors | 145,314 | – | 323,296 | 42,446 | 468,610 |
| **Corero Network Security plc [6]**<br>Provider of e-business technologies | 600,000 | 31,434 | – | – | 600,000 |
| **Sarantel Group plc [6]**<br>Developer and manufacturer of antennae for mobile phones and other wireless devices | 1,881,252 | 17,019 | – | – | 1,881,252 |
| **Data Continuity Group Limited (formerly DCG Group Limited)[6]**<br>Design, supply and integration of data storage solutions | 90,034 | 2,171 | – | – | 90,034 |
| **Oxonica Limited[6]**<br>International nanomaterials group | 2,524,527 | – | – | – | 2,524,527 |
| **NexxtDrive Limited[7]**<br>Developer and exploiter of mechanical transmission technologies | 487,014 | – | – | – | 487,014 |
| **Aigis Blast Protection Limited[6]**<br>Specialist blast containment materials company | 272,120 | – | – | – | 272,120 |
| **Legion Group plc (in administration)**<br>Provider of manned guarding, mobile patrols and alarm response services | 150,000 | – | – | – | 150,000 |

| Total Valuation at 30-Sep-11 £ | Additional investments £ | Total Valuation at 30-Sep-12 £ | Interest receivable in period £ | Dividends receivable in period £ | Unrealised gains/(losses) in period £ | Realised gains in period £ | Gross proceeds £ | % of equity held [2,3] | % of portfolio by value |
|---:|---:|---:|---:|---:|---:|---:|---:|---:|---:|
| 628,706 | – | 636,574 | 28,042 | 6,057 | 169,400 | – | 161,532 | 2.1% | 2.04% |
| 646,718 | – | 590,909 | – | – | (55,809) | – | – | 5.0% | 1.89% |
| 537,948 | – | 537,948 | – | – | – | – | – | 0.0% | 1.72% |
| 576,042 | – | 509,209 | – | 157,414 | (66,833) | – | – | 17.1% | 1.63% |
| 407,310 | – | 479,459 | – | 24,121 | 72,149 | – | – | 9.2% | 1.54% |
| 167,114 | – | 468,495 | 7,260 | – | 332,028 | 55,929 | 86,576 | 6.9% | 1.50% |
| 291,663 | – | 373,328 | – | – | 81,665 | – | – | 2.7% | 1.20% |
| 101,521 | – | 248,878 | 28,491 | – | 147,357 | – | – | 6.1% | 0.80% |
| 458,094 | – | 247,350 | – | 9,157 | 32,464 | 33,943 | 277,151 | 0.5% | 0.79% |
| 487,744 | – | 192,385 | 37,835 | – | (295,359) | – | – | 8.8% | 0.62% |
| 139,125 | – | 164,178 | – | 12,277 | 25,053 | – | – | 4.6% | 0.53% |
| 144,451 | – | 131,319 | – | – | (13,132) | – | – | 2.7% | 0.42% |
| 54,138 | – | 84,060 | – | 3,610 | 29,922 | – | – | 9.2% | 0.27% |
| 157,755 | – | 79,026 | – | – | (78,729) | – | – | 7.7% | 0.25% |
| – | 45,195 | 45,195 | – | – | – | – | – | 6.0% | 0.15% |
| 42,446 | – | 42,446 | – | – | – | – | – | 5.6% | 0.14% |
| 35,363 | – | 31,434 | – | – | (3,929) | – | – | 0.2% | 0.11% |
| 39,485 | – | 17,019 | – | – | (22,466) | – | – | 0.8% | 0.05% |
| – | 6,711 | 2,171 | – | – | (4,539) | – | – | 11.1% | 0.01% |
| 69,624 | – | – | – | – | (69,624) | 62,662 | 62,662 | – | 0.00% |
| 162,500 | – | – | 4,141 | – | – | 87,500 | 250,000 | 5.1% | 0.00% |
| – | – | – | – | – | – | – | – | 0.4% | – |
| – | – | – | – | – | – | – | – | – | – |

# Investment Portfolio Summary
*for the year ended 30 September 2012*

| | Ordinary Shares Cost at 30-Sep-12 £ | Ordinary Shares Valuation at 30-Sep-12 £ | Other Investments[1] Cost at 30-Sep-12 £ | Other Investments[1] Valuation at 30-Sep-12 £ | Total Cost at 30-Sep-12 £ |
|---|---|---|---|---|---|
| **Biomer Technology Limited**[7]<br>Developer of biomaterials for medical devices | 137,170 | – | – | – | 137,170 |
| **Watchgate Limited**<br>Holding company | 1,000 | – | – | – | 1,000 |
| **Disposed of in year** | | | | | |
| **App-DNA Group Limited**<br>Provider of software repackaging services | – | – | – | – | – |
| **DiGiCo Europe Limited**[4]<br>Designer and manufacturer of digital audio mixing desks | – | – | – | – | – |
| **Iglu.com Holidays Limited**<br>Online ski and cruise travel agency | – | – | – | – | – |
| **Backbarrow Limited**<br>Company seeking to acquire businesses in the food manufacturing, distribution and brand management sectors | – | – | – | – | – |
| **Bladon Castle Management Limited**<br>Company seeking to acquire businesses in the brand management, consumer products and retail sectors | – | – | – | – | – |
| **Rusland Management Limited**<br>Company seeking to acquire businesses in the brand management, consumer products and retail sectors | – | – | – | – | – |
| **Torvar Limited**<br>Company seeking to acquire businesses in the database management, mapping, data mapping and management services sectors | – | – | – | – | – |
| **Camwood Enterprises Limited**<br>Provider of software repackaging services | – | – | – | – | – |
| **Letraset Limited**<br>Manufacturer and worldwide distributor of graphic art products | – | – | – | – | – |
| **Total** | **16,355,549** | **11,858,060** | **19,625,439** | **19,347,607** | **35,980,988** |

**Notes**

[1] 'Other investments' comprise principally loan stock instruments, and/or relatively small amounts of preference shares.

[2] The percentage of equity held, and the amounts co-invested, in these companies by funds managed by Mobeus Equity Partners LLP are disclosed in Note 14 to the financial statements.

[3] The percentage of equity held for these companies may be subject to further dilution of an additional 1% or more if, for example, management of the investee company exercises share options.

[4] As well as the consideration on the disposal of DiGiCo Europe Limited, £874,926 of loan stock in DiGiCo Global Limited and 1.57% of its equity were also issued to the Company.

[5] Investment formerly managed by Nova Capital Management Limited until 31 August 2007.

[6] Investment formerly managed by Foresight Group LLP up to various dates ending on or before 10 March 2009.

[7] Investment formerly managed by Nova Capital Management Limited until 31 August 2007 and by Foresight Group until various dates ending on or before 10 March 2009.

[8] As part of the consideration on the disposal of Amaldis (2008) Limited, £537,948 of Original Additions Topco Limited loan stock was issued to the Company.

[9] Unrealised gains of £1,972,751 shown above differ to that shown in the Income Statement of £2,364,362. The difference of £391,611 is a further unrealised gain, being the estimated fair value of contingent consideration, recognised at the balance sheet date.

| Total Valuation at 30-Sep-11 £ | Additional investments £ | Total Valuation at 30-Sep-12 £ | Interest receivable in period £ | Dividends receivable in period £ | Unrealised gains/(losses) in period £ | Realised gains in period £ | Gross proceeds £ | % of equity held[2,3] | % of portfolio by value |
|---|---|---|---|---|---|---|---|---|---|
| – | – | – | – | – | – | – | – | 4.4% | – |
| – | – | – | – | – | – | (1,000) | – | 33.3% | – |
| 11,633,974 | – | – | – | – | – | 2,938,494 | 14,572,468 | – | – |
| 1,258,330 | – | – | 1,029 | – | – | 161,238 | 2,294,494 | – | – |
| 888,657 | – | – | – | – | – | 598,321 | 1,486,978 | – | – |
| 1,000,000 | – | – | 2,791 | – | – | (1,000) | 999,000 | – | – |
| 1,000,000 | – | – | – | – | – | – | 999,000 | – | – |
| 1,000,000 | – | – | 2,081 | – | – | (1,000) | 999,000 | – | – |
| 1,000,000 | – | – | 2,595 | – | – | (1,000) | 999,000 | – | – |
| 499,182 | – | – | – | – | – | 451,169 | 950,351 | – | – |
| 234,385 | – | – | – | – | – | 134,958 | 369,344 | – | – |
| **37,162,382** | **13,384,785** | **31,205,667** | **1,540,777** | **305,650** | **1,972,751[9]** | **5,328,445** | **26,642,696** | | **100.00%** |

# Board of Directors

## Colin Hook

**Status:**
**Independent Non-Executive Chairman**
**Age: 70**

*Date of appointment:* 13 October 2000.

*Qualifications:* MA

*Experience:* Colin has wide financial and commercial experience. He has worked in the City for more than thirty years. During this time he directed fund management operations for more than ten years. His City involvement included mergers and acquisitions and flotations. From 1994 to 1997 he was Chief Executive of Ivory and Sime plc. He is currently the Chief Executive of Pole Star Space Applications Limited, a leading provider of real-time tracking information for maritime applications via a global web-based satellite enabled solution. Until September 2010, he was the non-executive chairman and a director of Mobeus Income and Growth 4 VCT plc.

*Last re-elected to the Board:*
February 2012. Standing for re-election at the AGM in 2013.

*Committee memberships:*
Nominations and Remuneration Committee (Chairman to 5 December 2011), Audit Committee, Investment Committee.

*Number of Board and Committee meetings attended 2011/12:*
13/14.

*Remuneration 2011/12:*
£51,000.

*Relevant relationships with the Investment Manager or other service providers:*
None.

*Shared directorships with other I&G Directors:*
None.

*Shareholding in the Company:*
51,338 Ordinary Shares.

## Jonathan Cartwright

**Status:**
**Independent Non-Executive Director**
**Age: 59**

*Date of appointment:* 1 August 2010.

*Qualifications:* Fellow of the Institute of Chartered Accountants in England and Wales BSc (Engineering Sciences).

*Experience:* Jonathan qualified as a Chartered Accountant. He has significant experience of the investment trust sector and of serving on the boards of both public and private companies in executive and non-executive roles. Jonathan joined Caledonia Investments plc in 1989, serving as Finance Director from 1991 to 2009. Prior to this he was Group Financial Controller at Hanson plc 1984 - 1989. He was a non-executive Director of Bristow Group Inc. (1996 – 2009) and of Serica Energy plc (2008 to 2012). He is a non-executive director of Blackrock Income & Growth Investment Trust plc (from September 2010), Aberforth Geared Income Trust plc (from March 2010) and Tennants Consolidated Limited (from August 2010). Jonathan has served on the Self-Managed Investment Trust Committee of the Association of Investment Companies (to December 2009).

*Elected to the Board:*
February 2011.

*Committee memberships:*
Audit Committee (Chairman), Investment Committee, Nominations and Remuneration Committee/(Chairman from 5 December 2012).

*Number of Board and Committee meetings attended 2011/12:*
14/14.

*Remuneration 2011/12:*
£41,000.

*Relevant relationships with the Investment Manager or other service providers:*
None.

*Relevant relationships with investee companies:* None.

*Shared directorships with other I&G Directors:*
None.

*Shareholding in the Company:*
10,591 Ordinary Shares.

## Helen Sinclair

**Status:**
**Non-Executive Director**
**Age: 46**

*Date of appointment:* 29 January 2003.

*Qualifications:* MA, MBA

*Experience:* Helen has extensive experience of investing in a wide range of small and medium sized businesses. She graduated in economics from Cambridge University and began her career in banking. After an MBA at INSEAD business school, Helen worked from 1991 to 1998 at 3i plc, based in their London office. She was a founding director of Matrix Private Equity Limited (now part of Mobeus) when it was established in early 2000. After leaving Matrix in 2005, she was a non-executive director of Hotbed Fund Managers Limited from 2006-2008 and Octopus Eclipse VCT 3 plc October 2011 – October 2012 (currently in members voluntary liquidation following a merger with Octopus Eclipse VCT plc). She is Chairman of British Smaller Companies VCT plc, a non-executive director of Mobeus Income & Growth 4 VCT plc, Downing Income VCT 4 plc, and Spark Ventures plc.

*Last re-elected to the Board:*
February 2012. Standing for re-election at the AGM in 2013.

*Committee memberships:*
Investment Committee (Chairman), Audit Committee, Nominations and Remuneration Committee (Chairman from 5 December 2011 to 5 December 2012).

*Number of Board and Committee meetings attended 2011/12:*
13/14.

*Remuneration 2011/12:*
£41,000.

*Relevant relationships with the Investment Manager or other service providers:*
Mobeus Income & Growth 4 VCT plc is also managed by Mobeus.

*Shared directorships with other I&G Directors:*
None.

*Shareholding in the Company:*
17,535 Ordinary Shares.

# Directors' Report

The Directors present the twelfth Annual Report and Accounts of the Company for the year ended 30 September 2012.

## Principal activity and status as a Venture Capital Trust ("VCT")

The principal activity of the Company during the year under review was investment in unquoted or AiM-quoted companies in the United Kingdom.

The Company has satisfied the requirements for full approval as a Venture Capital Trust under section 274 of the Income Tax Act 2007 ("the ITA"). It is the Directors' intention to continue to manage the Company's affairs in such a manner as to comply with section 274 of the ITA.

The Company revoked its status as an investment company on 30 November 2005 as defined by section 266 of the Companies Act 1985 ("the 1985 Act") subsequently superseded by section 833 of the Companies Act 2006 ("the Companies Act") and does not intend to re-apply for such status.

The Company's ordinary shares, formerly 'S' Shares ("Shares") are listed on the London Stock Exchange ("LSE"). The Shares were first admitted to the Official List of the UK Listing Authority ("UKLA") and to trading on the LSE on 8 February 2008. Following the merger of the former classes of 'O' Shares (first admitted to the Official List of the UKLA and to trading on 15 November 2000) and 'S' Shares, the listing of the 'S' Shares was amended to ordinary shares of 1p in the capital of the Company on 30 March 2010 and the 'O' Share listing was cancelled.

## Future developments

The objective of the Directors continues to be to provide investors with an attractive return by maximising the stream of dividend distributions from the income and capital gains generated by a diverse and carefully selected portfolio of investments.

The Directors intend to continue their policy of investing primarily in MBOs of companies with established track records and attractive prospects. However, there may be some investment in new and secondary issues of companies which may already be quoted on AiM or ISDX Markets.

## Business review

For a review of the Company's development and performance during the year and future prospects, please see the Chairman's Statement on pages 3 – 6 and the Investment Manager's Review and Investment Portfolio Summary on pages 8 – 20 of this Report. The Financial Highlights on pages 1 - 2 provides data on the Company's key performance indicators.

The following section on 'Principal risks, management and regulatory environment' and Note 20 to accounts on pages 54 – 61 provides information on the Company's financial risk management objectives and exposure to risks.

The Board reviews performance by reference to various measures, taking account of the long term nature of the assets in which the Company invests.

- **Total Return**
  The total return per share is a key measure of performance for the Company which comprises NAV plus cumulative dividends paid per share. NAV is calculated quarterly in accordance with the International Private Equity Venture Capital Valuation (IPEVCV) guidelines. The VCT's net assets increased during the year under review, resulting in a 10.62% rise in total NAV return per share.

  For further information on the relative performances of each of the fundraising rounds, please see the performance data tables on pages 65 – 66.

- **Ongoing Charges**
  The Ongoing Charges ratio of the Company is as follows:

| | |
|---|---|
| Ongoing charges* | 2.99% |

* The Ongoing Charges ratio has been calculated, using the Association of Investment Companies' (AIC) recommended methodology, published in May this year. This figure shows Shareholders the annual percentage reduction in shareholder returns as a result of recurring operational expenses, assuming markets remain static and the portfolio is not traded. Although the Ongoing Charges figure is based upon historic information, it provides Shareholders with an indication of the likely level of costs that will be incurred in managing the fund in the future.

It replaces the Total Expense Ratio previously reported, although the latter will still form the basis of any expense cap that may be borne by the Manager. There was no breach of the expense cap for the year ended 30 September 2012 (2011: £nil).

The AIC also recommends that the impact of performance fees should also be disclosed, and this is shown below

| | |
|---|---|
| Accrued Performance fee | 7.14% |
| Ongoing Charges plus accrued performance fee | 10.13% |

## Principal risks, management and regulatory environment

The Board believes that the principal risks faced by the Company are:

- **Economic risk** – events such as an economic recession and movement in interest rates could affect trading conditions for smaller companies and consequently the value of the Company's qualifying investments.

- **Risk of loss of approval as a Venture Capital Trust** – the Company must comply with the provisions of section 274 of the Income Tax Act 2007 ("ITA") to continue to be exempted from capital gains tax on investment gains and to ensure that its investors continue to qualify for VCT tax reliefs. Any breach of these rules may lead to the Company losing its approval as a Venture Capital Trust (VCT), qualifying shareholders who have not held their shares for the designated holding period having to repay the income tax relief they obtained and future dividends paid by the Company becoming subject to tax. The Company would also lose its exemption from corporation tax on capital gains.

- **Investment and strategic risk** – inappropriate strategy or consistently weak VCT qualifying investment recommendations might lead to underperformance and poor returns to shareholders. Investment in unquoted small companies by its nature involves a higher degree of risk than investment in companies traded on the London Stock Exchange main market. Smaller companies often have limited product lines, markets or financial resources and may be dependent for their management on a smaller number of key individuals. This may make them more risk-prone and volatile investments.

# Directors' Report

- **Regulatory risk** – the Company is required to comply with the Companies Act, the listing rules of the UKLA and United Kingdom Accounting Standards. Breach of any of these might lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report.
- **Financial and operating risk** – inadequate controls that might lead to misappropriation of assets. Inappropriate accounting policies might lead to misreporting or beaches of regulations. Failure of the Investment Manager's and Administrator's accounting systems or disruption to its business might lead to an inability to provide accurate reporting and monitoring.
- **Market risk** – movements in the valuations of the VCT's investments will, inter alia, be connected to movements in UK Stock Market indices.
- **Asset liquidity risk** – The Company's investments may be difficult to realise.
- **Market liquidity risk** – Shareholders may find it difficult to sell their shares at a price which is close to the net asset value.
- **Counterparty risk** – A counterparty may fail to discharge an obligation or commitment that it has entered into with the Company. For further information, please see page 3 of the Chairman's Statement under 'Cash available for investment' and the discussion on 'credit risk' in Note 20 to the accounts on pages 56 – 57.

The Board seeks to mitigate the internal risks by setting policy and by undertaking a key risk management review at each quarterly Board meeting. Performance is regularly reviewed and assurances in respect of adequate internal controls and key risks are sought and received from the Investment Manager and Administrator on a six monthly basis. In mitigation and the management of these risks, the Board applies rigorously the principles detailed in the AIC Code of Corporate Governance. The Board also has a Share Buy-Back policy which seeks to mitigate the Market Liquidity risk. This policy is reviewed at each quarterly Board Meeting.

## Share capital and issue and buy-back of shares

The Board has continued its buy-back policy during the year ended 30 September 2012, with the objective of providing shareholders with a means of exiting the Company at a discount of 10% or less to the latest published NAV per share. Shareholders granted the Company authority, pursuant to section 701 of the Companies Act, to make market purchases of up to 6 million of its own shares representing 14.99% of the issued share capital of the Company on 22 December 2011, at the AGM held on 9 February 2012. This authority has been in place throughout the year under review. For further details please see Note 16 to the accounts on pages 53 – 54 of this Annual Report. A resolution to renew this authority will be proposed to Shareholders at the forthcoming AGM.

During the year under review, the Company issued a total of 6,419,219 (2011: 5,370,922) ordinary shares. Of this total, 4,984,383 (2011: 5,239,609) ordinary shares were issued under the VCT Linked Offer for Subscription launched on 20 January 2012 and 1,434,836 ordinary shares (2011: 131,313) were issued under the Company's Dividend Investment Scheme.

The Board believes that it is in the best interests of the Company and its Shareholders for the Company to make market purchases of its shares to seek both to enhance net asset value and to discourage excessive discounts to market prices quoted.

During the year the Company bought back 995,611 of its own Ordinary Shares of 1 pence (2011: 1,649,765) representing 2.45% (2011: 4.46%) of the Ordinary Shares in issue at the beginning of the year at a cost of £913,087 (2011: £1,475,019).

The shares bought back were subsequently cancelled by the Company.

The issued Ordinary Share capital of the Company as at 30 September 2012 was £461,157 (2011: £406,920) and the number of Ordinary Shares in issue as at this date was 46,115,656 (2011: 40,692,048).

## Results and dividend

The revenue return after taxation attributable to Shareholders for the period was £990k (2011: £864k).

The Directors have declared a second interim dividend in respect of the year ended 30 September 2012 of 6 pence per share comprising 3 pence from capital and 3 pence from income. The dividend will be paid to Shareholders on the Register on 18 January 2013, on 8 February 2013.

An interim capital dividend of 20 pence per share was also paid, in respect of the year ended 30 September 2012, on 27 January 2012. Thus total dividends paid and declared in respect of this year were 26 pence per share comprising 23 pence from capital and 3 pence from income (2011: 4 pence per share comprising 2 pence from capital and 2 pence from income).

## Dividend Investment Scheme

The Company's Dividend Investment Scheme ("the Scheme") will apply to the interim dividend described above and elections under the Scheme should be received by the Scheme Administrator, Capita Registrars, no later than 24 January 2013.

During the year under review, 694 Shareholders, who between them held a total of 5,458,885 Ordinary Shares representing 13.4% of the Company were issued 1,247,556 Ordinary Shares on 30 January 2012 in respect of the interim capital dividend of 20 pence per share paid to Shareholders on 27 January 2012 at an issue price of 87.5 pence per share and 520 Shareholders, who between them held a total of 4,115,275 Ordinary Shares representing 10.1% of the Company were issued 187,280 Ordinary Shares on 15 February 2012 in respect of the final dividend of 4 pence per share paid to Shareholders on that date at an issue price of 87.9 pence per share.

The issue price used for both dividends was equal to the average of the middle market price for the Shares taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the payment date.

## Directors and their interests

The names of the Directors appear below and on page 21 of this Annual Report.

The Directors' interests in the issued Ordinary Shares of the Company as at 30 September 2012 were:

| | Ordinary Shares | |
|---|---|---|
| Director | held on 30 Sep 2012 | held on 30 Sep 2011 |
| Colin Hook | 51,338 | 38,997 |
| Jonathan Cartwright | 10,591 | 7,016 |
| Helen Sinclair | 17,535 | 15,883 |

During the year under review, each of the Directors were allotted the following shares under the Mobeus (formerly Matrix) VCTs Linked Offer and the Company's Dividend Investment Scheme:

| Director | Shares allotted under the Mobeus VCT's Linked Offer | Shares allotted under the Company's Dividend Investment Scheme | Total shares allotted to each Director during the year |
|---|---|---|---|
| Colin Hook | 1,652 | 10,689 | 12,341 |
| Jonathan Cartwright | 1,652 | 1,923 | 3,575 |
| Helen Sinclair | 1,652 | – | 1,652 |

There have been no further changes to the Directors' share interests between the year-end and the date of this Annual Report.

In accordance with the AIC Code, Colin Hook, who has served on the Board for 12 years, has agreed to retire annually from the Board and, being eligible, offers himself for re-election at the forthcoming Annual General Meeting. Following a review of his performance, the Board agreed that Colin Hook continued to make a substantial contribution to the Board as its Chairman and that his length of service was an asset to the Company. The remaining directors have no hesitation in recommending his re-election to Shareholders.

With the exception of Helen Sinclair, all the Directors are considered to be independent of the Investment Manager. Helen Sinclair also sits on the Board of Mobeus Income & Growth 4 VCT plc, which is also managed by Mobeus Equity Partners ("Mobeus"), and as such she is not considered to be independent of the Manager and has agreed to retire annually from the Board. In accordance with the AIC Code, and being eligible, she will offer herself for re-election at the forthcoming Annual General Meeting. Following a review of her performance, the Board noted that Helen Sinclair has considerable experience both of making investments in the types of companies in which the VCT invests and of being a VCT director. She has shown herself to be a committed and independently-minded director who continues to make a substantial contribution to the Board as Chairman of the Investment Committee. The remaining directors have no hesitation in recommending her re-election to Shareholders.

Biographical notes on these Directors are given on page 21 of this Annual Report.

Copies of the Directors' appointment letters shall be available for inspection at the place of the Annual General Meeting for at least fifteen minutes prior to and during the meeting. The Directors do not have any service contracts with the Company.

It is the policy of the Directors not to participate in decisions concerning investee companies in which they hold an interest. None of the Directors held interests in investee companies throughout the year.

No options over the share capital of the Company have been granted to the Directors. The Company does not have any employees.

## Investment management

Mobeus acts as Investment Manager and provides administrative and company secretarial services to the Company.

The Manager was jointly owned by its executive partners and Matrix Group Limited ("Matrix") from April 2004 to June 2012. On 30 June 2012, the executive partners completed an MBO from Matrix and re-launched the company as a fully independent owner managed private equity firm named Mobeus Equity Partners. All the staff transferred to the new company and the Manager's investment approach and its arrangements with the VCT remain unchanged. For further information please see Note 3 to the financial statements on page 42 – 43.

The Board reviews annually, and at other times as and when necessary, the Investment Management Agreement and the performance of the Investment Manager, and the other service providers including the auditor, VCT status adviser, solicitors, bankers and registrars. Particular emphasis is placed on reviewing the Investment Manager, in terms of investment performance, quality of information provided to the Board and remuneration. This work forms part of the Board's overall internal control procedures as discussed elsewhere. As part of this review the Board considers the quality and continuity of the investment management team, the investment process and the results achieved to date. The Board places significant emphasis on the Company's performance against benchmarks and is satisfied that the VCT's performance remained ahead of the benchmark used on a consistent basis. The Board further considered the Manager's commitment to the promotion of the Company and was satisfied that this was prioritised highly by the Manager as evidenced by the Linked VCT fundraisings in 2010/11, 2012 and 2012/13 (launched on 29 November 2012).

The principal terms of the Company's Investment Manager's Agreement with the Manager dated 29 March 2010 are set out in Note 3 to the Accounts on pages 42 – 43 of this Annual Report. The Board seeks to ensure that the terms of this Agreement represent an appropriate balance between cost and incentivisation of the Manager.

The continued appointment of Mobeus on the existing terms was approved by the Board on 5 December 2012. The Directors believe that the continuing appointment of Mobeus as the Investment Manager on the terms currently agreed is in the interests of its Shareholders.

## VCT status monitoring

The Company has retained PricewaterhouseCoopers LLP to advise on its compliance with the tax legislative requirements relating to VCTs. As such, they advise on compliance with requirements of the Venture Capital Trust tax legislation on the basis of information provided by Mobeus. Mobeus also seeks professional advice in relation to the application of the venture capital trust legislation to any company in which the Company is proposing to invest. The Directors monitor the continuing tests for the Company's VCT status at Board meetings.

# Directors' Report

## Independent auditor

PKF (UK) LLP was re-appointed as auditor during the year. Resolutions to re-appoint PKF (UK) LLP as auditor to the Company and to authorise the Directors to determine its remuneration will be proposed at the Annual General Meeting.

## Auditor's right to information

So far as the Directors in office at 30 September 2012 are aware, there is no relevant audit information of which the auditors are unaware. They have individually 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 the Company's auditor is aware of that information.

## Voting rights of Shareholders

Each shareholder has one vote on a show of hands, and on a poll one vote per share held, at a general meeting of the Company. No member shall be entitled to vote or exercise any rights at a general meeting unless all shares have been paid up in full. Any instrument of proxy must be deposited at the place specified by the Directors no later than 48 hours before the time for holding the meeting.

Shareholders may, if they so wish, arrange for their shares to be held via a nominee or depository where they retain the financial rights carried by the Company's shares.

## Substantial interests

As at the date of this report the Company had not been notified of any beneficial interest exceeding 3% of the issued share capital.

## Financial instruments

The main risks arising from the Company's financial instruments are due to fluctuations in the market price and interest rates, credit risk and liquidity risk. The Board regularly reviews and agrees policies for managing these risks and full details can be found in Note 20 to the Accounts on pages 54 – 61 of this Annual Report.

## Creditors' payment policy

The Company's policy is to pay all creditors' invoices within 30 days of the invoice date unless otherwise agreed. At the year-end trade creditors were £4,037 (2011: £22,704) excluding share buybacks. At 30 September 2012 the average credit period for trade creditors was 4 days (2011: 4 days).

## Anti-bribery policy

The VCT has adopted a zero tolerance approach to bribery. The following is a summary of its policy:

- I&G will not tolerate bribery under any circumstances in any transaction in which it is involved.
- I&G values its reputation for ethical behaviour and for financial probity and reliability. The Directors are committed to working to the highest ethical standards throughout the business.
- I&G expects and requires each of its service providers to work to the same standard.

## Environmental and social responsibility

The Board seeks to conduct the Company's affairs responsibly and considers relevant social and environmental matters when appropriate, particularly with regard to investment decisions. The Company has adopted electronic communications to minimise the amount of paper it uses in sending communications to shareholders. It uses mixed sources paper from well-managed forests and recycled wood and fibre as endorsed by the Forest Stewardship Council for the printing of its Circulars and Annual and Half-Year Reports.

## Directors' and officers' liability insurance

The Company maintains a Directors' and Officers' liability insurance policy. The policy does not provide cover for fraudulent or dishonest actions by the Directors.

## Related party transactions

As part of the arrangements for the VCT Linked Offer launched on 20 January 2012 ("the 2012 Offer"), the Company paid Mobeus Equity Partners (formerly Matrix Private Equity Partners), the Company's Manager the sum of 5.5% of the gross proceeds by way of a promoter's fee out of which Mobeus paid all of the expenses of the 2012 Offer (excluding trail commission to financial intermediaries which continues to be paid by the Company). The Company also appointed Matrix Corporate Capital as sponsor to the 2012 Offer at a fee based on 0.12% of funds raised. An additional charge was also made across the three VCTs in the 2012 Offer of £1,500 for each of the two supplementary prospectuses issued. The agreement includes a "cap" of £15,000 per company. The Manager was at that time part of Matrix Group Limited. Matrix Group owned 100% of the equity of MPE Partners Limited which had a 50% interest in the Manager. The Manager, however, became a fully independent firm with effect from 1 July 2012 as detailed in the Chairman's Statement on page 3 of this report.

As part of the arrangements for the Mobeus VCTs Linked Offer launched on 29 November 2012 ("the Offer"), Mobeus, as promoter to the Offer will receive a fee of an amount equal to 5.50% of funds raised (ignoring the early investment incentive (as defined in the Offer documentation) and any reinvestment of intermediary commission) through applications received and accepted before 30 December 2012. For funds raised after this date, Mobeus will be paid an amount equal to 3.25% of those funds raised (ignoring any reinvestment of intermediary commission). Out of this fee, Mobeus will pay all costs and expenses arising from the Offer, including the early investment incentive and any reinvestment of intermediary commission save for permissible trail commission which will be the responsiblility of the Company .

These transactions are all deemed to be related party transactions under the Listing Rules of the UK Listing Authority.

## Annual General Meeting

Notice of the Annual General Meeting to be held on 13 February 2013 is set out on pages 62 – 64 of this Annual Report.

The following is an explanation of resolutions 7 to 9, which together with resolutions 1 to 6 form the business to be proposed at the meeting. Resolutions 1 to 7 will be proposed as ordinary resolutions requiring more than 50% of the votes cast at the meeting to be in favour and resolutions 8 and 9 will be proposed as special resolutions requiring the approval of 75% of the votes cast at the meeting.

The Directors believe that the proposed resolutions are in the interests of Shareholders and accordingly recommend Shareholders to vote in favour of each resolution.

## Authorities for the Directors to allot shares (Resolution 7) and disapply pre-emption rights of members (Resolution 8)

These two resolutions grant the Directors the authority to allot shares for cash to a limited and defined extent otherwise than pro rata to existing Shareholders.

Resolution 7 will enable the Directors to allot new shares up to an aggregate nominal amount not exceeding £392,000 representing approximately 85% of the issued share capital of the Company as at the date of the notice of the meeting. The authority granted by this resolution will expire on the fifth anniversary of the date of the passing of this resolution.

Under section 561(1) of the 2006 Act, if the Directors wish to allot new shares or sell treasury shares for cash they must first offer such shares to existing Shareholders in proportion to their current holdings. It is proposed by Resolution 8 to sanction the disapplication of such pre-emption rights in respect of the allotment of equity securities (i) with an aggregate nominal value of up to £300,000 in connection with offer(s) for subscription; (ii) with a nominal value of up to 10% of the issued share capital of the Company from time to time pursuant to any dividend investment scheme operated by the Company; and (iii) with a nominal value of up to 10% of the issued share capital of the Company from time to time. The proceeds of these allotments may be used in whole or part to purchase the Company's shares.

Resolution 8 will expire on the conclusion of the Annual General Meeting of the Company to be held in 2014.

In accordance with Resolution 8, the Directors are authorised to allot shares pursuant to the Company's Dividend Investment Scheme at their mid market price, even if this is less than net asset value per share.

The Directors may allot securities after the expiry dates given above in pursuance of offers or agreements made prior to the expiration of these authorities. Both resolutions generally renew previous authorities approved at the annual general meeting of the Company held on 9 February 2012.

The Directors launched a Linked Offer for Subscription with Mobeus Income & Growth VCT plc and Mobeus Income & Growth 4 VCT plc on 29 November 2012 to raise up to £7 million for each VCT and it is the Directors' intention that new shares may be issued pursuant to the Offer under this authority (to the extent that existing authorities do not apply). It is further intended to allot shares under the Dividend Investment Scheme in respect of the declared interim dividend to be paid to Shareholders on 8 February 2013. The Directors have no further immediate intention of exercising the above powers.

## Authority to make market purchases of the Company's own shares (Resolution 9)

This resolution authorises the Company to purchase its own shares pursuant to section 701 of the 2006 Act. The authority is limited to an aggregate of 6,912,700 shares representing approximately 14.99% of the issued share capital of the Company as at the date of the notice of the meeting. The maximum price that may be paid for a share will be the higher of (i) an amount that is not more than five per cent above the average of the middle market quotations of the shares as derived from the Daily Official List of the UK Listing Authority for the five business days preceding such purchase and (ii) the price stipulated by Article 5(i) of the Buyback and Stabilisation Regulation. The minimum price that may be paid for a share is 1 penny, being the nominal value thereof.

Venture Capital Trusts experience restricted market liquidity in their shares. The Board believes that it is in the best interests of the Company and Shareholders for the Company to be in a position to make occasional market purchases of its shares to improve liquidity. This resolution will enable the Directors to carry out this policy. The policy is constantly reviewed by the Board to ensure that share buybacks remain in the best interests of Shareholders as a whole.

Shareholders should note that the Directors will not exercise this authority unless they believe to do so would result in an increase in net assets per share and would be in the interests of Shareholders generally. The Directors currently intend to cancel all shares purchased under this authority. This resolution will expire on the conclusion of the Company's Annual General Meeting to be held in 2014.

By order of the Board

**Mobeus Equity Partners LLP**

*Secretary*

17 December 2012

# Directors' Remuneration Report

This report has been prepared by the Directors in accordance with the requirements of Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. A resolution to approve the report will be proposed at the Annual General Meeting to be held on 13 February 2013. The Company's independent auditor is required to give their opinion on the information provided on Directors' emoluments on this page and this is explained further in their report to Shareholders on page 35.

## Remuneration Committee

The remuneration of individual Directors is determined by the Nominations and Remuneration Committee within the framework set by the Board. The Committee comprises the full Board and is chaired by Jonathan Cartwright (Helen Sinclair until 5 December 2012 and Colin Hook until 5 December 2011). The Committee meets at least once a year and is responsible for reviewing the remuneration of the Directors. The Committee has access to independent advice where and when it considers it appropriate. However, it was not considered necessary to take any such advice during the year under review. The Directors fees have remained at £35,000 (Chairman) and £25,000 (Director) per annum since 1 January 2006. The supplement paid to members of the Investment Committee was increased from £5,000 to £6,000 per annum with effect from 1 October 2008. In December 2011, each of the Directors received a one-off payment of £10,000 in respect of additional work carried out on specific projects for the Company.

## Remuneration policy

The remuneration policy is set by the Board. The Directors' fees are reviewed annually by the Nominations and Remuneration Committee which determines the amount of fees to be paid to the Directors. No director is involved in determining his or her own remuneration. When considering the level of Directors' fees, the Committee takes account of remuneration levels elsewhere in the Venture Capital Trust industry and other relevant information. Since all the Directors are non-executive, the Company is not required to comply with the provisions of the UK Corporate Governance Code in respect of Directors' remuneration, except in so far as they relate specifically to non-executive directors. No portion of the fees paid to any of the Directors is related to performance. Details of the Directors' remuneration are disclosed in the following column and in Note 6 to the Accounts on page 44. All the Directors are non-executive and the Company does not provide pension benefits to any of the Directors. The Company has not granted any Director any options over the share capital of the Company and the Company does not operate any long-term incentive plans for the Directors.

## Terms of appointment

The Articles of Association provide that Directors may be appointed either by an ordinary resolution of the Company or by the Board provided that a person appointed by the Board shall be subject to re-election at the first Annual General Meeting following their appointment. One-third of the Directors retire from office by rotation at each Annual General Meeting and the retiring Directors then become eligible for re-election in accordance with the Articles of Association. All Directors receive a formal letter of appointment setting out the terms of their appointment and their specific duties and responsibilities. A Director's appointment may be terminated on three months' notice being given by the Company and in certain other circumstances.

All of the Directors are non-executive and none of the Directors has a service contract with the Company. No arrangements have been entered into between the Company and the Directors to entitle any of the Directors to compensation for loss of office.

## Details of individual emoluments and compensation

### *(Audited information)*

The emoluments in respect of qualifying services of each person who served as a Director during the year were as set out in the table below. The Company does not have any schemes in place to pay to any of the Directors bonuses, benefits, share options or compensation for loss of office in addition to their Directors' fees.

| | Total emoluments year to | |
|---|---|---|
| | 30 Sep 2012 £ | 30 Sep 2011 £ |
| Colin Hook | 51,000 | 41,000 |
| Jonathan Cartwright | 41,000 | 31,000 |
| Helen Sinclair | 41,000 | 31,000 |

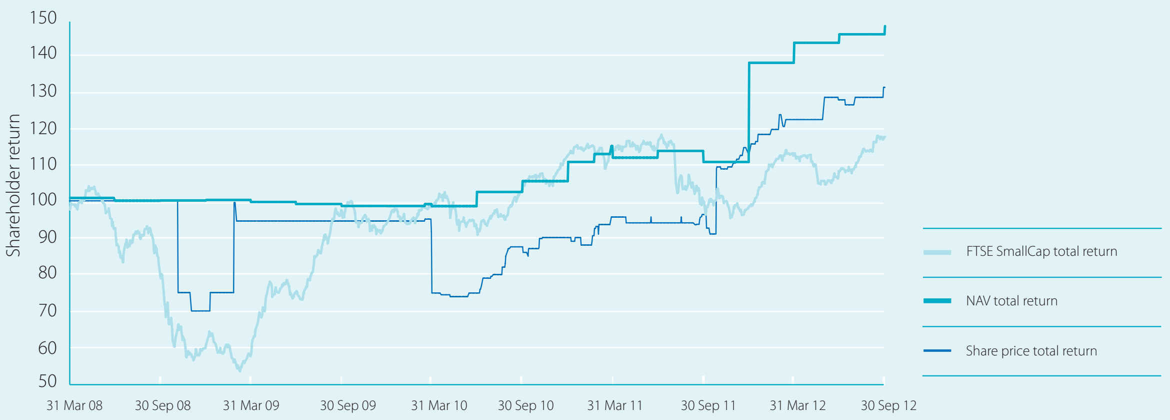
Aggregate emoluments in respect of qualifying services amounted to £133,000 (2011: £103,000). No sums were paid to third parties in respect of any of the Directors' services during the year under review.

## Total shareholder return

The graph below charts the total cumulative shareholder return of the Ordinary Shares (assuming all dividends have been re-invested and excluding the tax reliefs available to Shareholders) since the shares were first admitted to trading on 8 February 2008 compared to the FTSE SmallCap Index. The FTSE SmallCap is an industry recognised index of listed companies. The Board considers it to be an appropriate index against which to measure the Company's performance. The total shareholder return has been rebased to 100 at 8 February 2008, the date on which the Company's current class of Ordinary Shares was first admitted to trading. The Net Asset Value (NAV) total return has been shown separately on the graph because the Directors believe it is a more accurate reflection of the Company's performance.

An explanation of the performance of the Company is given in the Chairman's Statement on pages 3 – 6 and in the Investment Manager's Review and Investment Portfolio Summary on pages 8 – 20.

### Total shareholder return




Source: Matrix Corporate Capital LLP

The share price and net asset value (NAV) total return comprise the share price and NAV per share respectively, assuming the dividends paid were re-invested on the date on which the shares were quoted ex-dividend in respect of each dividend, plus cumulative dividends paid per share.

[1] The former 'O' Share class was merged with the former 'S' Share class on 29 March 2010. The Ordinary Share class is therefore the former 'S' Share class which became the Ordinary Share class on that date. This graph therefore shows the performance of the former 'S' Share class up until the merger on 29 March 2010.

Signed on behalf of the Board by:

**Mobeus Equity Partners LLP**

*Secretary*

17 December 2012

# Corporate Governance Statement

The Directors have adopted the Association of Investment Companies (AIC) Code of Corporate Governance 2010 ("the AIC Code") for the financial year ended 30 September 2012. The Board has considered the principles and recommendations of the AIC Code by reference to the AIC Corporate Governance Guide for investment companies ("AIC Guide"). The AIC Code as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code ("the UK Code"), as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Code), will provide the most appropriate information to Shareholders.

The AIC Code was endorsed by the Financial Reporting Council (FRC) on 30 September 2010. The FRC has confirmed that in complying with the AIC Code, the Company will meet its obligations in relation to the UK Code and paragraph 9.8.6 of the Listing Rules. The AIC Code is available online at: www.theaic.co.uk/Documents/Technical/AICCodeofCorporateGovernance2010.pdf

This statement has been compiled in accordance with the FSA's Disclosure and Transparency Rule (DTR) 7.2 on Corporate Governance Statements.

The Board considers that the Company has fully complied with the AIC Code and the relevant provisions of the UK Code, as set out below.

## Compliance with the UK Code

The UK Code includes provisions relating to:

- The role of the chief executive
- Executive directors' remuneration
- The requirement for an internal audit function.

For the reasons set out in the AIC Guide, and as explained in the UK Code, the Board considers these provisions are not relevant to the Company, being an externally managed VCT. The Company has therefore not reported further in respect of these provisions.

The Board has further considered the principles detailed in the UK Code and believes that, insofar as they are relevant to the Company's business, the Company has complied with the provisions of the UK Code throughout the financial year ended 30 September 2012 with the following exceptions:

The Board has not appointed a Senior Independent Director, as it does not believe that such an appointment is necessary when the Board is comprised solely of non-executive directors. As recommended in the AIC Code, this role is fulfilled, as appropriate, by the Chairman of the Audit Committee.

As is common practice among Venture Capital Trusts, the Directors are not appointed for specific terms. A Director's appointment may be terminated on three months' notice being given by the Company. For further information please see the Directors' Remuneration Report on pages 27 – 28.

## The Board

The Company has a Board of three non-executive Directors. All the Directors are equally responsible under the law for the proper conduct of the Company's affairs. In addition, the Directors are responsible for ensuring that their policies and operations are in the best interests of all the Company's Shareholders and that the best interests of creditors and suppliers to the Company are properly considered.

The Board has considered whether each Director is independent in character and judgement and whether there are any relationships or circumstances which are likely to affect, or could appear to affect, the Director's judgement. It has concluded that all three Directors are independent except in respect of the contracts or investee companies in which they have declared an interest. It is the policy of the Directors not to participate in decisions concerning investee companies in which they hold an interest.

Helen Sinclair remains a Director of Mobeus Income & Growth 4 plc and is therefore not considered to be independent of the Manager.
For the reasons described above, as well as in terms of their professional and personal integrity and experience, the Board has no hesitation in emphasising to Shareholders the independent nature of each individual director in terms of both their character and judgement. Full biographical details on each director as recommended in the AIC Code are included on page 21.

The Board assessed the independence of the Chairman on appointment and concluded that he fully met the independence criteria as identified in the UK Code, as re-stated in principle 1 of the AIC Code. As recommended by the AIC Code, the remaining Directors monitor the continuing independence of the Chairman, and inform the Chairman of their discussions. The significant directorships and time commitments of the Chairman and the other Directors are considered by the Board and are disclosed on page 21.

The Directors have declared any existing or potential conflicts of interest and these are reviewed and authorised by the Board as appropriate in accordance with the procedures under the Articles of Association and applicable rules and regulations. The Articles allow the Directors not to disclose information relating to a conflict where to do so would amount to a breach of confidence. The Nominations and Remuneration Committee undertakes an annual review of the authorisations given by the Board.

The Directors were subject to election by Shareholders at the first Annual General Meeting after their appointment, and retire by rotation thereafter. For further details please see the Directors' Remuneration Report on pages 27 – 28. The Directors are therefore not appointed for specific terms.

Colin Hook has served on the Board for twelve years and Helen Sinclair is considered to be a non-independent director as a result of her directorship of Mobeus Income & Growth 4 VCT plc. Both of these Directors have therefore agreed to offer themselves for re-election annually.

The Board has considered a policy on tenure and agreed that for a Company of this size and structure, it is not appropriate to insist on a director's period of service being limited to a set number of years or to set an age limit for the retirement of directors. The AIC Code does not explicitly make recommendations on the overall length of tenure for directors and has stated that it does not believe that there is any evidence that an individual director's lengthy service on a board may compromise his independence in the case of investment companies. It has specifically stated that investment company boards are perhaps more likely than most to benefit from having at least one director with considerably longer than nine years' experience. As part of its annual performance review, the Board has come to the conclusion that the length of service, experience and ability of its Directors enhances its performance. It does not believe that the length of service of any of the Directors has a negative effect on their independence and is satisfied with the balance of experience on the current Board. In particular, the Board considers that the Chairman's service of twelve years as a Director of the Company is an asset that he brings to the Board.

Appointment letters for new directors include an assessment of the expected time commitment for each Board position and new directors are asked to give an indication of their other significant time commitments. The Board has adopted a formal process of recruitment for the appointment of new directors including, as appropriate, the use of advertising and recruitment consultants as well as drawing on Board members' extensive range of business contacts to attract the optimum number of high quality candidates. The Board will consider diversity, including gender, in making future appointments. The selection process involves interviews with the Board and meetings with Partners of the Manager. New directors are provided with an induction pack and an induction session is arranged in conjunction with the Board, the Manager and the Administrator.

The effectiveness of the Board and the Chairman is reviewed regularly as part of the internal control process led by the Audit Committee. The Board has carried out an annual performance evaluation review during the year ended 30 September 2012.

As part of its review, the Directors consider the performance of each of the Directors and of the Board as a whole in relation to specific areas of their activity: composition, proceedures, investment matters, shareholder value, individual performance and relationships with main service providers. The performance of the Chairman is assessed separately. The Board as a whole discusses the outcome of the performance evaluation, and led by the Chairman, considers and agrees a plan of action to rectify any shortfalls where appropriate

A formal training programme has not been required during the year under review as all the Directors were experienced directors of listed companies. All of the Directors regularly attend conferences and workshops relevant to the VCT industry.

## Board committees

The Investment Committee comprises all three Directors, Helen Sinclair (Chairman), Colin Hook and Jonathan Cartwright. The Committee meets as necessary to consider the investment proposals put forward by the Manager. Investment guidelines have been issued to the Manager and the Committee ensures that these guidelines are adhered to. New investments and divestments are approved by written resolution of the Committee following discussion between Committee members and are subsequently ratified by the Board. Investment matters are discussed extensively at Board meetings. During the year the Committee formally approved 31 investment and divestment decisions and met informally on numerous occasions.

The Audit Committee comprises all three Directors, Jonathan Cartwright (Chairman), Colin Hook and Helen Sinclair. The Committee meets at least twice a year to review the half-year and annual financial statements before submission to the Board, including meeting with the independent auditor. The Committee makes recommendations to the Board on the appointment, re-appointment and removal of the external auditor. It is responsible for monitoring the effectiveness of the Company's internal control systems and for reviewing the scope and results of the audit and ensuring its cost effectiveness. The Audit Committee held four formal meetings during the year with full attendance from each of the Directors on each occasion. The Committee met informally on other occasions.

The Nominations and Remuneration Committee comprises the full Board and was chaired by Colin Hook until 5 December 2011 and Helen Sinclair until 5 December 2012. Following the year-end, Jonathan Cartwright has been appointed to chair the Committee with effect from this date. The Committee meets at least once a year and comprises a majority of independent directors. In considering nominations, it is responsible for making recommendations to the Board concerning new appointments of Directors to the Board and its Committees; the periodic review of the composition of the Board and its Committees; and the annual performance review of the Board, the Directors and the Chairman including the ongoing review of each Director's actual or potential conflicts of interest which may arise as a result of the external business activities of Board members. In considering remuneration, it is responsible for reviewing the remuneration of the Directors and the Company's remuneration policy to ensure that it reflects the duties, responsibilities and value of time spent by the Directors on the business of the Company and makes recommendations to the Board accordingly. The Committee held one formal meeting during the year, which was fully attended by all the Directors, and met informally on other occasions.

The Board has satisfied itself that each of its Committees has sufficient resources to undertake its duties. All of the above Committees have written terms of reference, which detail their authority and duties. Shareholders may obtain copies of these by making a written request to the Company Secretary or via the Company's website: www.incomeandgrowthvct.co.uk.

# Corporate Governance Statement

## Board meetings and the relationship with the Manager

The Board meets at least quarterly and is in regular contact with the Manager between these meetings. The Board held eight formal meetings during the year with full attendance from each of the Directors (except for one meeting that Colin Hook did not attend and a conference call that Helen Sinclair did not attend). The Board met informally on other occasions.

The Board and the Manager aim to work together in a supportive, cooperative and open manner. The Board has overall responsibility for the Company's affairs including the determination of its investment policy. The Manager takes the initiative on most aspects of the Company's operations, under the guidance and formal approval of the Board and the Board has agreed policies with the Manager covering key operational issues. All investment, divestment and variation decisions are made by the Board having considered formal recommendations from the Manager. The Manager updates the Board on developments at each of the investee companies, including decisions and discussions at Board meetings, if appropriate, through quarterly valuation reports, presentations to quarterly Board meetings of the VCT and otherwise when specific issues requiring the Board's attention emerge. The Board has delegated to the Manager authority to attend and vote at General Meetings of each of the investee companies in the portfolio as its Corporate Representative. The Manager consults the Board concerning extraordinary agenda items particularly when a proposed resolution concerns an issue that may impact on the Company's economic interest. It is however authorised to vote as it thinks appropriate on standard agenda items.

The primary focus at Board meetings is the review of investment performance and associated matters as well as the monitoring of financial and other internal controls including maintenance of VCT status and the level of share price discount or premium. The Board regularly considers overall strategy. The Board monitors the investments made by the Manager to ensure that the overall investment portfolio is in line with the Company's Investment Policy. The Board also considers peer group performance, asset allocation and wider industry and economic issues in reviewing investment performance and strategy.

The Board has agreed a schedule of matters specifically reserved for decision by the Board. These include compliance with the requirements of the Companies Act 2006 and the Income Tax Act 2007, the UK Listing Authority and the London Stock Exchange; changes relating to the Company's capital structure or its status as a plc; board and committee appointments as recommended by the Nominations and Remuneration Committee and terms of reference of committees; material contracts of the Company and contracts of the Company not in the ordinary course of business. A procedure has been adopted for individual Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company. The Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring board procedures are followed. Both the appointment and removal of the Company Secretary is a matter for the Board as a whole. Where Directors have concerns, which cannot be resolved about the running of the Company or a proposed action, they are asked to ensure that their concerns are recorded in the Board minutes. On resignation, a Director who has any such concerns should provide a written statement to the Chairman, for circulation to the Board.

The Board reviews annually, and at other times as and when necessary, the Investment Services Agreement and the performance of the Manager, as well as service providers including the administrator, auditor, VCT status adviser, solicitors, bankers and registrars. Particular emphasis is placed on reviewing the Manager, in terms of investment performance, quality of information provided to the Board and remuneration. This work forms part of the Board's overall internal control procedures as discussed elsewhere.

The Board has considered the appointment of a management engagement committee and has concluded that this is not necessary because the Board is comprised entirely of non-executive directors.

## Internal control

The Board acknowledges that it is responsible for the Company's system of internal control. Internal control systems are designed to manage the particular needs of the Company and the risks to which it is exposed and can by their nature only provide reasonable and not absolute assurance against material misstatement or loss.

The Directors are responsible for the internal control systems of the Company and for reviewing their effectiveness. These aim to ensure the maintenance of proper accounting records, the reliability of the financial information used for publication and upon which business decisions are made, and that the assets of the Company are safeguarded. The financial controls operated by the Board include the authorisation of the investment strategy and regular reviews of the financial results and investment performance.

The Board has put in place ongoing procedures for identifying, evaluating and managing the significant risks faced by the Company. As part of this process an annual review of the control systems is carried out in accordance with the Turnbull guidelines for internal control. The review covers a consideration of the key business, operational, compliance and financial risks facing the Company and includes a review of the risks in relation to the financial reporting process. Each risk is considered with regard to: the controls exercised at Board level; reporting by service providers; controls relied upon by the Board; exceptions for consideration by the Board; responsibilities for each risk and its review period; and risk rating. As part of this process, investment risk is spread by means of a diverse investment portfolio, as more fully described in the Investment Manager's Review and Investment Portfolio Summary on pages 8 – 20). The Board reviews a schedule of key risks at each Board meeting which identifies the risk, controls, any deficiencies that have arisen in the quarter and action to be taken. Each Board meeting reviews the management accounts, and annual or half-yearly reports arising therefrom, prepared by the administrator.

The Board has delegated, contractually to third parties, the management of the investment portfolio, the procurement of safekeeping services for the documents of title to the Company's assets, the day-to-day accounting, company secretarial and administration requirements and the registration services. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of services offered, including the financial control systems in operation in so far as they relate to the affairs of the Company. The Board receives and considers regular reports from the Manager and ad hoc reports and information are supplied to the Board as required. It remains the role of the Board to keep under review the terms of the Investment Services Agreement with the Manager. The Directors carry out an Annual Review of the performance of and contractual arrangements with the Manager.

The Board, assisted by the Audit Committee, carries out separate assessments in respect of the Annual and Half-Year Reports and other published financial information. As part of these reviews, the Board appraises all the relevant risks ensuing from the internal control process referred to above. The main aspects of the internal controls which have been in place throughout the year in relation to financial reporting are:

- Full internal controls are in place for the preparation and reconciliation of the valuations prepared by the Manager;
- Independent reviews of the valuations of investments within the portfolio are undertaken quarterly by the Board and annually by the external auditor;
- Bank and money-market fund reconciliations are carried out monthly by the Administrator;
- The information contained in the Annual Report and other financial reports is reviewed separately by the Audit Committee prior to consideration by the Board; and
- The Board reviews all financial information prior to publication.

This system of internal control and the procedure for the review of control systems referred to above has been in place and operational throughout the year under review and up to the date of this Report. The assessment of the effectiveness of internal controls in managing risk was conducted on the basis of reports from the relevant service providers. The last review took place on 5 December 2012. The Board has identified no significant problems with the Company's internal control mechanisms.

## Shareholder communications

The Company communicates with Shareholders and solicits their views where it is appropriate to do so. The Manager publishes a twice-yearly VCT shareholder newsletter which contains information on the portfolio and recent investment and corporate activity. Shareholders are welcome at the Annual General Meeting which provides a forum for Shareholders to ask questions of the Directors and the Manager and to discuss issues affecting the Company with them. Shareholders may contact the Chairman of the Audit Committee if they have concerns which contact through the Chairman or Manager has failed to resolve or for which such contact is inappropriate.

The Board as a whole approves the Annual Report to Shareholders. The Directors aim to ensure that the Chairman's Statement, Financial Highlights and the Investment Manager's Review and Investment Portfolio Summary (which comprises a full list of all the VCT investments in the Company's portfolio) present a balanced and understandable assessment of the Company's position and future prospects and that Shareholders are provided with sufficient information to enable them to understand the risk:reward balance to which they exposed by investing in the Company.

The Board normally has a direct involvement in the content of communications regarding major corporate events even if the Manager is asked to act as spokesman.

The notice of the Annual General Meeting accompanies this Annual Report, which is normally sent to shareholders allowing a minimum of 20 working days before each meeting. Separate resolutions are proposed for each substantive issue. The number of proxy votes received for each resolution is announced after each resolution has been dealt with on a show of hands and is published on the Company's website www.incomeandgrowthvct.co.uk.

## Directors' remuneration

The Directors' Remuneration Report, prepared in compliance with schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 is contained on pages 27 – 28 of this Annual Report. The Report includes an explanation of the procedure for developing policy and determining the remuneration for individual directors.

## Accountability and audit

The Statement of Directors' Responsibilities in respect of the accounts is set out on page 34 of this Annual Report.

The report of the independent auditor is set out on page 35 of this Annual Report.

The Board regularly reviews and monitors the external auditor's independence and objectivity. As part of this it reviews the nature and extent of services supplied by the auditor to ensure that independence is maintained. The Audit Committee has concluded that it is in the interests of the Company to purchase tax services from the auditor due to its greater knowledge of the Company which improves efficiency. The Committee believes that audit independence has been maintained as the fees involved are relatively small compared to those for the audit, the work is undertaken by separate teams and does not involve undertaking any management role in preparing the information reported in the accounts.

The Audit Committee assesses the effectiveness of the external audit process annually and makes a recommendation to the Board on the re-appointment of the auditor. This is considered by the Board prior to agreeing the recommendation to Shareholders for the re-appointment of the auditor at each Annual General Meeting of the Company. As part of its review, the Audit Committee considers the performance of the auditor and whether it has met the agreed audit plan, the quality of its reporting in its management letter and the cost-

# Corporate Governance Statement

effectiveness of the service provided as well as the manner in which it has handled key audit issues and responded to the Committee's questions. The Committee concluded that the re-appointment of PKF as auditor was in the best interests of the Company and of Shareholders and its recommendation was endorsed by the Board.

## Substantial interests

As at the date of this Report the Company had not been notified of any beneficial interest exceeding 3% of the issued share capital of either class.

## Share capital

Details of the Company's share capital can be found in the Directors' Report on page 23.

## Restrictions on voting rights

There are no restrictions on voting rights.

## Appointment and replacement of directors

The rules concerning the election of directors are set out in the paragraph headed 'Terms of appointment' on page 27 of the Directors' Remuneration Report.

## Amendment of the Company's Articles of Association

The Company may amend its articles of association ("the Articles") by special resolution in accordance with section 21 of the Companies Act.

## Powers of the directors

The powers of the Directors have been granted by company law, the Company's articles and resolutions passed by the Company's members in general meeting. Resolutions are proposed annually at each annual general meeting of the Company to authorise the Directors to allot shares, disapply the pre-emption rights of members and buy-back the Company's own shares on behalf of the Company. These authorities are currently in place and resolutions to renew them will be proposed at the next AGM of the Company to be held on 13 February 2013.

## Going concern

The Board has assessed the Company's operation as a 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 Management Report which is included within the Chairman's Statement, the Investment Portfolio Summary, the Investment Manager's Review and the Directors' Report. The Directors have satisfied themselves that the Company continues to maintain a significant cash position and is currently raising additional funds. The majority of companies in the portfolio continue to trade profitably and the portfolio taken as a whole remains resilient and well diversified. The major cash outflows of the Company (namely investments, buy-backs and dividends) are within the Company's control. The Board's assessment of liquidity risk and details of the Company's policies for managing its capital and financial risks are shown in note 20 on pages 54 – 61. Accordingly, the Directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

By order of the Board

**Mobeus Equity Partners LLP**

*Secretary*

17 December 2012

# Statement of Directors' Responsibilities

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

In preparing these financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

The Directors confirm to the best of their knowledge that:

(a) 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' (SORP), give a true and fair view of the assets, liabilities, financial position and the profit of the Company.

(b) the management report, included within the Chairman's Statement, Investment Manager's Review, Investment Portfolio Summary and Directors' Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

The names and functions of the Directors are stated on page 21.

For and on behalf of the Board:

**Colin Hook**

*Chairman*

17 December 2012

# Independent Auditor's Report to the Members of The Income & Growth VCT plc

We have audited the financial statements of The Income & Growth VCT plc for the year ended 30 September 2012 which comprise the Income Statement, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

## Respective responsibilities of Directors and auditor

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

## Scope of the audit of the financial statements

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

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 29 – 33 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 33, 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.

**Jason Homewood**
(Senior statutory auditor)
for and on behalf of PKF (UK) LLP,
Statutory auditor
London, UK

18 December 2012

# Income Statement
*for the year ended 30 September 2012*

| | Notes | Year ended 30 September 2012 Revenue £ | Capital £ | Total £ | Year ended 30 September 2011 Revenue £ | Capital £ | Total £ |
|---|---|---|---|---|---|---|---|
| Net unrealised gains on investments | 10 | – | 2,364,362 | 2,364,362 | – | 10,870,219 | 10,870,219 |
| Net gains on realisation on investments | 10 | – | 5,243,190 | 5,243,190 | – | 343,231 | 343,231 |
| Income | 2 | 2,004,297 | – | 2,004,297 | 1,654,663 | – | 1,654,663 |
| Investment manager's fees | 3a | (290,664) | (871,993) | (1,162,657) | (237,946) | (713,837) | (951,783) |
| Investment managers' performance fees | 3b | – | (3,503,000) | (3,503,000) | – | – | – |
| Other expenses | 4 | (499,164) | – | (499,164) | (375,837) | – | (375,837) |
| Provision for litigation cost no longer required/(charged) | 5 | – | 1,337,456 | 1,337,456 | – | (1,337,456) | (1,337,456) |
| **Profit on ordinary activities before taxation** | | 1,214,469 | 4,570,015 | 5,784,484 | 1,040,880 | 9,162,157 | 10,203,037 |
| Taxation on profit on ordinary activities | 7 | (224,747) | 224,747 | – | (176,808) | 176,808 | – |
| **Profit on ordinary activities after taxation for the financial year** | | **989,722** | **4,794,762** | **5,784,484** | **864,072** | **9,338,965** | **10,203,037** |
| **Basic and diluted earnings per Ordinary Share:** | **9** | **2.26p** | **10.97p** | **13.23p** | **2.21p** | **23.83p** | **26.04p** |

All the items in the above statement derive from continuing operations. No operations were acquired or discontinued in the year. The total column is the Profit and Loss Account of the Company. There were no other recognised gains and losses in the year.

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

The notes on pages 40 – 61 form part of these financial statements.

# Balance Sheet
*as at 30 September 2012*
Company number: 4069483

| | Notes | as at 30 September 2012 £ | as at 30 September 2011 £ |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments at fair value | 10 | 31,205,667 | 37,162,382 |
| **Current assets** | | | |
| Debtors and prepayments | 11 | 727,598 | 280,709 |
| Current investments | 12 | 17,523,440 | 11,682,461 |
| Cash at bank | 19 | 4,861,440 | 1,577,420 |
| | | 23,112,478 | 13,540,590 |
| **Creditors: amounts falling due within one year** | 13 | (3,766,160) | (212,717) |
| **Net current assets** | | 19,346,318 | 13,327,873 |
| **Provision for liabilities and charges** | 5 | – | (1,337,456) |
| **Net assets** | | **50,551,985** | **49,152,799** |
| **Capital and reserves** | | | |
| Called up share capital | 15 | 461,157 | 406,920 |
| Share premium account | 16 | 11,898,621 | 5,669,141 |
| Capital redemption reserve | 16 | 197,265 | 187,309 |
| Capital reserve – unrealised | 16 | 1,611,146 | 12,350,858 |
| Special reserve | 16 | 12,721,596 | 17,139,273 |
| Profit and loss account | 16 | 23,662,200 | 13,399,298 |
| **Equity shareholders' funds** | | **50,551,985** | **49,152,799** |
| **Basic and diluted net asset value per share** | | | |
| Ordinary Shares | 17 | **109.62p** | **120.79p** |

The notes on pages 40 – 61 form part of these financial statements.

The financial statements were approved and authorised for issue by the Board of Directors on 17 December 2012 and were signed on its behalf by:

**Colin Hook**
*Director*

# Reconciliation of Movements in Shareholders' Funds

*for the year ended 30 September 2012*

| | Notes | Year ended 30 September 2012 £ | Year ended 30 September 2011 £ |
|---|---|---|---|
| Opening shareholders' funds | | 49,152,799 | 36,604,696 |
| Net share capital bought back in the year | 15 | (913,037) | (1,475,019) |
| Net share capital subscribed for in the year | 15 | 6,293,673 | 5,353,709 |
| Profit for the year | | 5,784,484 | 10,203,037 |
| Dividends paid in the year | 8 | (9,765,934) | (1,533,624) |
| **Closing shareholders' funds** | | **50,551,985** | **49,152,799** |

The notes on pages 40 – 61 form part of these financial statements.

# Cash Flow Statement
*for the year ended 30 September 2012*

| | Notes | Year ended 30 September 2012 £ | Year ended 30 September 2011 £ |
|---|---|---|---|
| **Operating activities** | | | |
| Investment income received | | 1,955,985 | 1,571,454 |
| VAT received and interest thereon | | – | 34,370 |
| Other income | | 4,861 | 3,647 |
| Investment management fees paid | | (1,162,657) | (1,160,893) |
| Other cash payments | | (561,556) | (480,615) |
| **Net cash inflow/(outflow) from operating activities** | 18 | 236,633 | (32,037) |
| **Investing activities** | | | |
| Acquisition of investments | 10 | (13,255,722) | (2,739,946) |
| Disposals of investments | 10 | 26,468,137 | 4,907,493 |
| **Net cash inflow from investing activities** | | 13,212,415 | 2,167,547 |
| **Equity Dividends** | | | |
| Payment of equity dividends | 8 | (9,765,934) | (1,533,624) |
| **Net cash inflow before liquid resource management and financing** | | **3,683,114** | **601,886** |
| **Management of liquid resources** | | | |
| Increase in monies held in pending investments | 19 | (5,840,979) | (2,973,888) |
| **Financing** | | | |
| Issue of Ordinary Shares | 15 | 6,293,673 | 5,353,709 |
| Purchase of own shares | | (851,788) | (1,510,823 |
| | | 5,441,885 | 3,842,886 |
| **Increase in cash for the year** | **19** | **3,284,020** | **1,470,884** |

The notes on pages 40 – 61 form part of these financial statements.

# Notes to the Accounts
*for the year ended 30 September 2012*

## 1. Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, is set out below:

### a) Basis of accounting

The accounts have been prepared under UK Generally Accepted Accounting Practice (UK GAAP) and the Statement of Recommended Practice, 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' ("the SORP") issued by the Association of Investment Companies in January 2009. The financial statements are prepared under the historical cost convention except for the revaluation of certain financial instruments.

### b) Presentation of the Income Statement

In order to better reflect the activities of a VCT and in accordance with the SORP, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been presented alongside the Income Statement. The revenue column of the profit attributable to equity shareholders is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in section 274 Income Tax Act 2007.

### c) Investments

All investments held by the Company are classified as "fair value through profit and loss", and are valued in accordance with the International Private Equity and Venture Capital Valuation ("IPEVCV") guidelines, as updated in September 2009, which have not materially changed the results reported last year. This classification is followed as the Company's business is to invest in financial assets with a view to profiting from their total return in the form of capital growth and income.

For investments actively traded on organised financial markets, fair value is generally determined by reference to Stock Exchange market quoted bid prices at the close of business on the balance sheet date. Purchases and sales of quoted investments are recognised on the trade date where a contract of sale exists whose terms require delivery within a time frame determined by the relevant market. Purchases and sales of unlisted investments are recognised when the contract for acquisition or sale becomes unconditional.

Unquoted investments are stated at fair value by the Directors in accordance with the following rules, which are consistent with the IPEVCV guidelines:

All investments are held at the price of a recent investment for an appropriate period where there is considered to have been no change in fair value. Where such a basis is no longer considered appropriate, the following factors will be considered:

(i) Where a value is indicated by a material arms-length transaction by an independent third party in the shares of a company, this value will be used.

(ii) In the absence of i), and depending upon both the subsequent trading performance and investment structure of an investee company, the valuation basis will usually move to either:-

a) an earnings multiple basis. The shares may be valued by applying a suitable price-earnings ratio to that company's historic, current or forecast post-tax earnings before interest and amortisation (the ratio used being based on a comparable sector but the resulting value being adjusted to reflect points of difference identified by the Investment Manager compared to the sector including, inter alia, a lack of marketability).

or:-

b) where a company's underperformance against plan indicates a diminution in the value of the investment, provision against cost is made, as appropriate. Where the value of an investment has fallen permanently below cost, the loss is treated as a permanent impairment and as a realised loss, even though the investment is still held. The Board assesses the portfolio for such investments and, after agreement with the Investment Manager, will agree the values that represent the extent to which an investment loss has become realised. This is based upon an assessment of objective evidence of that investment's future prospects, to determine whether there is potential for the investment to recover in value.

(iii) Premiums on loan stock investments are accrued at fair value when the Company receives the right to the premium and when considered recoverable.

(iv) Where an earnings multiple or cost less impairment basis is not appropriate and overriding factors apply, discounted cash flow or net asset valuation bases may be applied.

### d) Current investments

Monies held pending investment are invested in financial instruments with same day or two-day access and as such are treated as current investments, and have been valued at fair value.

### e) Income

Dividends receivable on quoted equity shares are brought into account on the ex-dividend date. Dividends receivable on unquoted equity shares are brought into account when the Company's right to receive payment is established and there is no reasonable doubt that payment will be received.

Interest income on loan stock and dividends on preference shares are accrued on a daily basis. Provision is made against this income where recovery is doubtful or where it will not be received in the forseeable future. Where the loan stocks only require interest or a redemption premium to be paid on redemption, the interest and redemption premium is recognised as income once redemption is reasonably certain. Until such date interest is accrued daily and included within the valuation of the investment, where appropriate.

### f) Capital reserves

(i) *Realised (included within the Profit and Loss Account reserve)*
The following are accounted for in this reserve:

- Gains and losses on realisation of investments;
- Permanent diminution in value of investments;
- Transaction costs incurred in the acquisition of investments; and
- 75% of management fee expense, together with the related tax effect to this reserve in accordance with the policies.
- 100% of performance incentive fees.

(ii) *Revaluation reserve (Unrealised capital reserve)*
Increases and decreases in the valuation of investments held at the year-end are accounted for in this reserve, except to the extent that the diminution is deemed permanent.

In accordance with stating all investments at fair value through profit and loss, all such movements through both revaluation and realised capital reserves are now shown within the Income Statement for the year.

(iii) Special distributable reserve
The cost of share buy-backs are charged to this reserve. In addition, any realised losses on the sale of investments, and 75% of the management fee expense, 100% of performance incentive fees and the related tax effect, are transferred from the Profit and Loss Account reserve to this reserve.

### g) Expenses

All expenses are accounted for on an accruals basis.

25% of the Investment Manager's fees are charged to the revenue column of the Income Statement, while 75% is charged against the capital column of the Income Statement. This is in line with the Board's expected long-term split of returns from the investment portfolio of the Company.

100% of any performance incentive fee payable for the period is charged against the capital column of the Income Statement, as it is based upon the achievement of capital growth.

Expenses are charged wholly to revenue, with the exception of expenses incidental to the acquisition or disposal of an investment, which are written off to the capital column of the Income Statement or deducted from the disposal proceeds as appropriate.

In the case of litigation costs (see note 5), all costs have been written-back/incurred to preserve the value of the investment in an investee company and as a result are 100% written-back/chargeable to the capital column of the Income Statement.

### h) Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in the tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the years in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantially enacted at the balance sheet date. Deferred tax is measured on a non-discounted basis.

A deferred tax asset is recognised only to the extent that it is more likely than not that future taxable profits will be available against which the asset can be utilised.

Any tax relief obtained in respect of management fees allocated to capital is reflected in the capital reserve – realised and a corresponding amount is charged against revenue. The tax relief is the amount by which corporation tax payable is reduced as a result of these capital expenses.

## 2. Income

| | 2012<br>£ | 2011<br>£ |
|---|---|---|
| Income from investments | | |
| – from equities | 305,650 | 365,331 |
| – from OEIC funds | 96,138 | 56,580 |
| – from loan stock | 1,540,777 | 1,212,795 |
| – from bank deposits | 56,871 | 16,309 |
| | 1,999,436 | 1,651,015 |
| Other income | 4,861 | 3,648 |
| **Total income** | **2,004,297** | **1,654,663** |
| **Total income comprises** | | |
| Revenue dividends received | 401,788 | 421,911 |
| Interest | 1,597,648 | 1,229,104 |
| Other income | 4,861 | 3,648 |
| **Total Income** | **2,004,297** | **1,654,663** |
| **Income from investments comprises** | | |
| Listed UK securities | 38,549 | 61,539 |
| Listed overseas securities | 96,138 | 56,580 |
| Unlisted UK securities | 1,807,878 | 1,516,587 |
| **Total Income** | **1,942,565** | **1,634,706** |

Total loan stock interest due but not recognised in the year was £352,133 (2011: £428,557).

## 3a. Investment Manager's fees

| | Revenue<br>2012<br>£ | Capital<br>2012<br>£ | Total<br>2012<br>£ | Revenue<br>2011<br>£ | Capital<br>2011<br>£ | Total<br>2011<br>£ |
|---|---|---|---|---|---|---|
| Mobeus Equity Partners LLP | **290,664** | **871,993** | **1,162,657** | **237,946** | **713,837** | **951,783** |

Under the terms of a revised investment management agreement dated 29 March 2010, Mobeus Equity Partners LLP ("Mobeus") (formerly Matrix Private Equity Partners LLP ("MPEP")) provides investment advisory, administrative and company secretarial services to the Company, for a fee of 2.4% per annum of closing net assets, calculated on a quarterly basis by reference to the net assets at the end of the preceding quarter. One sixth of this fee is subject to minimum and maximum limits of £150,000 (2011: £150,000) and £170,000 (2011: £170,000) per annum respectively.

The investment management expense disclosed above is stated after applying a cap on expenses excluding IFA trail commission and exceptional items set at 3.25% of closing net assets at the year-end. In accordance with the investment management agreement any excess expenses are wholly borne by the Investment manager. The excess expenses during the year attributable to the Investment Manager amounted to £nil (2011: £nil).

# Notes to the Accounts
*for the year ended 30 September 2012*

## 3b. Investment Managers' performance fees

| | Revenue 2012 £ | Capital 2012 £ | Total 2012 £ | Revenue 2011 £ | Capital 2011 £ | Total 2011 £ |
|---|---|---|---|---|---|---|
| **Portfolio** | | | | | | |
| Mobeus Equity Partners LLP | – | 453,000 | 453,000 | – | – | – |
| Mobeus Equity Partners LLP/Foresight Group LLP | – | 3,050,000 | 3,050,000 | – | – | – |
| | **–** | **3,503,000** | **3,503,000** | **–** | **–** | **–** |

Under a Deed of Termination and Variation relating to Performance Incentive Agreements dated 29 March 2010, the Investment Manager's Incentive Agreement for the former 'O' Share Fund has been continued while the former 'S' Share Fund's Incentive Agreement has been terminated. Under the terms of the pre-merger 'O' Share Fund Incentive Agreement, each of the ongoing Investment Manager, Mobeus Equity Partners LLP and a former Investment Manager, Foresight Group LLP ("Foresight") are entitled to a performance fee equal to 20% of the excess of the value of any realisation of an investment made after 30 June 2007, over the value of that investment in an Investment Manager's portfolio at that date ("the Embedded Value"), which value is itself uplifted at the rate of 6% per annum subject to a High Watermark test.

However, two amendments were made to this agreement for Mobeus, for its portfolio. Firstly, the High Watermark was increased by £811,430, being the 'S' Share Fund's shortfall in total net assets from net asset value of £1 per 'S' Share, at 31 December 2009. Secondly, only 70% of any new investment made by Mobeus after the Merger will be added to the calculation of the Embedded Value, the value of the Investment Manager's portfolio and the value of any realisations, for the purposes of assessing any excess.

Under the above agreements, the Investment Manager (Mobeus) and former investment manager (Foresight) may be entitled to an Incentive fee for the year ended 30 September 2012 of £453,000 (that may be payable on the Mobeus portfolio to be paid to Mobeus) (2011: £nil) and £3,050,000 (that may be payable on the ex-Foresight portfolio, to be shared between Mobeus and Foresight) (2011: £nil). At the date of approval of these accounts, the amounts accrued above have not yet been agreed between the Board, and Mobeus and Foresight. The amounts above are regarded by the Board as a prudent estimate of the amounts that may ultimately be agreed between the parties as payable.

## 4. Other expenses

| | 2012 £ | 2011 £ |
|---|---|---|
| Directors' remuneration (including NIC) (see note 6) | 148,254 | 113,701 |
| IFA trail commission | 140,782 | 114,121 |
| Broker's fees | 12,000 | 11,938 |
| Auditors' fees – Audit of company (see note a) | 31,980 | 27,440 |
| – other services supplied relating to taxation | 5,160 | 4,980 |
| – other assurance services supplied pursuant to legislation | 5,904 | 2,223 |
| – other services (see note b) | 7,800 | – |
| VCT monitoring fees | 12,180 | 9,875 |
| Registrar's fees | 41,126 | 29,652 |
| Printing | 37,529 | 26,551 |
| Legal & professional fees | 4,232 | (1,819) |
| Director's insurance | 7,553 | 8,681 |
| Listing and regulatory fees | 33,479 | 26,721 |
| Provision against loan interest receivable (note c) | 8,725 | – |
| Sundry | 2,460 | 1,773 |
| | **499,164** | **375,837** |

The Directors consider the auditors were best placed to provide the other services disclosed above. The Audit committee reviews the nature and extent of these services to ensure that auditor independence is maintained.

Note a: Included within this figure is £5,880 in respect of additional fees paid to the auditor as part of the 2011 audit.

Note b: Included within this figure are fees of £7,800 paid to the auditor relating to the Investment Managers' performance fees.

Note c: Provision against loan interest receivable above relates to an amount of £8,725 (2011: £nil), being a provision made against loan stock interest regarded as collectable in previous years.

## 5. Provision for litigation costs no longer required/(charged)

| | 2012<br>£ | 2011<br>£ |
|---|---|---|
| Writeback/(charge) for the year | **1,337,456** | **(1,337,456)** |

As explained in the previous year-end accounts, at 30 September 2011 the Company had a prima facie obligation to meet the costs of an action brought by a former director and shareholder in Image Source Group Limited ("IMSG").

Under an agreement between the Company and IMSG dated 6 December 2011, IMSG met the cost of the settlement including the Company's pro rata share of the legal fees incurred in defending the action up to 30 September 2011 and all the legal costs incurred since. To facilitate the settlement, the Company has lent approximately £1.45 million to IMSG on commercial terms and repayable in 5 years. The plaintiff to the action will also be entitled to a small percentage share of the net proceeds over and above £5 million attributable to the ordinary shareholders from any sale of IMSG up to 31 December 2016, after all loans and any outstanding interest costs and prior charges have been repaid. This loan therefore forms part of the Company's investments in note 10 and has a value of £925,470 as shown in the Investment Portfolio Summary on pages 15 – 20. Accordingly, the obligation has been discharged due to IMSG agreeing to meet the costs of the settlement, funded by the loan to IMSG in the period. Thus the provision at 30 September 2011 is no longer required at 30 September 2012 and has been credited to the Income Statement.

## 6. Directors' remuneration

| | 2012<br>£ | 2011<br>£ |
|---|---|---|
| Directors' emoluments | | |
| Colin Hook | 51,000 | 41,000 |
| Helen Sinclair | 41,000 | 31,000 |
| Jonathan Cartwright | 41,000 | 31,000 |
| | 133,000 | 103,000 |
| Employer's NIC | 15,254 | 10,701 |
| | **148,254** | **113,701** |

No pension scheme contributions or retirement benefit contributions were paid. There are no share option contracts held by the Directors. Since all the Directors are non-executive, the other disclosures required by the Listing Rules are not applicable. The Company has no employees other than Directors.

# Notes to the Accounts
*for the year ended 30 September 2012*

## 7. Tax on ordinary activities

| | 2012 Revenue £ | 2012 Capital £ | 2012 Total £ | 2011 Revenue £ | 2011 Capital £ | 2011 Total £ |
|---|---|---|---|---|---|---|
| **a) Analysis of tax charge:** | | | | | | |
| UK Corporation tax on profits/(losses) for the year | 224,747 | (224,747) | – | 176,808 | (176,808) | – |
| Total current tax charge/(credit) | **224,747** | **(224,747)** | **–** | **176,808** | **(176,808)** | **–** |
| Corporation tax is based on a rate of 20% (2011: 20.5%) | | | | | | |
| **b) Profit on ordinary activities before tax** | 1,214,469 | 4,570,015 | 5,784,484 | 1,040,880 | 9,162,157 | 10,203,037 |
| Profit on ordinary activities multiplied by small company rate of corporation tax in the UK of 20% (2011: 20.5%) | 242,894 | 914,003 | 1,156,897 | 213,380 | 1,878,242 | 2,091,622 |
| **Effect of:** | | | | | | |
| UK dividends | (61,130) | – | (61,130) | (74,893) | – | (74,893) |
| Unrealised gains not taxable | – | (472,872) | (472,872) | – | (2,228,395) | (2,228,395) |
| Realised gains not taxable | – | (1,048,638) | (1,048,638) | – | (70,362) | (70,362) |
| Litigation costs | – | (267,491) | (267,491) | – | 274,178 | 274,178 |
| Income not yet taxable | 165 | – | 165 | (552) | – | (552) |
| Unrelieved expenditure | – | 693,069 | 693,069 | – | 8,402 | 8,402 |
| Impact of marginal rate | 42,818 | (42,818) | – | 38,873 | (38,873) | – |
| **Actual current tax charge** | **224,747** | **(224,747)** | **–** | **176,808** | **(176,808)** | **–** |

Tax relief relating to investment management fees is allocated between revenue and capital where such relief can be utilised.

No asset or liability has been recognised for deferred tax in relation to capital gains or losses on revaluing investments as the Company is exempt from corporation tax in relation to capital gains or losses as a result of qualifying as a Venture Capital Trust.

There is no potential liability to deferred tax (2011: £nil). There is an unrecognised deferred tax asset of £1,143,000 (2011: £450,000).

## 8. Dividends paid and payable

| | 2012 Revenue £ | 2012 Capital £ | 2012 Total £ | 2011 Revenue £ | 2011 Capital £ | 2011 Total £ |
|---|---|---|---|---|---|---|
| **Dividends on equity shares** | | | | | | |
| Ordinary Shares (formerly 'S' Shares) – Special interim – year ended 30 September 2012 – 20p capital paid in January 2012 (2011: £nil) | – | 8,138,244 | 8,138,244 | – | – | – |
| Ordinary Shares (formerly 'S' Shares) – Interim – year ended 30 September 2011 – nil p (2010: 2p – capital) | – | – | – | – | 765,916 | 765,916 |
| Ordinary Shares (formerly 'S' Shares) – Final – year ended 30 September 2011 – 2p revenue and 2p capital paid in February 2012 (2011 – 2p capital) | 813,845 | 813,845 | 1,627,690 | – | 767,708 | 767,708 |
| **Total paid in year** | **813,845** | **8,952,089** | **9,765,934*** | **–** | **1,533,624** | **1,533,624*** |

* - Of these amounts £1,256,231 (30 September 2011: £117,369) was re-invested in new shares, issued as part of the Company's Dividend Investment Scheme.

No final dividend for the year ended 30 September 2012 has been proposed. On 5 December 2012, the Directors declared a further interim dividend in respect of the year ended 30 September 2012 of 6 pence per share comprising 3 pence from capital and 3 pence from income. The dividend will be paid to Shareholders on the Register on 18 January 2013, on 8 February 2013.

Set out below are the total income dividends payable in respect of the financial year, which is the basis on which the requirements of Section 259 of the Income Tax Act 2007 are considered.

| | 2012 £ | 2011 £ |
|---|---|---|
| Revenue available by way of dividends for the year | 989,722 | 864,072 |
| Interim income dividend for the year – 3p (2011: 2p) | 1,383,470 | 813,841 |

## 9. Basic and diluted earnings per share

| | 2012 £ | 2011 £ |
|---|---|---|
| Total earnings after taxation: | 5,784,484 | 10,203,037 |
| **Basic and diluted earnings per share (note a)** | **13.23p** | **26.04p** |
| Revenue profit from ordinary activities after taxation | 989,722 | 864,072 |
| **Basic and diluted revenue earnings per share (note b)** | **2.26p** | **2.21p** |
| Net unrealised capital gains on investments | 2,364,362 | 10,870,219 |
| Net realised capital gains on investments | 5,243,190 | 343,231 |
| Provision for litigation cost no longer required/(charged) | 1,337,456 | (1,337,456) |
| Capitalised management fees less taxation | (647,246) | (537,029) |
| Investment Managers' performance fees | (3,503,000) | – |
| Total capital return | 4,794,762 | 9,338,965 |
| **Basic and diluted capital earnings per share (note c)** | **10.97p** | **23.83p** |
| Weighted average number of shares in issue in the year | 43,710,889 | 39,182,112 |

**Notes:**

a) Basic earnings per share is total earnings after taxation divided by the weighted average number of shares in issue.

b) Revenue earnings per share is the revenue profit after taxation divided by the weighted average number of shares in issue.

c) Capital earnings per share is the total capital gain after taxation divided by the weighted average number of shares in issue.

d) Diluted earnings per share in each case are the same as basic earnings per share due to the potential extra shares that may be issued to settle the investment managers incentive fee having no effect on the weighted average number of shares in issue at the year end.

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## 10. Investments

| | 2012 £ | 2011 £ |
|---|---|---|
| Traded on AiM | 2,858,821 | 2,765,723 |
| Unquoted equity shares | 8,999,239 | 20,166,018 |
| Unquoted preference shares | 35,430 | 70,045 |
| Loan stock | 19,312,177 | 14,160,596 |
| **Total** | 31,205,667 | 37,162,382 |
| Brought forward net unrealised gains/(losses) now realised | 13,104,074 | (1,058,456) |
| Realised gains during the year | 5,328,445 | 473,207 |
| Transaction costs | (85,255) | (129,976) |
| Total realised gains/(losses) for the year | 18,347,264 | (715,225) |
| Unrealised gains for the year | 2,364,362 | 10,870,219 |
| **Total gains for the year** | 20,711,626 | 10,154,994 |

## Summary of movement on investments during the year

| | Traded on AiM or OFEX £ | Unquoted ordinary shares £ | Preference shares £ | Qualifying loans £ | Total £ |
|---|---|---|---|---|---|
| Cost at 30 September 2011 | 4,286,189 | 11,104,773 | 86,767 | 14,139,876 | 29,617,605 |
| Impairment | (940,626) | (3,865,454) | – | – | (4,806,080) |
| Unrealised (losses)/gains | (579,840) | 12,926,699 | (16,722) | 20,720 | 12,350,857 |
| **Valuation at 30 September 2011** | **2,765,723** | **20,166,018** | **70,045** | **14,160,596** | **37,162,382** |
| Purchases at cost | 36 | 3,555,244 | 3,119 | 9,826,386 | 13,384,785 |
| Sales – proceeds | (1,296,944) | (19,428,785) | (30,792) | (5,886,175) | (26,642,696) |
| Reclassification | – | (108,277) | – | 108,277 | – |
| Realised gains | 460,905 | 2,746,842 | – | 2,120,698 | 5,328,445 |
| Unrealised gains/(losses) | 929,101 | 2,068,197 | (6,942) | (1,017,605) | 1,972,751 |
| **Valuation at 30 September 2012** | **2,858,821** | **8,999,239** | **35,430** | **19,312,177** | **31,205,667** |
| Cost at 30 September 2012 | 3,897,666 | 12,457,883 | 57,647 | 19,567,792 | 35,980,988 |
| Impairment | (940,626) | (4,179,304) | – | – | (5,119,930) |
| Unrealised (losses) /gains at 30 September 2012 | (98,219) | 720,660 | (22,217) | (255,615) | 344,609 |
| **Valuation at 30 September 2012** | **2,858,821** | **8,999,239** | **35,430** | **19,312,177** | **31,205,667** |

Transaction costs on the purchase and disposal of investments of £85,255 were incurred in the year. These are excluded from realised gains shown above of £5,328,445, but were included in arriving at gains on realisation of investments in the Income Statement of £5,243,190. Also, unrealised gains above of £1,972,751 differ from that shown in the Income Statement of £2,364,362. The difference of £391,611 is a further unrealised gain for the year. This is the estimated fair value of contingent consideration, recognised at the balance sheet date, which has been included within other debtors in Note 11.

### Reconciliation of cash movements in investment transactions

The difference between additions in the investments note above of £13,384,785 and the additions figure per the Cash Flow Statement of £13,255,722 is £129,063. This relates to costs funded by the Company in a previous period subsequently treated as a loan. The difference between disposals in the investments note above of £26,642,696 and the disposals figure per the Cash Flow Statement of £26,468,137 is £174,559. This relates to transaction costs of £85,255 and amounts receivable from investments of £89,304 received shortly after the year end.

# Notes to the Accounts
*for the year ended 30 September 2012*

**Provisions and write-offs against unlisted investments**

The amounts provided below cost at the end of the year or written-off against unlisted investments were as follows:

| | Total Provisions at end of year £ | Write-offs/(write backs) in year £ |
|---|---|---|
| Financial Year | | |
| 2012 | 11,991,733 | 313,850 |
| 2011 | 11,206,678 | 1,881,554 |
| 2010 | 11,575,422 | 2,524,527 |
| 2009 | 10,537,427 | 300,000 |
| 2008 | 8,588,728 | 1,439,350 |
| 2007 | 6,690,435 | 592,011 |
| 2006 | 6,268,991 | 5,522,339 |

Details of the movements in unrealised gains and losses in the year are disclosed within the Investment Portfolio Summary on pages 15 – 20.

**Major movements in investments**

App-DNA Group Limited was disposed of during the year realising net proceeds of £14,542,468. The carrying value at 30 September 2011 was £11,633,974. DiGiCo Europe Limited was disposed of during the year realising net proceeds of £2,294,494, including loan stock of £874,926 and equity of £1,571 (1.57%) which realised a gain of £161,238 during the year. Iglu.com Holidays Limited was fully realised in the year, generating net proceeds of £1,455,265 and a realised gain of £598,321.

Net unrealised gains of £2,364,362 include a valuation uplift of £854,499 relating to IDOX plc, £874,926 relating to DiGiCo Global Limited, £595,516 relating to ATG Media Holdings Limited and valuation reductions of £1,020,475 for ASL Technology Holdings Limited and £763,065 for Image Source Group Limited.

During the year, the Company treated two investments as wholly or partly permanently impaired, totalling £613,850. An investment previously impaired for £300,000 was realised in the year so this impairment has been removed, the net movement of which explains the write-off of £313,850 above.

## 11. Debtors and prepayments

| | 2012 £ | 2011 £ |
|---|---|---|
| Amounts due within one year: | | |
| Accrued income | 226,319 | 191,592 |
| Prepayments | 14,327 | 15,044 |
| Other debtors | 486,952 | 74,073 |
| | **727,598** | **280,709** |

Included within Other debtors is an amount receivable from Mobeus Equity Partners LLP of £6,037 for the reimbursement of listing fees incurred by the VCT in relation to the Joint Linked Offer for Subscription launched on 20 January 2012.

## 12. Current Investments

| | 2012<br>£ | 2011<br>£ |
|---|---|---|
| Monies held pending investment | **17,523,440** | **11,682,461** |

This comprises cash of £15,523,440 invested in four Dublin based and one UK based OEIC money market funds, subject to immediate access, and £2,000,000 in a bank deposit, repayable within one year. These sums are regarded as monies held pending investment.

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

| | 2012<br>£ | 2011<br>£ |
|---|---|---|
| Trade creditors | 65,621 | 22,705 |
| Other creditors | 13,663 | 16,489 |
| Accruals | 3,686,876 | 173,523 |
| | **3,766,160** | **212,717** |

Accruals include £3,503,000 which may be payable under the Incentive fee agreement, as explained in Note 3b.

# Notes to the Accounts
*for the year ended 30 September 2012*

## 14. Significant interests

At 30 September 2012 the Company held significant investments, amounting to 3% or more of the equity capital of an undertaking, in the following companies::

| | Total investment (at value) £ | Percentage of investee company's total equity £ |
|---|---|---|
| ATG Media Holdings Limited | 2,270,884 | 8.53% |
| Ingleby (1879) Limited (trading as EMaC) | 1,878,124 | 9.39% |
| Tessella Holdings Limited (formerly Oval (2253) Limited) | 1,745,351 | 7.48% |
| Fullfield Limited (trading as Motorclean) | 1,652,768 | 11.74% |
| Blaze Signs Holdings Limited | 1,448,159 | 12.50% |
| RDL Corporation Limited | 1,271,194 | 13.04% |
| CB Imports Group limited | 1,128,228 | 5.79% |
| Ackling Management Limited | 1,000,000 | 12.50% |
| Fosse Management Limited | 1,000,000 | 12.50% |
| Peddars Management Limited | 1,000,000 | 12.50% |
| Almsworthy Trading Limited | 1,000,000 | 12.50% |
| Culbone Trading Limited | 1,000,000 | 12.50% |
| Madacombe Trading Limited | 1,000,000 | 12.50% |
| Image Source Group Limited | 925,470 | 20.00%* |
| Westway Services (2010) Holdings Limited | 838,782 | 4.72% |
| Duncary 8 Limited | 814,025 | 25.49% |
| Youngman Group Limited | 700,992 | 8.49% |
| Aquasium Technology Limited | 677,971 | 16.67% |
| ASL Technology Holdings Limited | 654,155 | 9.55% |
| British International Holdings Limited | 590,909 | 4.99% |
| Brookerpaks Limited | 509,209 | 17.07%* |
| Machineworks Software Limited | 479,459 | 9.21% |
| Alaric Systems Limited | 468,495 | 6.93% |
| The Plastic Surgeon Holdings Limited | 248,878 | 6.09% |
| Faversham House Holdings Limited | 192,385 | 8.81% |
| Vectair Holdings Limited | 164,178 | 4.63% |
| Lightworks Software Limited | 84,060 | 9.21% |
| Racoon International Holdings Limited | 79,026 | 7.71% |
| PXP Holdings Limited | 45,195 | 5.95% |
| Monsal Holdings Limited | 42,446 | 5.59%* |
| Data Continuity Group Limited (formerly DCG Group Limited) | 2,171 | 11.11% |
| Watchgate Limited | – | 33.33% |
| Nexxtdrive Limited | – | 5.06%* |
| Biomer Technology Limited | – | 4.40% |

* - The percentage of equity held for these companies may be subject to further dilution of an additional 1% or more if, for example, management of the investee company exercise share options.

It is considered that, as permitted by FRS9, "Associates and Joint Ventures", the above investments are held as part of an investment portfolio, and that, accordingly, their value to the Company lies in their marketable value as part of that portfolio. In view of this, it is not considered that any of the above represent investments in associated undertakings.

All of the above companies are incorporated in the United Kingdom.

Mobeus also advises Mobeus Income and Growth VCT plc (formerly Matrix Income & Growth VCT plc), Mobeus Income and Growth 2 VCT plc (formerly Matrix Income & Growth 2 VCT plc) and Mobeus Income and Growth 4 VCT plc (formerly Matrix Income & Growth 4 VCT plc) who have investments as at 30 September 2012 in the following:

| | Mobeus Income and Growth VCT plc* at cost £ | Mobeus Income and Growth 2 VCT plc at cost £ | Mobeus Income and Growth 4 4 VCT plc at cost £ | Total at cost £ | % of equity held by funds managed by Mobeus % |
|---|---|---|---|---|---|
| DiGiCo Global Limited (formerly Newincco 1124 Limited) | 2,592,669 | 1,334,292 | 1,334,292 | 5,261,253 | 11.0 |
| ASL Technology Holdings Limited | 1,912,945 | 1,360,130 | 1,257,135 | 4,530,210 | 34.0 |
| Ingleby (1879) Limited (trading as EMaC) | 1,762,336 | 1,095,723 | 1,263,817 | 4,121,876 | 30.0 |
| Tessella Holdings Limited (formerly Oval (2253) Limited) | 1,679,240 | 906,762 | 1,268,647 | 3,854,649 | 24.0 |
| Fullfield Limited (trading as Motorclean) | 1,595,000 | 1,005,809 | 1,110,095 | 3,710,904 | 41.0 |
| British International Holdings Limited | 2,026,316 | 1,160,000 | 295,455 | 3,481,771 | 34.9 |
| ATG Media Holdings Limited | 1,486,214 | 768,011 | 888,993 | 3,143,218 | 38.4 |
| EOTH Limited | 1,298,031 | 817,185 | 951,471 | 3,066,687 | 8.0 |
| Ackling Management Limited | 1,000,000 | 1,000,000 | 1,000,000 | 3,000,000 | 50.0 |
| Almsworthy Trading Limited | 1,000,000 | 1,000,000 | 1,000,000 | 3,000,000 | 50.0 |
| Culbone Trading Limited | 1,000,000 | 1,000,000 | 1,000,000 | 3,000,000 | 50.0 |
| Fosse Management Limited | 1,000,000 | 1,000,000 | 1,000,000 | 3,000,000 | 50.0 |
| Madacombe Trading Limited | 1,000,000 | 1,000,000 | 1,000,000 | 3,000,000 | 50.0 |
| Peddars Management Limited | 1,000,000 | 1,000,000 | 1,000,000 | 3,000,000 | 50.0 |
| CB Imports Group limited | 2,000,000 | – | 1,000,000 | 3,000,000 | 24.0 |
| RDL Corporation Limited | 1,558,334 | 374,870 | 1,000,000 | 2,933,204 | 45.2 |
| Blaze Signs Holdings Limited | 1,271,140 | 1,124,530 | 496,916 | 2,892,586 | 52.5 |
| Monsal Holdings Limited | 1,299,082 | 847,614 | 699,444 | 2,846,140 | 39.5 |
| Youngman Group Limited | 1,000,052 | 1,000,052 | 500,026 | 2,500,130 | 29.7 |
| Racoon International Holdings Limited | 1,213,035 | 878,527 | 406,805 | 2,498,367 | 49.0 |
| Focus Pharma Holdings Limited | 1,042,972 | 517,827 | 605,837 | 2,166,636 | 13.0 |
| PXP Holdings Limited | 1,277,722 | 57,143 | 33,376 | 1,368,241 | 32.9 |
| The Plastic Surgeon Holdings Limited | 478,421 | 392,264 | 458,837 | 1,329,522 | 30.0 |
| Faversham House Holdings Limited | 527,214 | 374,870 | 346,488 | 1,248,572 | 31.4 |
| Westway Services (2010) Holdings Limited | 602,778 | - | 236,096 | 838,874 | 13.0 |
| Omega Diagnostics plc | 305,000 | 214,998 | 199,998 | 719,996 | 9.8 |
| Legion Group plc | 150,106 | 150,106 | 150,102 | 450,314 | 0.0 |
| Lightworks Software Limited | 222,584 | 25,727 | 9,329 | 257,640 | 48.9 |
| Machineworks Software Limited | 222,584 | 25,727 | 9,329 | 257,640 | 48.9 |
| Vectair Holdings Limited | 138,574 | 60,293 | 24,732 | 223,599 | 24.0 |
| Duncary 8 Limited | – | – | 126,995 | 126,995 | 30.6 |
| Watchgate Limited | 1,000 | – | 1,000 | 2,000 | 100.0% |

* - The cost for Mobeus Income and Growth VCT plc includes the original cost of acquiring investments previously owned by Matrix Income & Growth 3 VCT plc.

# Notes to the Accounts
*for the year ended 30 September 2012*

## 15. Called up share capital

| | 2012 £ | 2011 £ |
|---|---|---|
| **Allotted, called-up and fully paid:** | | |
| Ordinary Shares of 1p each: 46,115,656 (2011: 40,692,048) | 461,157 | 406,920 |
| | **461,157** | **406,920** |

Under the Joint VCT Offer for Subscription launched on 20 January 2012 and which closed on 30 June 2012, 4,984,383 ordinary shares were allotted at an average issue price of 106.8 pence per share, raising net proceeds of £5,037,442.

Under the terms of the Dividend Investment Scheme, a total of 1,434,836 (2011: 131,313) Ordinary shares were allotted during the year for a total consideration of £1,256,231 (2011: £117,369).

During the year the Company purchased 995,611 (2011: 1,649,765) of its own ordinary shares for cash (representing 2.45% (2011: 4.46%) of the ordinary shares in issue at the start of the year) at the prevailing market price for a total cost of £913,037 (2011: £1,475,019).

## 16. Movement in share capital and reserves

| | Called up share capital £ | Share premium account £ | Capital redemption reserve £ | Capital reserve (unrealised) (non-distributable) £ | Special reserve* (note a) £ | Profit and loss account* (note b) £ |
|---|---|---|---|---|---|---|
| At 30 September 2011 | 406,920 | 5,669,141 | 187,309 | 12,350,858 | 17,139,273 | 13,399,298 |
| Shares bought back | (9,956) | – | 9,956 | – | (913,037) | – |
| Shares issued | 49,844 | 4,987,598 | – | – | – | – |
| Dividends re-invested into new shares | 14,349 | 1,241,882 | – | – | – | – |
| Dividends paid | – | – | – | – | – | (9,765,934) |
| Transfer between reserves (note a) | – | – | – | – | (3,504,640) | 3,504,640 |
| Other expenses net of taxation | – | – | – | – | – | (4,150,246) |
| Net unrealised gains on investments | – | – | – | 2,364,362 | – | – |
| Write-back of provision for settlement of litigation costs (note 5) | – | – | – | – | – | 1,337,456 |
| Gains on disposal of investments (net of transaction costs) | – | – | – | – | – | 5,243,190 |
| Realisation of previously unrealised gains | – | – | – | (13,104,074) | – | 13,104,074 |
| Profit for the year | – | – | – | – | – | 989,722 |
| **At 30 September 2012** | **461,157** | **11,898,621** | **197,265** | **1,611,146** | **12,721,596** | **23,662,200** |

* - Distributable reserves total £36,383,796 (2011: £30,538,571). The Special reserve has been treated as distributable in determining the amounts available for distribution.

Note a – the cancellation of the 'O' Share Fund Share Premium Account (as approved at the Annual General Meeting held on 13 February 2002 and Order of the Court dated 1 May 2002) and the cancellation of the 'S' Share Fund Share Premium Account (as approved at the Extraordinary General Meeting of the Company held on 9 October 2007 and Order of the Court dated 16 September 2009) and the subsequent merger of these reserves via the merger of the 'O' Share fund and 'S' Share fund on 29 March 2010 has provided the Company with a special reserve out of which it can fund buy-backs of shares as and when it is considered by the Board to be in the interests of the Shareholders, and to absorb any existing and future realised losses. As a result, the Company has a special reserve of £12,721,596. The transfer of £3,504,640 to the special reserve from the realised capital reserve above is the total of realised losses incurred by the Company this year.

Note b – the realised capital reserve and the revenue reserve together comprise the Profit and Loss Account of the Company shown in the Balance Sheet.

The Shareholders authorised the Company to purchase its own shares pursuant to section 701 of the Companies Act 2006 at the Annual General Meeting held on 9 February 2012. The authority was limited to a maximum number of 6,912,500 Ordinary Shares (this being approximately 14.99% of the issued Share capital at the date of the Notice of the meeting). This authority will, unless previously revoked or renewed, expire on the conclusion of the Annual General Meeting of the Company to be held in on 13 February 2013. The minimum price which may be paid for an Ordinary Share is 1 penny per share, the nominal value thereof. The maximum price that may be paid for an Ordinary Share is an amount that is not more than 5% above the average of the middle market quotations of the shares as derived from the Daily Official List of the London Stock Exchange for the five business days preceding such purchase. The authorities provide that the Company may make a contract or contracts to purchase its own shares prior to the expiry of the authority which may be executed in whole or part after the expiry of such authority, and may purchase its shares in pursuance of any such contract. A resolution to renew these authorities will be proposed at the Annual General Meeting to be held on 13 February 2013.

## 17. Net asset value per share

| | 2012<br>£ | 2011<br>£ |
|---|---|---|
| **Net assets** | 50,551,985 | 49,152,799 |
| **Number of shares in issue** | 46,115,656 | 40,692,048 |
| **Basic and diluted net asset value per share** | **109.62p** | **120.79p** |

## 18. Reconciliation of profit on ordinary activities before taxation to net cash inflow/(outflow) from operating activities

| | 2012<br>£ | 2011<br>£ |
|---|---|---|
| Profit on ordinary activities before taxation | 5,784,484 | 10,203,037 |
| Net unrealised gains on investments | (2,364,362) | (10,870,219) |
| Net gains on realisation of investments | (5,243,190) | (343,231) |
| Increase in debtors | (40,047) | (118,633) |
| Increase in creditors and accruals | 2,099,748 | 1,097,009 |
| Net cash inflow/(outflow) from operating activities | **236,633** | **(32,037)** |

## 19. Analysis of changes in net funds

| | Cash<br>£ | Liquid resources<br>£ | Total<br>£ |
|---|---|---|---|
| At beginning of year | 1,577,420 | 11,682,461 | 13,259,881 |
| Cash flows | 3,284,020 | 5,840,979 | 9,124,999 |
| **At 30 September 2012** | **4,861,440** | **17,523,440** | **22,384,880** |

## 20. Financial instruments

The Company's financial instruments in both years comprise:

- Equity and preference shares and fixed and floating rate interest securities that are held in accordance with the Company's investment objective.
- Cash, liquid resources and short-term debtors and creditors that arise directly from the Company's operations.

The principal purpose of these financial instruments is to generate revenue and capital appreciation for the Company's operations. The Company has no gearing or other financial liabilities apart from short-term creditors. It is, and has been throughout the year under review, the Company's policy that no trading in derivative financial instruments shall be undertaken.

# Notes to the Accounts
*for the year ended 30 September 2012*

### Classification of financial instruments

The Company held the following categories of financial instruments at 30 September 2012:

| | 2012 (Book value) £ | 2012 (Fair value) £ | 2011 (Book value) £ | 2011 (Fair value) £ |
|---|---|---|---|---|
| **Assets at fair value through profit and loss:** | | | | |
| Investment portfolio | 31,205,667 | 31,205,667 | 37,162,382 | 37,162,382 |
| Current investments | 17,523,440 | 17,523,440 | 11,682,461 | 11,682,461 |
| Cash at bank | 4,861,440 | 4,861,440 | 1,577,420 | 1,577,420 |
| **Loans and receivables** | | | | |
| Accrued income | 226,319 | 226,319 | 191,592 | 191,592 |
| Other debtors | 486,952 | 486,952 | 74,073 | 74,073 |
| **Liabilities at amortised cost or equivalent** | | | | |
| Other creditors | (3,766,160) | (3,766,160) | (212,717) | (212,717) |
| Total for financial instruments | 50,537,658 | 50,537,658 | 50,475,211 | 50,475,211 |
| Non financial instruments | 14,327 | 14,327 | (1,322,412) | (1,322,412) |
| **Total net assets** | **50,551,985** | **50,551,985** | **49,152,799** | **49,152,799** |

The investment portfolio principally consists of unquoted investments (90.8%; 2011: 92.6%) and AiM quoted stocks (9.2%; 2011: 7.4%). The investment portfolio has a 100% (2011:100%) concentration of risk towards small UK based, sterling denominated companies, and represents 61.7% (2011: 75.6%) of net assets at the year-end.

Current investments include money market funds, and bank deposits not accessible within 24 hours discussed under credit risk below, which represent 34.7% (2011: 23.8%) of net assets at the year-end.

The main risks arising from the Company's financial instruments are due to fluctuations in market prices (market price risk), credit risk and cash flow interest rate risk, although liquidity risk and currency risk are also discussed below. The Board regularly reviews and agrees policies for managing each of these risks and they are summarised below. These have been in place throughout the current and preceding years.

### Market price risk

Market price risk arises from uncertainty about the future valuations of financial instruments held in accordance with the Company's investment objectives. These future valuations are determined by many factors but include the operational and financial performance of the underlying investee companies, as well as market perceptions of the future performance of the UK economy and its impact upon the economic environment in which these companies operate. This risk represents the potential loss that the Company might suffer through holding its investment portfolio in the face of market movements.

The investments in equity and fixed interest stocks of unquoted companies that the Company holds are not traded and as such the prices are more uncertain than those of more widely traded securities. As, in a number of cases, the unquoted investments are valued by reference to price earnings ratios prevailing in quoted comparable sectors, their valuations are exposed to changes in the price earnings ratios that exist in the quoted markets.

The Board's strategy in managing the market price risk inherent in the Company's portfolio of equities and loan stock investments is determined by the requirement to meet the Company's investment objective, as set out at the front of this Annual Report. As part of the investment management process, the Board seeks to maintain an appropriate spread of market risk, and also has full and timely access to relevant information from the Investment Managers. No single investment is permitted to exceed 15% of total investment assets at the point of investment. The Investment Committee meets regularly and reviews the investment performance and financial results, as well as compliance with the Company's objectives. The Company does not use derivative instruments to hedge against market risk.

### Market price risk sensitivity

The Board believes that the Company's assets are mainly exposed to market price risk, as the Company is required to hold most of its assets in the form of £ sterling denominated investments in small companies.

Although a small part of these assets are quoted on AiM, nearly all of these assets are unquoted. All of the investments made by the Investment Managers in unquoted companies, irrespective of the instruments the Company actually holds, (whether shares, preference shares or loan stock) carry a full market risk, even though some of the loan stocks may be secured on assets, but behind any prior ranking bank debt in the investee company.

The Board considers that the value of investments in equity and loan stock instruments are ultimately sensitive to changes in quoted share prices, insofar as such changes eventually affect the enterprise value of unquoted companies. The table below shows the impact on profit and net assets if there were to be a 20% movement in overall share prices, which might in part be caused by changes in interest rate levels. However, it is not considered possible to evaluate separately the impact of changes in interest rates upon the value of the Company's portfolios of investments in small, unquoted companies.

The sensitivity analysis below assumes that each of these sub categories of investments (shares, preference shares and loan stocks) held by the Company produces a movement overall of 20%, and that the actual portfolio of investments held by the Company is perfectly correlated to this overall movement in share prices. However, Shareholders should note that this level of correlation is unlikely to be the case in reality, particularly in the case of the loan stock instruments. This is because loan stock instruments would not share in the impact of any increase in share prices to the same extent as the equity instruments, as the returns are set by reference to interest rates and premiums agreed at the time of initial investment. Similarly, 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.

| | 2012 Profit and net assets £ | 2011 Profit and net assets £ |
|---|---|---|
| If overall share prices increased/(decreased) by 20% (2011: 20%), with all other variables held constant – increase/(decrease) | 6,241,133/(6,241,133) | 7,432,476/(7,432,476) |
| Increase/(decrease) in earnings, and net asset value, per Ordinary share (in pence) | 13.53p/(13.53)p | 18.27p/(18.27)p |

The impact of a change of 20% has been selected as this is considered reasonable given the current level of volatility observed both on a historical basis and market expectations for future movement. The range in equity prices is considered reasonable given the historic changes that have been observed.

### Credit risk

Credit risk is the risk that a counterparty will fail to discharge an obligation or commitment that it has entered into with the Company.

The Company's maximum exposure to credit risk is:

| | 2012 £ | 2011 £ |
|---|---|---|
| Loan stock investments | 19,312,177 | 14,160,596 |
| Current investments | 17,523,440 | 11,682,461 |
| Accrued income and other debtors | 713,271 | 265,665 |
| Cash at bank | 4,861,440 | 1,577,420 |
| | **42,410,328** | **27,686,142** |

The Company has an exposure to credit risk in respect of the loan stock investments it has made into investee companies, most of which have no security attached to them and, where they do, such security ranks beneath any bank debt that an investee company may owe.

The accrued income and other debtor shown above was all due within two months of the year-end.

# Notes to the Accounts
*for the year ended 30 September 2012*

The following table shows the maturity of the loan stock investments referred to above. In some cases, the loan maturities are not the contractual ones, but are the best estimate using management's expectations of when it is likely that such loans may be repaid.

| Repayable within | 2012<br>£ | 2011<br>£ |
|---|---|---|
| 0 to 1 year | 286,366 | 950,388 |
| 1 to 2 years | 3,234,875 | 4,649,493 |
| 2 to 3 years | 1,500,000 | 1,754,808 |
| 3 to 4 years | 3,703,748 | 1,839,573 |
| 4 to 5 years | 9,410,574 | 4,428,386 |
| > 5 years | 1,176,614 | 537,948 |
| **Total** | **19,312,177** | **14,160,596** |

Included within loan stock investments above are loans at a carrying value of £333,333 (2011: £648,819) which are past their repayment date but have been re-negotiated. Loans which are past their repayment date but which have not been renegotiated have a carrying value of £2,062,778 (2011: £1,499,866), of which £609,471 was repaid in November 2012. These loan stock investments are usually made as part of the qualifying investments within the investment portfolio, and the risk management processes applied to the loan stock investments have already been set out under market price risk above.

An aged analysis of the loan stock investments included above, which are past due but not individually impaired, is set out below. For this purpose, these loans are considered to be past due when any payment due under the loan's contractual terms (such as payment of interest) is received late or missed. The loans in the table below are all considered to be past due only because interest on the loan is outstanding. We are required to report in this format and include the full value of the loan even though it is only in respect of interest that they are in default.

| | 0 - 6 months<br>£ | 6 - 12 months<br>£ | over 12 months<br>£ | 2012<br>Total<br>£ |
|---|---|---|---|---|
| Loans to investee companies past due | – | **1,388,070** | **2,091,075** | **3,479,145** |

| | 0 - 6 months<br>£ | 6 - 12 months<br>£ | over 12 months<br>£ | 2011<br>Total<br>£ |
|---|---|---|---|---|
| Loans to investee companies past due | **429,823** | – | **2,506,440** | **2,936,263** |

There is a risk of default by the money market funds included within 'Current investments' above, which could suffer defaults within their underlying portfolios that could affect the values at which the Company could sell its holdings. The Board manages credit risk in respect of these money market funds and cash by ensuring a spread of such investments such that none should exceed 15% of the Company's total investment assets. These money market funds are triple A rated funds and, along with the bank deposit of £2,000,000 held within 'Current investments', credit risk is considered to be relatively low in recent circumstances. The cash at bank figure of £4,861,440 is held with NatWest Bank plc, where the risk of default is considered to be low.

There could also be a failure by counter-parties to deliver securities which the Company has paid for, or pay for securities which the Company has delivered. This risk is considered to be small as most of the Company's investment transactions are in unquoted investments, where investments are conducted through solicitors, to ensure that payment matches delivery. In respect of any quoted investment transactions that are undertaken, the Company uses brokers with a high credit quality, and these trades usually have a short settlement period. Accordingly, counterparty risk is considered to be relatively low.

## Cash flow interest rate risk

The Company's fixed and floating rate interest securities, its equity and preference equity investments and net revenue may be affected by interest rate movements. Investments are often in relatively small businesses, which are relatively high risk investments sensitive to interest rate fluctuations.

Due to the short time to maturity of some of the Company's floating rate investments, it may not be possible to re-invest in assets which provide the same rates as those currently held.

The Company's assets include fixed and floating rate interest instruments, as shown below. The rate of interest earned is regularly reviewed by the Board, as part of the risk management processes applied to these instruments, already disclosed under market price risk above.

The interest rate profile of the Company's net assets at 30 September 2012 was:

| | Financial net assets on which no interest paid £ | Fixed rate financial assets £ | Variable rate financial assets £ | Total £ | Weighted average interest rate % | Average period to maturity (years) |
|---|---|---|---|---|---|---|
| Equity shares | 11,858,060 | – | – | 11,858,060 | | |
| Preference shares | – | 35,430 | – | 35,430 | 4.03% | 1.48 |
| Loan stocks | – | 14,996,827 | 4,315,350 | 19,312,177 | 6.30% | 3.43 |
| Current investments | – | 2,000,000 | 15,523,440 | 17,523,440 | 0.49% | – |
| Cash | – | – | 4,861,440 | 4,861,440 | | |
| Debtors | 713,271 | – | – | 713,271 | | |
| Creditors | (3,766,160) | – | – | (3,766,160) | | |
| Total for financial instruments | 8,805,171 | 17,032,257 | 24,700,230 | 50,537,658 | | |
| Other non financial assets | 14,327 | – | – | 14,327 | | |
| **Total net assets** | **8,819,498** | **17,032,257** | **24,700,230** | **50,551,985** | | |

The interest rate profile of the Company's financial net assets at 30 September 2011 was:

| | Financial net assets on which no interest paid £ | Fixed rate financial assets £ | Variable rate financial assets £ | Total £ | Weighted average interest rate % | Average period to maturity (years) |
|---|---|---|---|---|---|---|
| Equity shares | 22,931,741 | – | – | 22,931,741 | | |
| Preference shares | – | 70,045 | – | 70,045 | 2.04% | 2.59 |
| Loan stocks | – | 11,702,857 | 2,457,739 | 14,160,596 | 6.39% | 3.26 |
| Current investments | – | – | 11,682,461 | 11,682,461 | 0.74% | – |
| Cash | – | – | 1,577,420 | 1,577,420 | | |
| Debtors | 265,665 | – | – | 265,665 | | |
| Creditors | (212,717) | – | – | (212,717) | | |
| Total for financial instruments | 22,984,689 | 11,772,902 | 15,717,620 | 50,475,211 | | |
| Other non financial assets | (1,322,412) | – | – | (1,322,412) | | |
| **Total net assets** | **21,662,277** | **11,772,902** | **15,717,620** | **49,152,799** | | |

Floating rate cash earns interest based on LIBOR rates.

The Company's investments in equity shares and similar instruments have been excluded from the interest rate risk profile as they have no maturity date and would thus distort the weighted average period information.

# Notes to the Accounts
*for the year ended 30 September 2012*

### Cash flow interest rate sensitivity

Although the Company holds investments in loan stocks that pay interest, the Board does not consider it appropriate to assess the impact of interest rate changes in isolation upon the value of the unquoted investment portfolio, as interest rate changes are only one factor affecting the market price movements that are discussed above under market price risk. However, as the Company has a substantial proportion of its assets in money market funds, the table below shows the sensitivity of income earned to changes in interest rates:

| | 2012<br>£<br>Profit and<br>net assets | 2011<br>£<br>Profit and<br>net assets |
|---|---|---|
| If interest rates increased/(decreased) by 1%, with all other variables held constant – increase/(decrease) | 213,602/(213,602) | 125,741/(125,741) |
| Increase/(decrease) in earnings, and net asset value, per Ordinary share (in pence) | 0.46p/(0.46)p | 0.31p/(0.31)p |

### Liquidity risk

The investments in equity and fixed interest stocks of unquoted companies that the Company holds are not traded and are therefore not readily realisable. The ability of the Company to realise the investments at their carrying value may at times not be possible if there are no willing purchasers. The Company's ability to sell investments may also be constrained by the requirements set down for VCTs. The maturity profile of the Company's loan stock investments disclosed within the consideration of credit risk above indicates that these assets are also not readily realisable until dates up to five years from the year-end.

To counter these risks to the Company's liquidity, the Investment Manager maintains sufficient cash deposits and money market funds to meet running costs and other commitments. The Company invests its surplus funds in high quality money market funds and bank deposits which are, as reported in Note 12, all accessible on an immediate basis except £2,000,000 held with the Co-operative Bank plc, which is accessible within two days.

### Currency risk

All assets and liabilities are denominated in sterling and therefore there is no currency risk.

### Fair value hierarchy

The table below sets out fair value measurements using FRS29 fair value hierarchy. The Company has the following classes of assets, being at fair value through profit and loss.

| Financial assets at fair value through profit and loss<br>At 30 September 2012 | Level 1<br>£ | Level 2<br>£ | Level 3<br>£' | Total<br>£ |
|---|---|---|---|---|
| Equity investments | 2,858,821 | – | 8,999,239 | 11,858,060 |
| Preference shares | – | – | 35,430 | 35,430 |
| Loan stock investments | – | – | 19,312,177 | 19,312,177 |
| Current investments | 17,523,440 | – | - | 17,523,440 |
| **Total** | **20,382,261** | **–** | **28,346,846** | **48,729,107** |

There are currently no financial liabilities at fair value through profit and loss.

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset as follows:

Level 1 – valued using quoted prices in active markets for identical assets

Level 2 – valued by reference to valuation techniques using observable inputs other than quoted prices included within Level 1.

Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data.

The valuation techniques used by the company are explained in the accounting policies in note 1.

There have been no transfers during the year between Levels 1 and 2. A reconciliation of fair value measurements in Level 3 is set out below:

| | Equity investments £ | Preference shares £ | Loan stock investments £ | Total £ |
|---|---|---|---|---|
| **Opening balance at 1 October 2011** | 20,166,018 | 70,045 | 14,160,596 | 34,396,659 |
| Purchases | 3,555,244 | 3,119 | 9,826,386 | 13,384,749 |
| Sales | (19,428,785) | (30,792) | (5,886,175) | (25,345,752) |
| Transfers into Level 3 | – | – | – | – |
| Reclassification at value * | (108,277) | – | 108,277 | – |
| Total gains/(losses) included in gains/(losses) on investments in the Income Statement: | | | | – |
| – on assets sold | 2,746,842 | – | 2,120,698 | 4,867,540 |
| – on assets held at the year end | 2,068,197 | (6,942) | (1,017,605) | 1,043,650 |
| **Closing balance at 30 September 2012** | **8,999,239** | **35,430** | **19,312,177** | **28,346,846** |

* - The equity of an acquisition vehicle was exchanged for equity and loan stock issued by the eventual acquirer of the target business.

As detailed in the accounting policies note, where investments are valued on an earnings-multiple basis, the main input used for this basis of valuation is a suitable price-earnings ratio taken from a comparable sector on the quoted market. These ratios are correlated to the share prices and so any change in share prices will have a significant effect on the fair value measurements of the investments classified as Level 3 investments.

Level 3 unquoted equity and loan stock investments are valued in accordance with the IPEVCV guidelines as follows:

| | 30 September 2012 £ | 30 September 2011 £ |
|---|---|---|
| **Valuation methodology** | | |
| Cost (reviewed for impairment) | 6,590,909 | 6,512,400 |
| Asset value supporting security held | 700,992 | – |
| Recent investment price | 5,970,926 | – |
| Earnings multiple | 15,084,019 | 16,180,661 |
| Realisation proceeds | – | 11,703,598 |
| | **28,346,846** | **34,396,659** |

The unquoted equity investments had the following movements between valuation methodologies between 30 September 2012 and 30 September 2011:

| Change in valuation methodology (2011 to 2012) | Carrying value as at 30 September 2012 £ | Explanatory note |
|---|---|---|
| Cost (reviewed for impairment) to earnings multiple | 441,263 | More appropriate basis for determining fair value |
| Earnings multiple to asset value supporting security held | 700,992 | More appropriate basis for determining fair value |
| Earnings multiple to Cost (reviewed for impairment) | 590,909 | More appropriate basis for determining fair value |

# Notes to the Accounts
*for the year ended 30 September 2012*

The valuation will be the most appropriate valuation methodology for an investment within its market, with regard to the financial health of the investment and the September 2009 IPEVCV guidelines. The directors believe that, within these parameters, there are no other possible methods of valuation which would be reasonable as at 30 September 2012.

FRS 29 requires disclosure, by class of financial instruments, if the effect of changing one or more inputs to reasonably possible alternative assumptions would result in a significant change to the fair value measurement. The information used in determination of the fair value of Level 3 investments is chosen with reference to the specific underlying circumstances and position of the investee company. The portfolio has been reviewed and both downside and upside reasonable possible alternative assumptions have been identified and applied to the valuation of each of the unquoted investments. Applying the downside alternatives, the value of the unquoted investments would be £1,389k or 4.5% lower. Using the upside alternatives the value would be increased by £1,580k or 5.1%. In arriving at both these figures, a 5% change to earnings multiples was applied. For the upside alternative, for one investment, the expected realisation proceeds were uplifted and for one investment, an earnings multiple rather than Cost methodology was used.

## 21. Management of capital

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

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

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

## 22. Segmental analysis

There is only one class of business and the operations of the Company are wholly in the United Kingdom.

## 23. Post balance sheet events

The Company sold 12,500 of its shares in Tikit Group on 1 October 2012 at a price of 325 pence per share, realising proceeds of £40,625.

Duncary 8 Limited made two separate partial repayments of its loan stock totalling £125,000 in October and December 2012.

The Company sold 1,250,000 of its shares in IDOX plc in November 2012 at an average price of 41 pence per share, realising proceeds of £513,500.

On 23 November 2012, Blaze Signs Holdings Limted partially repaid loan stock, realising proceeds of £609,471 including a premium of £140,647.

On 30 November 2012, the entire equity holding of Brookerpaks Limited was realised for proceeds of £600,000.

# Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN that the twelfth annual general meeting of The Income & Growth VCT plc ("the Company") will be held at 11.00 am on Wednesday, 13 February 2013 at the offices of Mobeus Equity Partners, 30 Haymarket (4th floor), London SW1Y 4EX for the purposes of considering and, if thought fit, passing the following resolutions of which resolutions 1 to 7 will be proposed as ordinary resolutions and resolutions 8 and 9 will be proposed as special resolutions:-

1. To receive and adopt the annual report and accounts of the Company for the year ended 30 September 2012 ("Annual Report"), including the auditor's report thereon.

2. To approve the directors' remuneration report for the year ended 30 September 2012, which is set out in the Annual Report.

3. To appoint PKF (UK) LLP of Farringdon Place, 20 Farringdon Road, London EC1M 3AP as auditor to the Company until the conclusion of the next annual general meeting of the Company.

4. To authorise the directors to determine the remuneration of PKF (UK) LLP as auditor to the Company.

5. To re-elect Colin Hook as a director of the Company

6. To re-elect Helen Sinclair as a director of the Company.

7. That, in substitution for any existing authorities, the directors of the Company be and hereby are generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 ("the Act") to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £392,000, provided that this authority shall expire on the fifth anniversary of the date of the passing of this resolution unless renewed, revoked or varied by the Company in general meeting (except that the Company may, before such expiry, make offers or agreements which would or might require shares in the Company to be allotted or rights to be granted after such expiry and notwithstanding such expiry the directors of the Company may allot shares in the Company or grant rights in pursuance of such offers or agreements).

8. That, in substitution for any existing authorities, the directors of the Company be and hereby are empowered in accordance with sections 570 and 573 of the Act to allot or make offers or agreements to allot equity securities (as defined in section 560(1) of the Act) for cash, either pursuant to the authority given in accordance with section 551 of the Act by Resolution 7 set out in this notice of annual general meeting, or by way of sale of treasury shares, as if section 561(1) of the Act did not apply to the allotment or sale provided that this power shall expire (unless renewed, varied or revoked by the Company in a general meeting) on the conclusion of the annual general meeting to be held in 2014, and provided further that this power shall be limited to:-

   (i) the allotment of equity securities with an aggregate nominal value of up to, but not exceeding, £300,000 in connection with offer(s) for subscription;

   (ii) the allotment of equity securities with an aggregate nominal value of up to, but not exceeding, 10% of the issued share capital of the Company from time to time pursuant to any dividend investment scheme operated by the Company at a subscription price per share which is less than the net asset value per share; and

   (iii) the allotment, otherwise than pursuant to sub-paragraphs (i) and (ii) above, of equity securities with an aggregate nominal value of up to, but not exceeding, 10% of the issued share capital of the Company from time to time;

   in each case where the proceeds of the allotment may be used in whole or in part to purchase the Company's shares in the market.

9. That, in substitution for any existing authorities, the Company be and hereby is generally authorised pursuant to section 701 of the Act to make market purchases (as defined in section 693(4) of the Act) of its own shares provided that:-

   (i) the aggregate number of shares hereby authorised to be purchased shall not exceed 6,912,700;

   (ii) the minimum price which may be paid for such shares is 1 penny per share, the nominal value thereof;

   (iii) the maximum price which may be paid for a share shall be the higher of (i) 5% above the average of the middle market quotations for a share in the Company taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the purchase is made; and (ii) the amount stipulated by Article 5(1) of the BuyBack and Stabilisation Regulation (EC2273/2003);

# Notice of the Annual General Meeting

(iv) the authority hereby conferred shall (unless previously renewed or revoked) expire on the conclusion of the annual general meeting of the Company to be held in 2014; and

(v) the Company may make a contract or contracts to purchase its own shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of its own shares in pursuance of any such contract.

By order of the Board

**Mobeus Equity Partners LLP**
Company Secretary

The Income & Growth VCT plc
*Registered Office*
30 Haymarket
London SW1Y 4EX

17 December 2012

**Notes:**

1. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. If you do not have a proxy form and believe that you should have one, or if you require additional forms, please contact Mobeus Equity Partners LLP, the Company Secretary at 30 Haymarket, London SW1Y 4EX or by email to: iandg@mobeusequity.co.uk or telephone on 020 7024 7600.

2. Shareholders may appoint a proxy either by completing the hard copy of the proxy form provided with this annual report or electronically at www.capitashareportal.com. To register to vote electronically via the Share Portal, you will need to enter your Investor Code which is provided on your proxy form for the meeting. The proxy form, or other instrument appointing a proxy, must be received (a) by post or (during normal business hours only) by hand at the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU or (b) online, via the Share Portal, in each case so as to be received not later than 11.00 am on Monday, 11 February 2013 or 48 hours before the time appointed for any adjourned meeting or, in the case of a poll taken subsequent to the date of the meeting or adjourned meeting, so as to be received no later than 24 hours before the time appointed for taking the poll.

3. The return of a completed proxy form, other such instrument or any electronic Proxy Instruction (as described in paragraph 2 above) will not prevent a shareholder attending the Annual General Meeting and voting in person if he/she wishes to do so.

4. Any person to whom this notice is sent who is a person nominated under section 146 of the Act to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

5. If you have been nominated to receive general shareholder communications directly from the Company, it is important to remember that your main contact in terms of your investment remains as it was (ie the registered shareholder, or perhaps custodian or broker, who administers the investment on your behalf). Therefore any changes or queries relating to your personal details and holding (including any administration thereof) must continue to be directed to your existing contact at your investment manager or custodian. The Company cannot guarantee dealing with matters that are directed to it in error. The only exception to this is where the Company, in exercising one of its powers under the Act, writes to you directly for a response.

6. The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 1 and 2 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.

7. To be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast), Shareholders must be registered in the Register of Members of the Company at 11.00 am on Monday, 11 February 2013 (or, in the event of any adjournment, on the date which is two days before the time of the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.

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

9. Any member attending the meeting has the right to ask questions relating to the business being dealt with at the meeting and the Company is obliged to answer such questions under section 319A of the Act. However, no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on the Company's website www.incomeandgrowthvct.co.uk in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

10. Under section 527 of the Act (i) Members representing at least 5% of the total voting rights of all the Members or (ii) at least 100 members who have a relevant right to vote and hold shares in the company on which there has been paid up an average sum, per member, of at least £100 (in accordance with section 525 of the Act) can require the Company to publish a statement on its website setting out any matter relating to (a) the audit of the Company's accounts (including the Auditor's Report and the conduct of the audit) that are to be laid before the meeting; or (b) any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Act, that the Members propose to raise at the meeting. The Company cannot require the Members requesting the publication to pay its expenses. Any statement required to be placed on the Company's website must also be sent to the Company's auditors no later than the time it makes its statement available on the website. The business which may be dealt with at the Meeting includes any statement that the Company has been required to publish on its website under section 527.

11. By attending the meeting, Members and their proxies and representatives are understood by the Company to have agreed to receive any communications relating to the shares of the Company made at the Meeting.

12. As at 17 December 2012 the Company's issued share capital consisted of 46,115,656 Ordinary Shares, each carrying one vote. Therefore, the total voting rights in the Company as at 17 December 2012 were 46,115,656.

13. The Register of Directors' Interests and Directors' appointment letters shall be available for inspection at the Company's registered office during normal business hours on any weekday (excluding Saturdays, Sundays and public holidays) and at the place of the meeting for at least fifteen minutes prior to and during the meeting. The Directors do not have any service contracts with the Company.

14. A copy of this notice, and other information required by s311A of the Companies Act 2006, can be found at www.incomeandgrowthvct.co.uk.

# Performance Data at 30 September 2012

**Share price as at 30 September 2012 97.00 pence[1]**
**NAV per share as at 30 September 2012 109.62 pence**

### Performance data for all fundraising rounds

The following table shows, for all investors in The Income & Growth VCT plc, how their investments have performed since they were originally allotted shares in each fundraising.

Shareholders should note that funds from the original fundraising in 2000/01 were managed by three investment advisers, up until 10 March 2009. At that date, Mobeus became the sole adviser, to this and all subsequent fundraisings.

Total return data, which includes cumulative dividends paid to date, is shown on both a share price and a NAV basis as at 30 September 2012. The NAV basis enables Shareholders to evaluate more clearly the performance of the Manager, as it reflects the underlying value of the portfolio at the reporting date. This is the most widely used measure of performance in the VCT sector.

| Allotment date(s) | Allotment price (p) | Net allotment price (p) | Cumulative dividends paid per share [4] (p) | Total return per share to shareholders since allotment (Share price basis) (p) | (NAV basis) (p) | % increase since 30 September 2011 (NAV basis) |
|---|---|---|---|---|---|---|
| **Funds raised 2000/01[3] (launched 18 October 2000)** | | | | | | |
| Between 3 November 2000 and 11 May 2001 | 100.00 | **60.62** | 43.67 | **117.18** | **126.74** | **8.30%** |
| **Funds raised 2007/08 - S Share fund (launched 14 December 2007)** | | | | | | |
| Between 1 April 2008 and 6 June 2008 | 100.00 | **70.00** | 28.50 | **125.50** | **138.12** | **10.24%** |
| **Funds raised 2010/11 (launched 12 November 2010)** | | | | | | |
| 21 January 2011 | 104.80 | **73.36** | 28.00 | **125.00** | **137.62** | **10.28%** |
| 28 February 2011 | 107.90 | **75.53** | 26.00 | **123.00** | **135.62** | **10.45%** |
| 22 March 2011 | 105.80 | **74.06** | 26.00 | **123.00** | **135.62** | **10.45%** |
| 1 April 2011 | 105.80 | **74.06** | 24.00 | **121.00** | **133.62** | **10.62%** |
| 5 April 2011 | 105.80 | **74.06** | 24.00 | **121.00** | **133.62** | **10.62%** |
| 10 May 2011 | 105.80 | **74.06** | 24.00 | **121.00** | **133.62** | **10.62%** |
| 6 July 2011 | 106.00 | **74.20** | 24.00 | **121.00** | **133.62** | **10.62%** |
| **Funds raised 2012 (launched 20 January 2012)** | | | | | | |
| 8 March 2012 | 106.40 | **74.48** | – | **97.00** | **109.62** | **–** |
| 4 April 2012 | 106.40 | **74.48** | – | **97.00** | **109.62** | **–** |
| 5 April 2012 | 106.40 | **74.48** | – | **97.00** | **109.62** | **–** |
| 10 May 2012 | 106.40 | **74.48** | – | **97.00** | **109.62** | **–** |
| 10 July 2012 | 111.60 | **78.12** | – | **97.00** | **109.62** | **–** |

[1] - Source: London Stock Exchange.

[2] - Net allotment price is the allotment price less applicable income tax relief. Income tax relief was 20% up until 5 April 2004, 40% from 6 April 2004 to 5 April 2006, and 30% thereafter.

[3] - Shareholders who invested in 2000/01 received 0.7578 shares in the current share class for each share previously held on 29 March 2010, when the Company's two share classes merged. The NAV, cumulative dividend, total return, share price and percentage return data per share have been adjusted to reflect this conversion ratio.

[4] - For derivation, see page 66.

# Cumulative dividends paid

| | Funds raised 2000/01 (p) | Funds raised 2007/08 (p) | Funds raised 2010/11 (p) | Funds raised 2012 (p) |
|---|---|---|---|---|
| 15 February 2012 | 3.02[1] | 4.00 | 4.00 | |
| 27 January 2012 | 15.16[1] | 20.00 | 20.00 | |
| 28 March 2011 | 1.52[1] | 2.00 | 2.00 | |
| 22 February 2011 | 1.52[1] | 2.00 | 2.00 | |
| **29 March 2010 Merger of O Fund and S Fund** | | | | |
| 17 March 2010 | 2.00 | 0.50 | | |
| 16 February 2009 | 4.00 | | | |
| 15 February 2008 | 2.00 | | | |
| 24 October 2007 | 2.00 | | | |
| 15 February 2007 | 3.75 | | | |
| 14 February 2006 | 3.25 | | | |
| 04 February 2005 | 1.25 | | | |
| 11 February 2004 | 1.25 | | | |
| 12 February 2003 | 1.75 | | | |
| 18 February 2002 | 1.20 | | | |
| | **43.67** | **28.50** | **28.00** | |

[1] - The dividends paid after the merger, of the Company's share classes on 29 March 2010 have been restated for the merger conversion ratio.

# Corporate Information

**Directors**

Colin Hook
Jonathan Cartwright
Helen Sinclair

**Company's Registered Office**

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London
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* Calls cost 10p per minute plus network extras. Lines are open 8.30am to 5.30 pm. Mon-Fri.

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