



ELDERSTREET

VCT plc

Report & Accounts
for the year ended
31 December 2012

SHAREHOLDER INFORMATION

Share price

The Company's share price can be found on various financial websites with the TIDM/EPIC code "EDV". A link to the share price is also available on Elderstreet Investments Limited's website (www.elderstreet.com) and on Downing LLP's website (www.downing.co.uk).

Latest share price at 24 April 2013: **53.5p per share**

Financial calendar

5 June 2013	Annual General Meeting
28 June 2013	Payment of final dividend
August 2013	Announcement of half yearly results

Dividends

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

Selling shares

The Company's shares are listed on the London Stock Exchange and can be bought or sold like any other listed shares using a stockbroker.

The Company has stated that it plans to buy back shares twice each year. Details of the next planned share buyback can be obtained by contacting Downing LLP on 020 7416 7780. Shareholders will need a stockbroker to sell their shares. Any Shareholder considering selling some or all of their shareholding should ensure that they are fully aware of any tax consequences. If you are in any doubt, please contact your financial adviser.

Notification of change of address

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

Other information for Shareholders

Up to date Company information (including financial statements, share price and dividend history) may be obtained from Downing LLP's website at www.downing.co.uk. Financial information is also available on Elderstreet Investments Limited's website at www.elderstreet.com by clicking on "investor information".

If you have any queries regarding your shareholding in Elderstreet VCT plc, please contact the Registrar on the above number or visit Capita's website at www.capitaregistrars.com and click on "Shareholders".

Share scam warning

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

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

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COMPANY INFORMATION

Directors

David Brock (Chairman)
Hugh Aldous
Barry Dean
Michael Jackson
Nicholas Lewis
all of
10 Lower Grosvenor Place
London SW1W 0EN

Company number

03424984

Secretary and Registered Office

Grant Whitehouse
10 Lower Grosvenor Place
London SW1W 0EN
Tel No: 020 7416 7780

Investment Manager

Elderstreet Investments Limited
32 Bedford Row
London WC1R 4HE
Tel: 020 7831 5088
www.elderstreet.com

Administration Manager

Downing LLP
10 Lower Grosvenor Place
London SW1W 0EN
Tel: 020 7416 7780
www.downing.co.uk

Listed Fixed Income Securities Manager

Smith & Williamson Investment Management Ltd
25 Moorgate
London EC2R 6AY

Auditor

PKF (UK) LLP
Farringdon Place
20 Farringdon Road
London EC1M 3AP

VCT Status Advisers

PricewaterhouseCoopers LLP ("PwC")
1 Embankment Place
London WC2N 6RH

Registrar

Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
Tel No: 0871 664 0324
(calls cost 10p per minute plus network extras
lines open Mon-Fri from 8.30 am to 5.30pm)
www.capitaregistrars.com

Bankers

Royal Bank of Scotland plc
119/121 Victoria Street
London SW1E 6RA

Bank of Scotland plc
33 Old Broad Street
London BX2 1LB

FINANCIAL SUMMARY

	2012 pence	2011 pence
Net asset value per share ("NAV")	68.9	65.7
Cumulative dividends paid since launch	58.0	54.0
Total return (NAV plus cumulative dividends paid per share)	<u>126.9</u>	<u>119.7</u>
Dividends in respect of financial year		
Interim dividend paid per share	2.0	2.0
Final proposed dividend per share (payable on 28 June 2013)	2.0	2.0
	<u>4.0</u>	<u>4.0</u>

A full dividend history for the Company can be found at www.downing.co.uk.

Performance summary for investors (based on an original investment of £1.00)

Share issue date	Initial income tax relief available on investment %	Equivalent dividends received since issue pence	Equivalent NAV at 31 Dec 2012 pence	Gain/(loss) (ignoring income tax relief) %	Gain (after initial income tax relief) %	Gain (after initial and ESB* income tax relief) %
Elderstreet Millennium Venture Capital Trust plc (1996)	20%	71.6p	26.3p	-2.1%	17.9%	23.9%
Feb – Aug 1998	20%	58.0p	68.9p	26.9%	46.9%	62.8%
Mar-Jun 2005 (C Share issue)	40%	40.0p	46.1p	-13.9%	26.1%	36.8%
Apr 2006	40%	41.4p	100.0p	41.4%	81.4%	104.5%
Apr 2008	30%	23.4p	74.9p	-1.7%	28.3%	n/a
Jun 2008	30%	19.7p	75.4p	-4.9%	25.1%	n/a
Apr 2009	30%	20.1p	92.3p	12.3%	42.3%	n/a
May 2009	30%	18.7p	92.3p	11.0%	41.0%	n/a
Apr/May 2010	30%	14.9p	85.7p	0.6%	30.6%	n/a
Mar 2011	30%	9.9p	85.0p	-5.2%	24.8%	n/a
Apr/May 2011	30%	10.3p	88.4p	-1.4%	28.6%	n/a
Apr/May 2012	30%	5.7p	97.5p	3.1%	33.1%	n/a
Nov 2012	30%	-	111.8p	11.8%	41.8%	n/a

In the table above, income tax relief has been treated as additional income for the purpose of calculating gains after income tax relief.

* In November 2012, the Company offered an Enhanced Share Buyback ("ESB") which allowed Shareholders who had already held their share for more than five years to sell their shares and reinvest the proceeds, receiving additional income tax relief at the rate of 30% on the new issue.

Original 'C' Shareholders

Shareholders investing under the 'C' Share offer were issued 0.6691 Ordinary Shares for every one 'C' Share held. Dividends of 30.0p per 'C' Share were paid prior to the merger, equivalent to 44.8p per Ordinary Share.

Elderstreet Millennium Shareholders

Shareholders in Elderstreet Millennium Venture Capital Trust ("EMVCT") were issued 0.381 Ordinary Shares in Elderstreet VCT plc for every one share held. Dividends of 61.5p per EMVCT share were paid prior to the merger, equivalent to 161.5p per Ordinary Share in Elderstreet VCT plc.

INVESTMENT OBJECTIVES

The Company's principal investment objectives are to:

- maximise dividends to shareholders, targeting a dividend return of 4.0p per Ordinary Share per annum (subject to liquidity).
- maintain its VCT status.

The detailed investment policy adopted to achieve the investment objectives is set out in the Report of the Directors on pages 14 to 15.

DIRECTORS

David Brock (Chairman) was, until July 1997, a main board director of MFI Furniture Group plc and managing director of MFI International Limited, having been involved at a senior level in both MFI's management buy out and its subsequent flotation. He started his career at Marks and Spencer plc. He is currently chairman of Episys Group Limited and Kitwave Limited, and is a non-executive director of Hargreave Hale Aim VCT 1 plc and Puma VCT 8 plc.

Hugh Aldous is chairman of Capita Sinclair Henderson, Smart Education Limited, and SPL Guernsey ICC Ltd. He is a director of Henderson Asian Growth Trust plc, Innospec Inc. (NASDAQ) and Polar Capital Holdings plc. He was previously a partner of Grant Thornton UK LLP. He was a DTI Inspector and a member of the Competition Commission.

Barry Dean is a chartered accountant and has over 30 years experience in the private equity industry including 14 years as managing director of Dresdner Kleinwort Benson Private Equity Limited. He is currently a director of Henderson Private Equity Investment Trust plc (a quoted investment trust investing in private equity), Downing Absolute Income VCT 2 plc and ProVen VCT plc. Barry also serves on the investment committee of Beamreach Capital LLP which invests in private equity.

Michael Jackson founded Elderstreet Investments Limited in 1990 and is its executive chairman. For the past 22 years, he has specialised in raising finance and investing in the smaller companies quoted and unquoted sector. From 1983 until 2006 he was a director of FTSE 100 company, The Sage Group plc, becoming chairman in 1997. He was also chairman of PartyGaming plc, another FTSE 100 company. He is also on the board of a number of Elderstreet portfolio companies, as director of Aconite Technology Limited, ANGLOInfo Limited, B & F Management Limited, Baldwin and Francis Holdings Limited, Fords Packaging Systems Limited, SnackTime plc and The Kellan Group plc and as chairman of Access Intelligence plc and Concorde Solutions Limited. Michael studied law at Cambridge University, and qualified as a chartered accountant with Coopers & Lybrand before spending five years in marketing for various US multinational technology companies.

Nicholas Lewis is a partner of Downing LLP - a business he founded as Downing Corporate Finance Limited in 1986. Downing LLP specialises in managing, promoting and administering tax-based investments and has raised approximately £1 billion since 1991. He is a director of several other venture capital trusts. Prior to founding Downing, he was with NatWest Ventures Limited and, before that, with Apex Partners & Co Limited.

All the Directors are non-executive and, with the exception of Michael Jackson and Barry Dean, are independent of the Investment Manager.

CHAIRMAN'S STATEMENT

I present the Company's Annual Report for the year ended 31 December 2012. The year has seen good progress made by many of the Company's larger investments, resulting in a pleasing uplift in the NAV.

Net asset value, results and dividends

At 31 December 2012, the Company's NAV stood at 68.9p, an increase of 7.2p (11.0%) over the year after adding back dividends of 4.0p per share which were paid during the year.

The total return to Shareholders who invested at the launch of the Company in 1998 (NAV plus cumulative dividends) is now 126.9p compared to the original cost (net of income tax relief) of 80p per share. A summary of the position for Shareholders who invested in the Company's various other fundraisings is included on page 2 of this report.

The return on ordinary activities after taxation for the year was £2.1 million (2011 loss: £2.0 million), comprising a revenue return of £406,000 (2011: £271,000) and a capital gain of £1.7 million (2011 loss: £2.3 million).

Subject to Shareholder approval at the forthcoming Annual General Meeting ("AGM"), your Board is proposing to pay a final dividend of 2.0p per share on 28 June 2013 to Shareholders on the register at 24 May 2013. This will bring total dividends in respect of the year to 4.0p (2011: 4.0p), equivalent to a tax-free yield of 7.5% p.a. based on the share price at the date of this report.

Venture capital investments

There was a relatively low level of investment activity during the year, with much of the Manager's focus being on existing portfolio companies. However, two new investments and one follow-on investment were made at a total cost of £1.6 million. Two existing loan note investments were partially redeemed, realising gains of £10,000. The Company also received retention proceeds of £113,000 in respect of WeComm Limited which was sold in 2011.

At the year end, the Company held a portfolio of 24 venture capital investments, of which the top ten accounted for just short of 70% of the total value.

During the Board's review of the unquoted investment valuations at the year end a number of adjustments were made. Smart Education, Wessex Advanced Switching Products ("WASP") and Fords Packaging each enjoyed significant positive developments over the year. As a result, their valuations were uplifted by a total of £2.2 million. Total unrealised gains across the portfolio on the unquoted investments were £2.4 million in the year.

The Company's quoted investments had a mixed performance, accounting for a net fall in value of £550,000. The most notable movement was SnackTime, which lost £988,000 in value, although this was somewhat offset by Access Intelligence plc, which rose in value by £611,000.

Further commentary on the portfolio, together with a schedule of additions, disposals and details of the largest investments by value can be found within the Investment Manager's Report and Review of Investments on pages 6 to 12.

Fixed interest investments

The Company continues to hold a portfolio of fixed interest investments which is managed by Smith & Williamson Investment Management Limited. The portfolio, valued at £1.5 million at the year end, recognised unrealised capital losses of £15,000 and realised losses of £3,000 during the year.

Enhanced Share Buyback ("ESB")

In September 2012, the Company launched an Enhanced Share Buyback offer providing Shareholders the option to sell their shares back to the Company via a tender offer and reinvest the proceeds in new shares. The scheme allowed the Company to provide Shareholders with an incentive for remaining invested in the Company for a further five years by offering further income tax relief on their new investment.

With many of the Company's Shareholders having originally invested some 15 years ago, the opportunity for further income tax relief was well received, with approximately 23% of shares that had been held for more than five years participating. 3,563,586 shares were purchased for cancellation at a price of 59.8p per share and 3,456,451 new shares were allotted in respect of the tender proceeds at a price of approximately 61.6p per share.

Fundraising activities

In addition to the Enhanced Share Buyback, the Company undertook several small top up share offers during the year. On 9 December 2011, a top up offer was launched for the main VCT fundraising season for the 2011/12 tax year. The Company allotted 1,348,003 Ordinary Shares under this offer at an average price of 70.7p per share. Gross proceeds received thereon were £953,000.

A further top up offer was launched in conjunction with the Enhanced Share Buyback in September 2012. This raised £181,000 and 293,419 shares were issued at 61.6p per share.

CHAIRMAN'S STATEMENT (continued)

Fundraising activities (continued)

On 14 January 2013, the Company launched another top up share offer seeking to raise up to approximately £886,000. As at the date of this report, the Company had allotted 1,282,167 shares equivalent to net proceeds of approximately £865,000.

Share buybacks

During the year the Company made a number of market purchases of its shares. In June 2012, the Company purchased 237,429 Ordinary Shares for cancellation for an aggregate consideration of £131,000, at an average price of 55.0p per share. A further 125,000 Ordinary Shares were purchased, in October 2012, for cancellation for an aggregate consideration of £67,000, at an average price of 53.0p per share. Both purchases were undertaken at a price approximately equivalent to a 15% discount to the most recently published NAV at the time of purchase

The Board intends to make market purchases of its shares approximately four times each year and will make a certain level of funds available for this purpose. The Board expects to purchase shares at approximately a 15% discount to the latest published NAV, although this policy will be reviewed from time to time.

Any Shareholders who are considering selling their shares will need to use a stockbroker. Such Shareholders should ask their stockbroker to register their interest in selling their shares with Shore Capital.

Annual General Meeting ("AGM")

The next AGM of the Company will be held on 5 June 2013 at 32 Bedford Row, London WC1R 4HE at 11:00 a.m.

Notice of the meeting is at the end of this document. Three items of Special Business are proposed; one ordinary resolution and two special resolutions in relation to the allotment of shares and share buybacks.

Outlook

In line with the Manager's approach to investing, much of the portfolio value is concentrated in a reasonably small number of investments in which the Manager takes a highly active role. Although there have been some decreases in value over the year, the portfolio as a whole has made good progress and the Board remains satisfied that the portfolio is well balanced and has the potential to deliver further rewards.

As a result of the fundraising activities and the prospect of a lower demand for share buybacks as a result of the ESB, the Company has a reasonable level of funds available for new investment. This allows the Company to continue to comfortably support existing investments should they require it and also to take advantage of potential new investment opportunities that may arise.



David Brock
Chairman

24 April 2013

INVESTMENT MANAGER'S REPORT

The VCT recorded an increase in the total return of 7.2p, (net asset value including cumulative dividends), from 119.7p to 126.9p after paying dividends of 4p per share over the year. NAV per share increased from 65.7p to 68.9p. This increase was recorded despite the loss of 3.3p of NAV due to the fall in the share price of AIM company, SnackTime plc. The fall represented just under £1 million of value. While SnackTime was disappointing, the remainder of the core portfolio's performance is encouraging and several companies were revalued upwards over the year. These are commented on below.

Two new investments were made in the year. An investment of £500,000 was made into Concorde Solutions, a Software Asset Management solutions company, which the manager has known for several years. An investment of £700,000 was made into B&F Management Ltd, and a further £446,000 follow-on investment was made into AngloINFO Limited.

Within the core portfolio upward revaluations were recorded in Smart Education Limited ('Smart'), Wessex Advanced Switching Products Limited ('WASP'), Fords Packaging ('Fords'), and Access Intelligence plc ('Access').

Smart has grown its turnover by 20% over the year and the subsequent cash generation has resulted in a repayment of over £500,000 of the VCTs debt. The current year will see further scaling up of the business to ensure future growth is sustainable.

WASP grew its EBITDA by over 25% during the year with significant advances being made in sales to the aerospace sector. Demand for the switch products, which WASP supplies to the US defence industry via a large UK contractor, is expected to recover with the development of new military radios. The company is cash rich, has no debt, and doubled its dividend over the year.

Fords, which has a year end of June 2013, is on track to record an increase in both turnover and EBITDA. The company is exploring new innovative sealing technology and further streamlining its manufacturing processes. The company is debt free and pays a regular dividend.

Within the AIM portfolio we continue to be cautiously optimistic over the resilience of the two significant holdings, Access Intelligence plc and Fulcrum Utilities plc.

Access released its year end November 2012 figures. Revenue was up by 11% to £8 million. The continued commitment to the software-as-a-service business model has enabled Access to build long-term visibility of revenues and in 2012 recurring revenues on continuing operations represented 69% of revenue. The share price rose 66% over the year. The company has positive net cash and pays a regular dividend.

Fulcrum Utilities provided a trading update ahead of its financial year end on 31 March. EBITDA performance is expected to show a significant improvement over the loss of £2.1 million generated in FY12, with positive EBITDA for the full year between £1.2 million and £1.4 million. However, results will therefore be materially behind market expectations. Following a pronounced deterioration in the final quarter of the financial year, revenues in the second half are expected to be approximately 10% lower than in the same period last year. Revenue for the full year to 31 March 2013 will be between £38 million and £39 million, approximately 7% lower than the prior year. Weaker gross margins in the second half will result in a marginally positive EBITDA result in that period. The share price declined 29% over the year.

We mentioned earlier the decline in the valuation of SnackTime. Over the year the share price fell from 65p to 10p. The setback in the share price reflected a profits warning as a result of several factors: the failure to successfully integrate the Vendia acquisition made in 2010; a decline in sales from certain product lines; and gross margins being hit by inflationary pressure. As a result new management were introduced in 2012 to turnaround the business. Considerable progress in the turnaround has been made over the last 6 months despite tough market conditions.

Generally it is worth noting that in nine out of the top ten companies by value at 31 December 2012 the Manager has at least one board seat or observer rights and are very actively involved with these businesses. We continue to maintain a good level of liquidity so that we are able to respond to investment opportunities that become available. Overall the low external debt position of the portfolio is well covered by earnings and comfortably within banking covenants, and gives us confidence for the future.

While the past year has not been without issues the broad range of investments in the portfolio has outweighed the adverse effect of the SnackTime decline. Overall your Manager retains a balanced but positive outlook for the portfolio.

REVIEW OF INVESTMENTS

Portfolio of investments

The following investments were held at 31 December 2012. All companies are registered in England and Wales, with the exception of Fulcrum Utility Services Limited which is registered in the Cayman Islands.

	Cost £'000	Valuation £'000	Valuation movement in year £'000	% of portfolio by value
Ten largest venture capital investments (by value)				
Smart Education Limited	761	2,471	1,260	11.9%
Wessex Advanced Switching Products Limited	60	2,313	514	11.2%
Fords Packaging Systems Limited	1,047	2,272	427	11.0%
Access Intelligence plc *	1,633	1,854	611	9.0%
AngloINFO Limited	1,108	1,483	-	7.2%
Lyalvale Express Limited	915	1,255	-	6.1%
B&F Management Limited	700	700	-	3.4%
Baldwin & Francis (Holdings) Limited	690	690	-	3.3%
Concorde Solutions Limited	500	500	-	2.4%
Fulcrum Utility Services Limited *	500	500	(208)	2.4%
	<u>7,914</u>	<u>14,038</u>	<u>2,604</u>	<u>67.9%</u>
Other venture capital investments				
Aconite Technology Limited	462	493	181	2.4%
The Engine Group Limited	455	386	-	1.8%
Cashfac plc	260	328	66	1.6%
Interquest Group plc *	336	287	(36)	1.4%
Mears Group plc **	188	260	85	1.2%
SnackTime plc *	1,375	230	(988)	1.1%
RB Sport & Leisure Holdings plc (formerly Rosebowl plc)	188	47	-	0.2%
Servoca plc *	333	39	(3)	0.2%
Sift Limited	250	38	-	0.2%
SparesFinder Limited	103	12	-	0.1%
The Kellan Group plc *	657	11	(11)	0.1%
Infoserve Group plc	127	-	-	-
The National Solicitors Network Limited	501	-	-	-
The QSS Group Limited	268	-	-	-
	<u>5,503</u>	<u>2,131</u>	<u>(706)</u>	<u>10.3%</u>
Fixed income securities				
United Kingdom 2.25% Gilt 07/03/2014	830	864	(16)	4.2%
United Kingdom 1.00% Gilt 07/09/2017	614	616	1	3.0%
S&W Investment Funds Cash Fund	10	10	-	-
	<u>1,454</u>	<u>1,490</u>	<u>(15)</u>	<u>7.2%</u>
	<u>14,871</u>	<u>17,659</u>	<u>1,883</u>	<u>85.4%</u>
Cash at bank and in hand		<u>3,030</u>		<u>14.6%</u>
Total investments		<u>20,689</u>		<u>100.0%</u>

All venture capital investments are unquoted unless otherwise stated

* Quoted on AIM

** Quoted on the Main Market

Elderstreet Investments Limited also acts as investment manager for Bedford Row VCT plc which has co-invested in SnackTime plc investment.

REVIEW OF INVESTMENTS (continued)

Investment movements for the year ended 31 December 2012

ADDITIONS

	£'000
Venture capital investments	
AngloINFO Limited	446
B & F Management Limited	700
Concorde Solutions Limited	500
Fixed income securities	
S&W Investment Funds Cash Fund	24
United Kingdom 1.00% Gilt 07/09/2017	614
	<u>2,284</u>

DISPOSALS

	Cost £'000	Market value at 01/01/12* £'000	Proceeds £'000	Profit vs cost £'000	Realised gain/(loss) £'000
Venture capital investments					
Aconite Technology Limited	100	100	110	10	10
Smart Education Limited	513	690	690	177	-
WeComm Limited	-	-	113	113	113
Fixed income securities					
S&W Investment Funds Cash Fund	33	33	33	-	-
United Kingdom 2.75% Gilt 22/01/2015	559	569	566	7	(3)
	<u>1,205</u>	<u>1,392</u>	<u>1,512</u>	<u>307</u>	<u>120</u>

* Adjusted for purchases in the year where applicable

REVIEW OF INVESTMENTS (continued)

Further details of the ten largest investments are as follows:

Smart Education Limited www.smartteachers.co.uk	Cost at 31/12/2012:	£761,000	Valuation at 31/12/12:	£2,471,000	
	Cost at 31/12/2011:	£1,274,000	Valuation at 31/12/11:	£1,901,000	
	Investment comprises:				
	Equity shares:	£90,000	Valuation method:	Earnings multiple	
	0% loan note	£661,000			
	Abbreviated				
	audited accounts:	31/12/11	31/12/10	Dividend income:	£Nil
	Turnover:	Unpublished information		Loan note income:	£16,000
	Profit before tax:	Unpublished information		Proportion of capital held:	29.3%
	Net liabilities:	(£1.3m)	(£1.7m)	Diluted equity:	29.3%



Smart Education is a growing teacher supply agency based in London which was established in 2005 with offices in Australia and New Zealand.

Wessex Advanced Switching Products Limited www.waspswitches.co.uk	Cost at 31/12/2012:	£60,000	Valuation at 31/12/12:	£2,313,000	
	Cost at 31/12/2011:	£60,000	Valuation at 31/12/11:	£1,799,000	
	Investment comprises:				
	Equity shares:	£60,000	Valuation method:	Earnings multiple	
	Audited accounts:				
		31/12/11	31/12/10	Dividend income:	£178,000
	Turnover:	£8.1m	£8.3m		
	Profit before tax:	£0.4m	£1.0m	Proportion of capital held:	29.7%
	Net assets:	£3.3m	£3.3m	Diluted equity:	29.7%




Wessex Advanced Switching Products designs and manufactures rotary switches, touch screens, membranes and key pads for defence, aerospace and medical instrument markets.

Fords Packaging Systems Limited www.fords-packsys.co.uk	Cost at 31/12/2012:	£1,047,000	Valuation at 31/12/12:	£2,272,000	
	Cost at 31/12/2011:	£1,047,000	Valuation at 31/12/11:	£1,845,000	
	Investment comprises:				
	Equity shares:	£588,000	Valuation method:	Earnings multiple	
	8.0% loan note	£459,000			
	Audited accounts:				
		30/06/12	30/06/11	Dividend income:	£100,000
	Turnover:	£5.2m	£5.4m	Loan note income:	£37,000
	Profit before tax:	£0.6m	£0.3m	Proportion of capital held:	50.2%
	Net assets:	£1.1m	£0.8m	Diluted equity:	50.2%




Based in Bedford, Fords is a leading supplier of capping presses and also manufactures Rotary Sealers. It is widely known for its expertise in sealing and closure technology for food and drink applications where high standards of hygiene are required. The Company holds 49.9% of the total voting rights.

REVIEW OF INVESTMENTS (continued)

Access Intelligence plc www.accessintelligence.com	Cost at 31/12/2012:	£1,633,000	Valuation at 31/12/12:	£1,854,000
	Cost at 31/12/2011:	£1,633,000	Valuation at 31/12/11:	£1,243,000
	Investment comprises:			
	Equity shares:	£1,133,000	Valuation method:	Bid price
	6.00% conv. loan note	£500,000		
	Equity share options:	£Nil		
	Audited accounts:	30/11/12 30/11/11	Dividend income:	£66,000
	Turnover:	£8.0m £7.2m	Loan note income:	£30,000
	Loss before tax:	(£0.1m) (£0.1m)	Proportion of capital held:	14.5%
	Net assets:	£9.1m £9.6m	Diluted equity:	20.3%

Access Intelligence is a group of software companies delivering a range of business critical support services to private and public sector organisations through a software-as-a-service platform.

AngloINFO Limited www.angloinfo.com	Cost at 31/12/2012:	£1,108,000	Valuation at 31/12/12:	£1,483,000
	Cost at 31/12/2011:	£662,000	Valuation at 31/12/11:	£1,037,000
	Investment comprises:			
	Equity shares:	£507,000	Valuation method:	Price of recent investment
	6.00% conv. loan note	£601,000		
	Abbreviated unaudited accounts:	31/12/11 31/12/10	Dividend income:	£Nil
	Turnover:	Unpublished information	Loan note income:	£35,000
	Profit before tax:	Unpublished information	Proportion of capital held:	17.8%
	Net assets:	£0.1m £0.2m	Diluted equity:	29.2%

AngloINFO is an online company providing local business directories, classified advertising and information services in the English language, operating in many countries around the world.

Lyalvale Express Limited www.lyalvaleexpress.com	Cost at 31/12/2012:	£915,000	Valuation at 31/12/12:	£1,255,000
	Cost at 31/12/2011:	£915,000	Valuation at 31/12/11:	£1,255,000
	Investment comprises:			
	Equity shares:	£915,000	Valuation method:	Earnings multiple
	Audited accounts:	31/3/12 2/4/2011	Dividend income:	£31,000
	Turnover:	£7.7m £8.0m		
	Profit before tax:	£1.1m £1.2m	Proportion of capital held:	19.0%
	Net assets:	£6.9m £6.2m	Diluted equity:	19.0%

Lyalvale is the leading producer of shotgun ammunition in the UK. It has developed a range of more than 30 different models of cartridge suitable for both game and clay shooting.

B & F Management Limited www.baldwinandfrancis.com	Cost at 31/12/2012:	£700,000	Valuation at 31/12/12:	£700,000
	Cost at 31/12/2011:	Not held	Valuation at 31/12/11:	Not held
	Investment comprises:			
	Equity shares:	£70,000	Valuation method:	Price of recent investment
	8.0% loan note:	£630,000		
	Audited accounts:	None yet published	Dividend income:	£Nil
	Turnover:	N/A	Loan note income:	£58,000
	Profit before tax:	N/A	Proportion of capital held:	95.0%
	Net assets:	N/A	Diluted equity:	95.0%

B & F Management Limited was established to provide working capital support to Baldwin & Francis (Holdings) Limited through the purchase of part finished contracts. The Company holds 49.9% of the total voting rights.

REVIEW OF INVESTMENTS (continued)

Baldwin & Francis (Holdings) Limited www.baldwinandfrancis.com	Cost at 31/12/2012:	£690,000	Valuation at 31/12/12:	£690,000
	Cost at 31/12/2011:	£690,000	Valuation at 31/12/11:	£690,000
	Investment comprises:			
	Equity shares:	£170,000	Valuation method:	Cost reviewed for impairment



Audited accounts:	27/03/12	27/03/11	Dividend income:	£Nil
Turnover:	£11.6m	£9.5m	Loan note income:	£47,000
Loss before tax:	(£0.5m)	(£0.4m)	Proportion of capital held:	30.0%
Net assets:	£0.3m	£0.8m	Diluted equity:	30.0%

Baldwin and Francis manufactures flameproof switchgear for the mining, oil and rail industries, a significant percentage of which is currently exported. It has subsidiary or joint venture operations in China and Canada and has a long export record to other countries including the Russian Federation, India, Turkey and the Middle East.

Concorde Solutions Limited www.concordeuk.com	Cost at 31/12/2012:	£500,000	Valuation at 31/12/12:	£500,000
	Cost at 31/12/2011:	Not held	Valuation at 31/12/11:	Not held
	Investment comprises:			
	Equity shares:	£50,000	Valuation method:	Price of recent investment



8.0% conv. loan note:	£450,000			
Abbreviated				
unaudited accounts:	30/11/11	30/11/10	Dividend income:	£Nil
Turnover:	Unpublished information		Loan note income:	£24,000
Profit before tax:	Unpublished information		Proportion of capital held:	1.8%
Net assets/(liabilities):	£0.4m	(£0.2m)	Diluted equity:	13.5%

Concorde's software asset management solution provides large companies with clarity of their software assets and whether they are adhering to the relevant software licences.

Fulcrum Utility Services Ltd www.fulcrumutilityserviceslimited.co.uk	Cost at 31/12/2012:	£500,000	Valuation at 31/12/12:	£500,000
	Cost at 31/12/2011:	£500,000	Valuation at 31/12/11:	£708,000
	Investment comprises:			
	Equity shares:	£500,000	Valuation method:	Bid price



Audited accounts:	31/03/12	31/03/11	Dividend income:	£Nil
Turnover:	£41.0m	£28.0 m		
Loss before tax:	(£5.6m)	(£12.0m)	Proportion of capital held:	2.7%
Net (liabilities)/assets:	(£0.1m)	£4.9m	Diluted equity:	2.7%

Fulcrum is an independent gas transporter and provider of unregulated gas connection services. Fulcrum's experience is gained from completing an average of 140,000 domestic, industrial and commercial gas connections per year from multi-million pound technical developments such as Heathrow Terminal 5 to smaller scale commercial projects like the supply upgrade to The New Angel restaurant in Dartmouth.

Note:

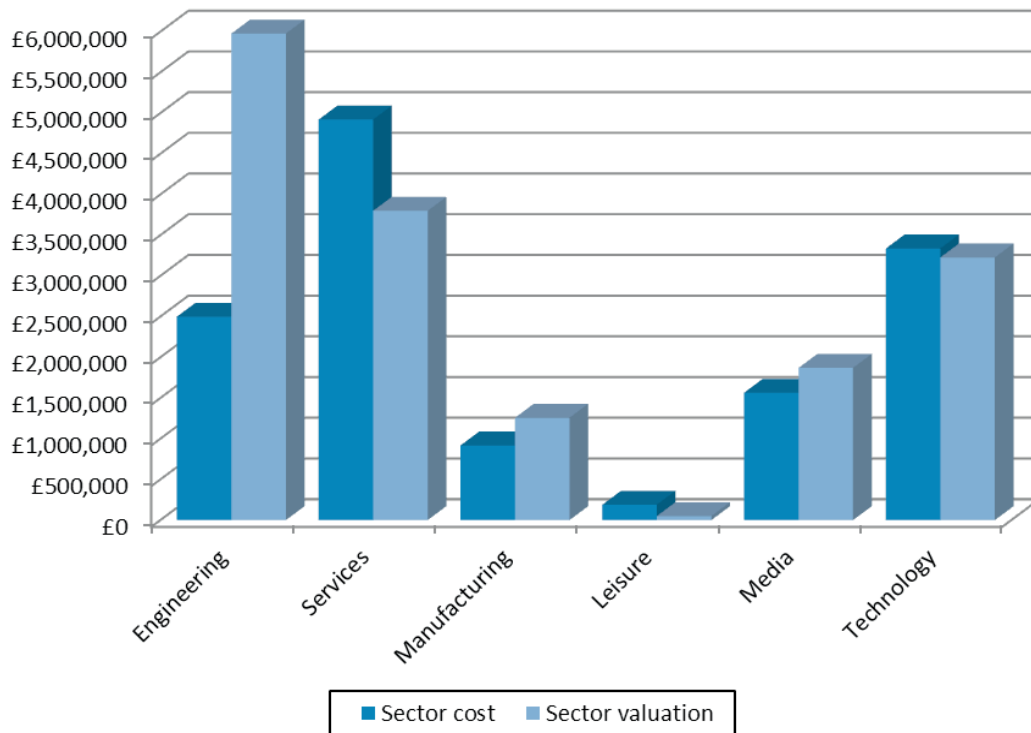
Except where disclosed, the proportion of equity held by each investment also represents the level of voting rights held by the Company in respect of the investment.

Loan notes disclosed in the above tables are valued at current expected redemption value, which is normally at par.

REVIEW OF INVESTMENTS (continued)

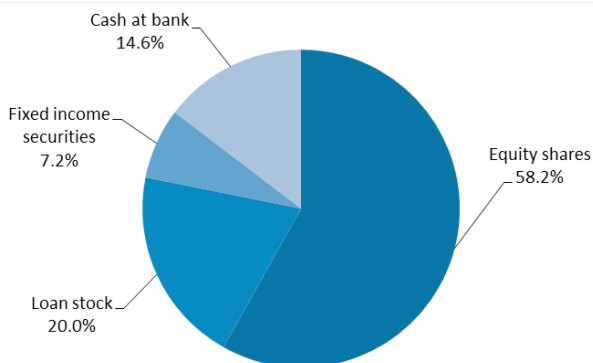
Analysis of investments by commercial sector

The split of the venture capital investment portfolio by commercial sector (by cost and by value at 31 December 2012) is as follows:



Analysis of investments by nature of instrument

The following chart summarises the Company's investment portfolio by the nature of instrument held (by value at 31 December 2012):



Portfolio balance

At 31 December 2012, the Company assets employed were broadly in line with the targets within the investment policy. These are summarised as follows:

Type of investment (by value, according to HMRC regulations)	Actual	Target
VCT qualifying investments	77.0%	Minimum 70%
Non-qualifying investments (including cash at bank)	23.0%	Maximum 30%
Total	100.0%	100%

REPORT OF THE DIRECTORS

The Directors present the Annual Report and Financial Statements of the Company for the year ended 31 December 2012.

Principal activity and status

The Directors initially obtained provisional approval for the Company to act as a venture capital trust from HM Revenue & Customs ("HMRC") and have continued to meet the standards set out by HMRC.

The Company revoked its status as an investment company in 2000, however, the Directors consider that the Company has conducted its affairs in a manner to enable it to continue to comply with Part 6 of the Income Tax Act 2007 (the Venture Capital Trust Regulations).

Business review and developments

At the year end, the investment portfolio had risen in value by £1.9 million. Net gains arising on disposals in the portfolio amounted to £120,000.

In addition, the revenue income arising from portfolio investments met the total running costs of the Company, with a £64,000 excess of income over total expenditure.

The Company's business and developments during the year are reviewed further in the Chairman's Statement, the Investment Manager's Report and the Review of Investments.

Share capital

Between 5 April 2012 and 2 May 2012, the Company allotted 1,348,003 Ordinary Shares of 5p each ("Ordinary Shares"), under the terms of a prospectus dated 9 December 2011, at an average price of 70.7p per share. Gross proceeds received thereon were £953,000 with issue costs in respect of the offer amounting to £52,000.

In June 2012, the Company purchased 237,429 Ordinary Shares for cancellation for an aggregate consideration of £131,000, at an average price of 55.0p per share. A further 125,000 Ordinary Shares were purchased, in October 2012, for cancellation for an aggregate consideration of £67,000, at an average price of 53.0p per share. Both purchases were undertaken at a price approximately equivalent to a 15% discount to the most recently published NAV at the time of purchase. These shares were subsequently cancelled.

On 23 November 2012 and 27 November 2012 the following transactions took place under the Enhanced Share Buyback scheme which was approved by Shareholders at a General Meeting on 5 November 2012:

- 3,563,586 Ordinary Shares were purchased for cancellation at a price of 59.8p per Ordinary Share.
- 3,456,451 Ordinary Shares were allotted in respect of the shares tendered for cancellation at a price of approximately 61.6p per Ordinary Share.

In addition, on 23 November 2012, the Company allotted 293,419 Ordinary Shares at a price of approximately 61.6p per Ordinary Share, under the terms of the top-up offer document dated 25 September 2012. Gross proceeds received thereon were £181,000 with issue costs in respect of the offer amounting to £75,000.

The total number of Ordinary Shares in issue at 31 December 2012 was 29,873,533.

Between 3 April 2013 and 16 April 2013 the Company allotted 1,282,167 Ordinary Shares, under the terms of a prospectus dated 14 January 2013, at an average price of 67.5p per share, with gross proceeds received thereon of £865,000.

At the date of this report, the total number of Ordinary Shares each in issue was 31,155,700. There are no other share classes in issue.

Results and dividends

	Pence £'000 per share	
Return for the year	2,124	7.2
<i>Dividends paid in the year</i>		
22 June 2012	601	2.0
6 December 2012	594	2.0
	1,195	4.0

Subject to Shareholder approval at the forthcoming AGM, your Company is proposing to pay a final dividend of 2.0p per Ordinary Share (split as 1.0p revenue and 1.0p capital) on 28 June 2013 to Shareholders on the register at 24 May 2013.

REPORT OF THE DIRECTORS (continued)

Performance incentive fees

Performance incentive fees are payable to the Investment Manager, with effect from 1 January 2009, and only when the Company has paid and/or proposed distributions totalling 3.5p per share in respect of any one financial year and when the NAV, before the distribution, is above 70.6p per share. If the test is met, the fee is calculated at a rate of 20% of the distribution per share in excess of 3.5p and is based on the shares in issue at the year end. The performance incentive fee will also have a catch-up should any previous year's distribution not be met. As the test was not met at the year end, no performance fees are payable in respect of the year ended 31 December 2012.

Investment policy

The Company aims to invest between 70.0% and 80.0% of its funds in qualifying holdings and the balance in fixed interest securities and cash at bank.

The Company will continue to invest predominantly in a diversified portfolio of companies, with a particular emphasis on smaller unquoted companies, through investments which will usually have the following characteristics:

- Established companies which are seeking development capital or funding for management buy-outs. (Investments in early stage businesses should represent only a small proportion of the portfolio at any time).
- A strong, balanced and well-motivated management team.
- Investments which, where appropriate, include loan notes and preference shares to enhance the security of the portfolio and to provide income.
- Investments where Elderstreet Investments Limited can typically act as lead investor and have an active involvement in the business through a board position.

The Company has a general portfolio mix by sector and its average deal size is approximately £1.0 million, although it will syndicate deals of up to £2.0 million. Within qualifying investments, 30.0% of investments will usually be into early stage companies with high growth potential and 70.0% will be MBO and development capital investments – mature companies yielding dividends. The target deal size is between £500,000 and £1.0 million across a broad range of industries. The Company will aim to have material influence, including board representation, in relation to all of its portfolio companies.

Unquoted investments

It is the Directors' intention that qualifying investments by the Company will be in companies supplying products and services to a range of markets. In particular, the Directors have specific experience and expertise in certain markets, such as information technology, manufacturing and retailing, and, where appropriate, the Company will invest in these sectors.

It is intended that most of the qualifying investments will be established businesses requiring development finance or funding for management buy-outs or buy-ins. Investments in early stage businesses should represent only a small proportion of the portfolio at any time; such investments could be made, for example, in a company whose management team the Company has previously backed or a start-up company which can demonstrate substantial and verifiable first year sales prospects.

In order to enhance the security of the portfolio and to provide income, the Company's investments may include, where appropriate, loan notes and preference shares.

The Company's policy is, where appropriate, to have a representative of the Investment Manager, or an experienced individual well known to it, appointed to the board of each investee company as a non-executive director in order to play an active role in seeking to develop the full potential of the company concerned. The Investment Manager will endeavour to add value to the investee companies in a number of ways, including strategic planning, assisting with the development of the management team, advising on acquisitions or mergers and helping to structure the company for a stock market flotation or trade sale.

The Investment Manager will seek to ensure that the businesses in which the Company invests will have strong management teams; opportunities for growth; products or services able to sustain a competitive advantage; and reasonable prospects of achieving a stock market flotation or trade sale within three to five years.

AIM quoted companies

Companies whose shares are traded on AIM will be considered for investment. Such investments will normally only be made where most of the same criteria for unquoted investments are met.

REPORT OF THE DIRECTORS (continued)

Investment policy (continued)

Fixed income securities

The approach adopted by Smith & Williamson Investment Management Limited in respect of the fixed income securities will be to concentrate on the short-dated fixed interest securities of high credit quality to provide protection for the capital invested. Accordingly, it is intended that the fixed income securities will principally consist of financial instruments and fixed income securities issued by the UK Government, major companies and institutions.

Venture Capital Trust regulations

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

1. The Company holds at least 70.0% of its investments in qualifying companies (as defined by Part 6 of the Income Tax Act 2007);
2. In respect of funds raised before 5 April 2011, at least 30.0% of the Company's qualifying investments (by value) are held in "eligible shares" ("eligible shares" generally being ordinary share capital). For funds raised after 5 April 2011 this is increased to 70.0%;
3. At least 10.0% of each investment in a qualifying company is held in "eligible shares" (by cost at time of investment);
4. No investment constitutes more than 15.0% of the Company's portfolio (by value at time of investment);
5. The Company's income for each financial year is derived wholly or mainly from shares and securities;
6. The Company distributes sufficient revenue dividends to ensure that not more than 15% of the income from shares and securities in any one year is retained; and
7. Prior to 5 April 2012, the maximum unit size of £1 million in each VCT qualifying investment (per tax year). Post 5 April 2012 the maximum size is £5.0 million (per tax year).

Borrowings

It is not the Company's intention to have any borrowings, however, the Company does have the ability to borrow not more than 10.0% of the aggregate of the nominal capital of the Company (being issued and paid up) plus the amounts standing to credit of the consolidated reserves of the Company and its subsidiary.

At 31 December 2012, the maximum amount of borrowings allowed, without the previous sanction at a General Meeting, stood at £2.0 million. There are no plans to utilise this ability at the current time.

Environmental and social policy

The Company seeks to conduct its affairs responsibly. Where appropriate, the Board and the Managers take environmental and social factors into consideration when making investment decisions.

Investment management fees

Elderstreet Investments Limited is the Investment Manager for the Company and receives a fee of 2.0% of net assets per annum. The agreement, originally entered into on 30 January 1998 for a fixed period of five years, is terminable by one year's prior written notice by either side.

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

Administration management fees

Downing LLP provides administration services to the Company for a fee of £50,000 per annum (plus VAT). The agreement may be terminated by either the Board or Downing LLP serving on the other not less than 12 months' notice of termination.

Fixed interest investment management

Smith & Williamson Investment Management Limited provides investment management services to the Company in respect of fixed income securities for a fee of 0.15% per annum (plus VAT where applicable) of the amount invested in fixed income securities subject to a maximum of £10,000 per annum (plus VAT where applicable).

REPORT OF THE DIRECTORS (continued)

Annual running costs cap

The Company's annual running costs (which exclude any performance fees payable) are capped at 3.5% of the net assets. Any excess will be paid by the Investment Manager. The total expense ratio for the year, based on net assets at the year end, was 2.9% (2011: 3.2%).

Directors

The Directors of the Company during the year and their beneficial interests in the issued Ordinary Shares in the Company at each year end and the date of this report were as follows:

	2012	2011
David Brock	96,999	100,000
Hugh Aldous	20,000	20,000
Barry Dean	20,421	20,627
Michael Jackson	767,058	776,485
Nicholas Lewis	48,498	50,000

In accordance with developments with corporate governance practice, the Board has decided that it would be best practice for the whole Board of Directors to retire at each AGM, with those wishing to do so putting themselves forward for re-election. Accordingly, at the forthcoming AGM all Directors will retire and all of them are offering themselves for re-election. The Board recommends that Shareholders take into consideration each Director's considerable experience in VCTs and other areas, as shown in their respective biographies on page 3 together with the performance of the Company over the years, in order to support the resolutions to re-appoint each of the Directors.

Each of the Directors has entered into an agreement for services which are terminable on three months' notice by either side. Each Director is required to devote such time to the affairs of the Company as the Board reasonably requires and their powers are bound by the Company's Articles of Association. Appointments of new Directors to the Board are considered by all existing Directors as, and when, required.

The Company provides Directors' and Officers' liability insurance, giving appropriate cover for legal action brought against its Directors, and has also agreed to indemnify Directors in circumstances where they are not considered to be culpable. The indemnity, which is a qualifying third party indemnity provision for the purpose of the Companies Act, is for the benefit of all of the Company's current Directors.

VCT status

The Company has retained PwC to advise it on compliance with VCT requirements, reporting directly to the Board. PwC work closely with the Managers of the Company, undertaking reviews of the VCT compliance status of new investment opportunities; providing regular compliance updates on the Company's existing portfolio of investments and providing advice on VCT compliance issues as and when they arise.

A summary of the VCT regulations is included in the Company's Investment Policy as shown on page 15.

Compliance with the main VCT regulations as at 31 December 2012 and for the year then ended is summarised as follows:

- 70.0% of its investments is held in qualifying companies; 77.0%
- At least 30.0% of the Company's qualifying investments (by value) are held in "eligible shares" for funds raised before 5 April 2011, and 70.0% thereafter; Complied
- At least 10.0% of each investment in a qualifying company is held in "eligible shares"; Complied
- No investment constitutes more than 15% of the Company's portfolio; Complied
- The Company's income for each financial year is derived wholly or mainly from shares and securities; 94.2%
- The Company distributes sufficient revenue dividends to ensure that not more than 15% of the income from shares and securities in any one year is retained; and Complied
- A maximum unit size of £1 million in each VCT qualifying investment for the period to 5 April 2012; £5 million thereafter. Complied

REPORT OF THE DIRECTORS (continued)

Creditor payment policy

The Company's payment policy is to pay creditors within thirty days of receipt of an invoice except where other terms have been agreed. The Company did not have any trade creditors at the year-end (2011: none).

Key performance indicators

At each Board meeting, the Directors consider a number of performance measures to assess the Company's success in meeting its investment policy (as shown on pages 14 to 15). The Board believes the Company's key performance indicators, for comparison against similar VCTs, are Net Asset Value Total Return (NAV plus cumulative dividends paid to date) and dividends per share (see page 2).

Principal risks and uncertainties

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

In addition to these risks, the Company, as a fully listed Company on the London Stock Exchange and as a Venture Capital Trust, operates in a complex regulatory environment and therefore faces a number of related risks.

A breach of the VCT regulations could result in the loss of VCT status and consequent loss of tax reliefs currently available to Shareholders and the Company being subject to capital gains tax. Serious breaches of other regulations, such as the Listing Rules of the Financial Conduct Authority and the Companies Act, could lead to suspension from the Stock Exchange and damage to the Company's reputation.

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

Auditor

Since the year end, the Auditor, PKF (UK) LLP, merged its business into BDO LLP. A resolution to appoint BDO LLP as the Company's Auditor will be proposed at the forthcoming AGM.

Substantial interests

As at 31 December 2012, and the date of this report, the Company was not aware of any beneficial interests exceeding three per cent of the issued Ordinary Share capital.

Annual General Meeting

The Annual General Meeting will be held at 32 Bedford Row, London WC1R 4HE at 11:00 a.m. on 5 June 2013. The Notice of the Annual General Meeting is at the end of this document.

Directors' responsibilities statement

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

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

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

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

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

REPORT OF THE DIRECTORS (continued)

Directors' responsibilities statement (continued)

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.

Directors' statement pursuant to the Disclosure and Transparency Rules

Each of the Directors, whose names and functions are listed on page 3, confirms that, to the best of each person's knowledge:

- the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the management report within the Chairman's Statement, Investment Management Report, the Review of Investments and the Report of the Directors, includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that it faces.

Electronic publication

The financial statements are published on www.elderstreet.com (maintained by the Investment Manager) and on www.downing.co.uk (maintained by the Administration Manager). Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

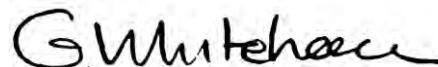
Corporate Governance

The Company's compliance with, and departures from, the Financial Reporting Council's UK Corporate Governance Code, June 2010 (www.frc.org.uk), is shown on pages 21 to 23.

Statement as to disclosure of information to Auditor

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

By order of the Board



Grant Whitehouse

Secretary of Elderstreet VCT plc
Company number: 03424984
Registered office:
10 Lower Grosvenor Place
London SW1W 0EN

24 April 2013

DIRECTORS' REMUNERATION REPORT

The Board has prepared this report in accordance with the requirements of Sections 420 to 422 of the Companies Act 2006. A resolution to approve this report will be put to Shareholders at the AGM to be held on 5 June 2013.

Directors' remuneration policy

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

- The Directors shall be paid out of the funds of the Company by way of fees for their services an aggregate sum not exceeding £1,000,000 per annum. The Directors shall also receive by way of additional fees such further sums (if any) as the Company in general meeting may from time to time determine. Such fees and additional fees shall be divided among the Directors in such proportion and manner as they may determine and in default of determination equally.
- The Directors shall be entitled to be repaid all reasonable travelling, hotel and other expenses incurred by them respectively in or about the performance of their duties as Directors, including any expenses incurred in attending meetings of the Board or of Committees of the Board or general meetings and if in the opinion of the Directors it is desirable that any of their number should make any special journeys or perform any special services on behalf of the Company or its business, such Director or Directors may be paid reasonable additional remuneration and expenses as the Directors may from time to time determine.

Directors' remuneration, as shown in the following table, is set at a level designed to reflect the time commitment and the high level of responsibility borne by the non-executive Directors and should be broadly comparable with those paid by similar companies.

The Company has a Remuneration Committee who reviews the remuneration levels received by the Board as and when deemed appropriate.

Agreement for services

Each of the Directors has signed an agreement for services with the Company which specify a notice period of three months. Each Director is required to devote such time to the affairs of the Company as the Board reasonably requires.

Directors' remuneration (audited)

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

	2012	2011
	£	£
David Brock	15,000	15,000
Hugh Aldous	10,000	10,000
Barry Dean	10,000	10,000
Michael Jackson	10,000	10,000
Nicholas Lewis	10,000	10,000
	55,000	55,000

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

2013 remuneration

The remuneration levels for the forthcoming year are expected to be unchanged, and at the following levels:

	£
David Brock	15,000
Hugh Aldous	10,000
Barry Dean	10,000
Michael Jackson	10,000
Nicholas Lewis	10,000
	55,000

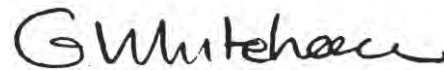
DIRECTORS' REMUNERATION REPORT (continued)

Performance graph

The Board believes that NAV Total Return provides Shareholders with a fairer reflection of the Company's long term value than the Company's share price, due to the long term nature of an investment in Venture Capital Trust shares.

The following graph charts the total cumulative Shareholder return of the Company (assuming all dividends are re-invested) ("NAV Total Return") and total return of the Company's Share Price ("Share Price Total Return") over the past five years, compared to Numis Smaller Companies Index (Total Return, excluding investment companies), each of which has been rebased to 100 pence.

By order of the Board



Grant Whitehouse
Secretary
10 Lower Grosvenor Place
London SW1W 0EN

24 April 2013



CORPORATE GOVERNANCE STATEMENT

The Directors support the relevant principles of the UK Corporate Governance Code, being the principles of good governance and the code of best practice, as set out in Section 1 of the UK Corporate Governance Code maintained by the Financial Reporting Council.

The Board

The Company has a Board comprising of five non-executive Directors. The Chairman is David Brock and the Senior Independent Director is Hugh Aldous. Biographical details of all Board members (including the significant commitments of the Chairman) are shown on page 3.

In accordance with the Articles of Association, Directors are subject to re-election at the first AGM after their appointment and by rotation thereafter. In accordance with developments with corporate governance practice, the Board has decided that it would be best practice for the whole Board of Directors to retire at each AGM, with those wishing to do so putting themselves forward for re-election. Accordingly, at the forthcoming AGM all Directors will retire and all of them are offering themselves for re-election.

Full Board meetings take place quarterly and the Board meets or communicates more regularly to address specific issues. The Board has a formal schedule of matters specifically reserved for its decision which includes, but is not limited to: considering recommendations from the Investment Manager; making decisions concerning the acquisition or disposal of investments outside of the scope of the discretionary management agreement; and reviewing, annually, the terms of engagement of all third party advisers (including the Investment Manager).

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

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

Share capital

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

The Board will also seek authority at the forthcoming AGM to issue new shares up to 14.9% of the current issued share capital.

The capital structure of the Company is disclosed on page 13.

Committees to the Board

As the Company has a small Board of non-executive Directors, all Directors sit on the Nomination Committee and Remuneration Committee. David Brock and Hugh Aldous sit on the Audit Committee. Committee meetings are held in conjunction with the Board meetings. The Chairman of each Committee is David Brock. All Committees have defined terms of reference and duties, which are available from www.downing.co.uk.

Board and Committee meetings

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

	Board meetings attended (4 held)	Audit Committee meetings attended (1 held)
David Brock	4	1
Hugh Aldous	3	1
Barry Dean	4	N/A
Michael Jackson	4	N/A
Nicholas Lewis	3	N/A

Neither the Nomination nor Remuneration Committee met during the year.

Audit Committee

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

CORPORATE GOVERNANCE STATEMENT (continued)

Audit Committee (continued)

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

During the year the Committee discharged its responsibilities by obtaining assurance from their own evaluation of the annual report; the audit feedback documentation and; from correspondence and discussions with the engagement partner of PKF (UK) LLP.

During the year, in addition to the audit, PKF (UK) LLP provided corporation tax compliance services on behalf of the VCT. The Committee considers that during the year PKF (UK) LLP have been well placed to provide this service given the knowledge gained from the work undertaken during the audit of the Company.

In addition, the Committee reviewed the internal financial controls and concluded that they were appropriate given the nature of the Company. They also considered the need for an internal audit function and concluded that at the present time this function is not considered necessary for a Company of this size.

As the Company has no staff, other than directors, there are no procedures in place in respect of C.3.4 of the UK Corporate Governance Code, relating to whistleblowing. The Audit Committee understands that Investment Manager and Administration Manager have whistleblowing procedures in place.

Nomination Committee

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

Diversity policy

When considering a new appointment to the Board, the Committee's responsibility is to ensure that Shareholders are safeguarded by appointing the most appropriate person for the position, (irrespective of gender) giving due regard to past and present experience in the sectors in which the Company invests. The Company therefore does not have a specific diversity policy in place.

Remuneration Committee

The Remuneration Committee meets, as required, to discuss the existing levels of remuneration for the non-executive Directors and whether they reflect the time commitment and responsibilities of the positions and are comparable with industry standards. Where deemed necessary, they will recommend adjustments to the remuneration levels.

Anti-bribery policy

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

Relations with Shareholders

Shareholders have the opportunity to meet the Board at the AGM. The Board is also happy to respond to any written queries made by Shareholders during the course of the year, or to meet with Shareholders if so requested. As disclosed in the Report of the Directors, there were no Shareholders with a substantial interest in the Company at the year end or at the date of this report.

In addition to the formal business of the AGM, representatives of the management team and the Board are available to answer any questions a Shareholder may have.

Separate resolutions are proposed at the AGM on each substantially separate issue. Downing LLP collates proxy votes and the results (together with the proxy forms) are forwarded to the Company Secretary immediately prior to the AGM.

In order to comply with the UK Corporate Governance Code, proxy votes are announced at the AGM, following each vote on a show of hands, except in the event of a poll being called, and are published immediately following the AGM. The notice of the next AGM and proxy form can be found at the end of these financial statements.

The conditions of appointment of non-executive Directors are available to Shareholders upon request.

Financial reporting

The Directors' statement of responsibilities for preparing the accounts is set out in the Report of the Directors on page 17, and a statement by the Auditor about their reporting responsibilities is set out in the Independent Auditor's Report on page 24.

CORPORATE GOVERNANCE STATEMENT (continued)

Risk management and internal control

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

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

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

<i>Investment Management</i>	Elderstreet Investments Limited
<i>Administration</i>	Downing LLP
<i>Listed Fixed Income</i>	Smith & Williamson
<i>Securities Management</i>	Investment Management Limited

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Chairman's Statement on pages 4 to 5, the Investment Manager's Report on page 4 and the Report of the Directors on page 13. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are shown in the Balance Sheet on page 27; the Cash Flow Statement on page 28 and the Report of the Directors on page 15. In addition, note 17 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

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

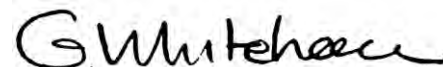
The Directors confirm that they are satisfied that the Company has adequate resources to continue in business for the foreseeable future. For this reason, they believe that the Company continues to be a going concern and that it is appropriate to apply the going concern basis in preparing the financial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

Compliance statement

The Listing Rules require the Board to report on compliance with the fifty-two UK Corporate Governance Code provisions throughout the accounting period. The preamble to the Combined Code does, however, acknowledge that some provisions may have less relevance for investment companies. With the exception of the limited items outlined below, the Company has complied throughout the accounting year ended 31 December 2012 with the provisions set out in the UK Corporate Governance Code issued in June 2010:

- New Directors do not receive a full, formal and tailored induction on joining the Board. Such matters are addressed on an individual basis as they arise. Also, the Company has no major Shareholders so Shareholders are not given the opportunity to meet any new non-executive Directors at a specific meeting other than the AGM. (B.4.1, B.4.2, E.1.1)
- Due to the size of the Board and the nature of the Company's business, a formal performance evaluation of the Board, its Committees, the individual Directors and the Chairman has not been undertaken. Specific performance issues are dealt with as they arise. (A.4.1, A.4.2, B.6.1, B.6.3, B.7.2)
- The Company does not have a majority of independent Directors as defined by the UK Corporate Governance Code as of a majority of Directors have held office for more than nine years. The Board considers that all Directors have sufficient experience to be able to exercise proper judgement within the meaning of the UK Corporate Governance Code. (B.1.2) (Consequently, the composition of the Audit Committee does not comply with C.3-1.)
- The non-executive Directors do not have service contracts, whereas the recommendation is for fixed term renewable contracts. (B.2.3) The Directors do have agreements for services in place. In the Directors' opinion, this does not make a substantive difference to the circumstances of the Company.

By order of the Board



Grant Whitehouse
Secretary
10 Lower Grosvenor Place
London SW1W 0EN

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ELDERSTREET VCT PLC

We have audited the financial statements of Elderstreet VCT plc for the year ended 31 December 2012 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and Auditor

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

Scope of the audit of the financial statements

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

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Report of the Directors for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the corporate governance statement set out on pages 21 to 23 in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook issued by the Financial Conduct Authority (information about internal control and risk management systems in relation to financial reporting processes and about share capital structures) is consistent with the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ELDERSTREET VCT PLC (continued)

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 23, 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.



Stuart Collins (Senior Statutory Auditor)
for and on behalf of PKF (UK) LLP
Statutory Auditor
London UK

24 April 2013

INCOME STATEMENT

for the year ended 31 December 2012

		2012			2011		
	Note	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income	2	715	-	715	575	-	575
Gains/(losses) on investments	9	-	2,003	2,003	-	(2,000)	(2,000)
		715	2,003	2,718	575	(2,000)	(1,425)
Investment management fees	3	(95)	(285)	(380)	(98)	(296)	(394)
Other expenses	4	(214)	-	(214)	(206)	(1)	(207)
Return/(loss) on ordinary activities before tax		406	1,718	2,124	271	(2,297)	(2,026)
Tax on ordinary activities	6	-	-	-	-	-	-
Return/(loss) attributable to equity shareholders		406	1,718	2,124	271	(2,297)	(2,026)
Basic and diluted return/(loss) per share	8	1.4p	5.8p	7.2p	1.0p	(8.2p)	(7.2p)

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

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

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

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Opening Shareholders' funds		18,861	18,785
Issue of shares	12	1,134	3,823
Issue of shares under Enhanced Share Buyback scheme	12	2,131	-
Share issue costs	12	(127)	(210)
Purchase of own shares	12	(198)	(344)
Purchase of own shares under Enhanced Share Buyback scheme	12	(2,142)	-
Total recognised gains/(losses) for the year		2,124	(2,026)
Dividends paid	7	(1,195)	(1,167)
Closing Shareholders' funds		20,588	18,861

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

BALANCE SHEET
at 31 December 2012

	Note	£'000	2012 £'000	£'000	2011 £'000
Fixed assets					
Investments	9		17,659		14,884
Current assets					
Debtors	10	90		52	
Cash at bank and in hand		3,030		4,111	
		<u>3,120</u>		<u>4,163</u>	
Creditors: amounts falling due within one year	11	<u>(191)</u>		<u>(186)</u>	
Net current assets			<u>2,929</u>		<u>3,977</u>
Net assets			<u>20,588</u>		<u>18,861</u>
Capital and reserves					
Called up share capital	12		1,494		1,435
Capital redemption reserve	13		425		229
Merger reserve	13		1,882		2,034
Share premium	13		9,929		8,999
Special reserve	13		-		1,216
Capital reserve – unrealised	13		6,540		1,705
Capital reserve – realised	13		(187)		2,844
Revenue reserve	13		<u>505</u>		<u>399</u>
Total equity shareholders' funds	14		<u>20,588</u>		<u>18,861</u>
Basic and diluted net asset value per share	14		68.9p		65.7p

The financial statements on pages 26 to 42 were approved and authorised for issue by the Board of Directors on 24 April 2013 and were signed on its behalf by:



David Brock
Chairman

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

CASH FLOW STATEMENT
for the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Net cash inflow/(outflow) from operating activities	15	83	(74)
Capital expenditure			
Purchase of investments		(2,284)	(254)
Sale of investments		1,512	1,204
Net cash (outflow)/inflow from capital expenditure		<u>(772)</u>	<u>950</u>
Equity dividends paid		<u>(1,201)</u>	<u>(1,167)</u>
Net cash outflow before financing		(1,890)	(291)
Financing			
Proceeds from share issue		1,093	3,695
Proceeds from shares issued under Enhanced Share Buyback		2,131	-
Share issue costs		(75)	(76)
Purchase of own shares		(198)	(344)
Purchase of own shares under Enhanced Share Buyback		<u>(2,142)</u>	<u>-</u>
Net cash inflow from financing		<u>809</u>	<u>3,275</u>
(Decrease)/increase in cash	16	<u>(1,081)</u>	<u>2,984</u>

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

NOTES TO THE ACCOUNTS for the year ended 31 December 2012

1. Accounting policies

Basis of accounting

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

The financial statements are prepared under the historical cost convention modified by the revaluation of certain financial instruments.

The Company implements new Financial Reporting Standards issued by the Financial Reporting Council when required.

Presentation of Income Statement

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

Fixed asset investments

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

Listed fixed income investments and investments quoted on AIM and the Main Market are measured using bid prices in accordance with the IPEV.

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

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

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

Where an investee company has gone into receivership, liquidation, or administration (where there is little likelihood of recovery), the loss on the investment, although not physically disposed of, is treated as being realised. Permanent impairments in the value of investments are deemed to be realised losses and held within the Capital Reserve – Realised.

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

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

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2012

1. Accounting policies (continued)

Income

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

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

Expenses

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

- Expenses which are incidental to the acquisition of an investment are deducted as a capital item.
- Expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment.
- Expenses are split and presented partly as capital items where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated. The Company has adopted the policy of allocating investment manager's fees, 75% to capital and 25% to revenue as permitted by the SORP. The allocation is in line with the Board's expectation of long term returns from the Company's investments in the form of capital gains and income respectively.
- Performance incentive fees arising are treated as a capital item.

Taxation

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

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

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

Other debtors and other creditors

Other debtors (including accrued income) and other creditors are included within the accounts at amortised cost.

Issue costs

Issue costs in relation to the shares issued are deducted from the share premium account.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2012

2. Income

	2012	2011
	£'000	£'000
Income from investments		
Loan note interest	249	193
Dividend income	396	305
Interest on fixed income securities	29	34
	<u>674</u>	<u>532</u>
Other income		
Deposit interest	41	43
	<u>715</u>	<u>575</u>

3. Investment management fees

	2012	2011
	£'000	£'000
Investment management fees	<u>380</u>	<u>394</u>

Performance incentive fees are payable to the Investment Manager, with effect from 1 January 2009, when the Company has paid and/or proposed distributions totalling 3.5p per share, in respect of any one financial year and, the NAV, before the distribution is above 70.6p per share. If the test is met, the fee is calculated at a rate of 20% of the distribution per share in excess of 3.5p, and is based on the shares in issue at the year end. The performance incentive fee will also have a catch-up should any previous year's distribution not be met. As the test has not been met in the year, no performance fees are payable in respect of 2012 (2011: Nil).

4. Other expenses

	2012	2011
	£'000	£'000
Administration services	60	60
Directors' remuneration	55	55
Social security costs	2	3
Auditor's remuneration for statutory audit	21	21
Auditor's remuneration for non-audit services (corporation tax services)	4	5
Trail commission	12	7
Costs of acquisition of investments	-	1
Other running costs	60	55
	<u>214</u>	<u>207</u>

The annual running costs of the Company are also subject to a cap at 3.5% of the Company's net assets. The Investment Manager's fee is, therefore, restricted accordingly if the cap is breached.

5. Directors' remuneration

Details of remuneration of the Directors (excluding employers' NI) can be found in the Directors' Remuneration Report on page 19.

The Company had no employees other than the Directors during the year. No other emoluments or pension contributions were paid by the Company to, or on behalf of, any Directors.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2012

6. Taxation on ordinary activities

	2012 £'000	2011 £'000
(a) Tax charge for the year		
Current year		
UK corporation tax at 20.0% (2011: 20.2%)	-	-
Charged to capital expenses	-	-
	<u>-</u>	<u>-</u>
(b) Factors affecting tax charge for the year		
Return/(loss) on ordinary activities before tax	<u>2,124</u>	<u>(2,026)</u>
Tax charge calculated on return on ordinary activities before tax at the applicable rate of 20.0% (2011: 20.2%)	425	(409)
(Gains)/losses on investments	(401)	404
UK dividend income	(79)	(62)
Expenses disallowed for taxation purposes	2	2
Excess management fees carried forward	53	65
	<u>53</u>	<u>65</u>
Current tax charge	<u>-</u>	<u>-</u>

- (c) Excess management fees, which are available to be carried forward and set off against future taxable income, amounted to £1.5 million (2011: £1.2 million). The associated deferred tax asset at a rate of 23%, of £357,000, has not been recognised due to the fact that it is unlikely that the excess management fees will be set off against future taxable profits in the foreseeable future.

Due to the Company's status as a Venture Capital Trust and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

7. Dividends

		2012			2011		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Dividends paid in year							
2012 Interim:	2.0p	-	594	594	-	-	-
2011 Final:	2.0p	300	301	601	-	-	-
2011 Interim:	2.0p	-	-	-	-	581	581
2010 Final:	2.0p	-	-	-	147	439	586
		<u>300</u>	<u>895</u>	<u>1,195</u>	<u>147</u>	<u>1,020</u>	<u>1,167</u>
Dividends proposed							
Final:	2.0p	<u>299</u>	<u>299</u>	<u>598</u>	<u>287</u>	<u>287</u>	<u>574</u>

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2012

8. Basic and diluted return per share

	2012	2011
Return per share based on:		
Net revenue return for the financial year (£'000)	<u>406</u>	<u>271</u>
Capital return per share based on:		
Net capital gain/(loss) for the financial year (£'000)	<u>1,718</u>	<u>(2,297)</u>
Weighted average number of shares in issue	<u>29,559,342</u>	<u>27,950,201</u>

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

9. Investments

	Fixed income securities £'000	Quoted investments £'000	Unquoted investments £'000	Total £'000
Opening cost at 1 January 2012	1,408	5,021	7,363	13,792
Unrealised gains/(losses) at 1 January 2012	61	(1,290)	2,321	1,092
Opening fair value at 1 January 2012	<u>1,469</u>	<u>3,731</u>	<u>9,684</u>	<u>14,884</u>
Movement in year				
Purchased at cost	638	-	1,646	2,284
Disposal proceeds	(599)	-	(913)	(1,512)
Realised (losses)/gains in the income statement	(3)	-	123	120
Unrealised (losses)/gains in the income statement	(15)	(550)	2,448	1,883
Closing fair value at 31 December 2012	<u>1,490</u>	<u>3,181</u>	<u>12,988</u>	<u>17,659</u>
Retained investments at 31 December 2012				
Closing cost at 31 December 2012	1,454	5,021	8,396	14,871
Unrealised gains/(losses)	36	(241)	6,177	5,972
Realised losses arising on impairment	-	(1,599)	(1,585)	(3,184)
Closing fair value	<u>1,490</u>	<u>3,181</u>	<u>12,988</u>	<u>17,659</u>

Costs of acquisition of investments acquired during the year were minimal (2011: £1,000) and costs of investments disposed of during the year were also minimal (2011: £Nil). A schedule disclosing the additions and disposals during the year is shown on page 8.

The valuation basis for a few unquoted investments has changed since the previous year's accounts to better reflect the current status of the investments. These investments have changed between being valued on an earnings/revenue multiples basis and the price of recent share trades.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2012

9. Investments (continued)

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

- Level 1 Reflects financial instruments quoted in an active market (fixed interest investments, and investments in shares quoted on either the Main or AIM Markets);
 Level 2 Reflects financial instruments that have prices that are observable either directly or indirectly; and
 Level 3 Reflects financial instruments that are not based on observable market data (investments in unquoted shares, loan note investments and share options).

	Level 1 £'000	Level 2 £'000	Level 3 £'000	2012 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	2011 £'000
Fixed interest securities	1,490	-	-	1,490	1,469	-	-	1,469
Shares quoted on the Main market	260	-	-	260	175	-	-	175
AIM quoted shares	2,254	-	116	2,370	3,006	-	-	3,006
Loan notes	-	-	4,143	4,143	-	-	3,451	3,451
Unquoted shares	-	-	9,396	9,396	-	-	6,783	6,783
	<u>4,004</u>	<u>-</u>	<u>13,655</u>	<u>17,659</u>	<u>4,650</u>	<u>-</u>	<u>10,234</u>	<u>14,884</u>

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

	Unquoted shares £'000	Loan notes £'000	Share options £'000	Total £'000
Balance at 31 December 2011	6,783	3,451	-	10,234
<i>Movements in the income statement:</i>				
Unrealised gains in the income statement	2,448	-	116	2,564
Realised gains in the income statement	-	10	-	10
	<u>2,448</u>	<u>10</u>	<u>116</u>	<u>2,574</u>
Purchased at cost	165	1,481	-	1,646
Disposal proceeds	-	(799)	-	(799)
	<u>9,396</u>	<u>4,143</u>	<u>116</u>	<u>13,655</u>

FRS 29 requires disclosure to be made of the possible effect of changing one or more of the inputs to reasonable possible alternative valuation assumptions where this would result in a significant change in the fair value of the Level 3 investments. There is an element of judgment in the choice of assumptions for unquoted investments and it is possible that, if different assumptions were used, different valuations could have been attributed to some of the Company's investments. The Board and the Investment Manager believe that the valuations as at 31 December 2012 reflect the most appropriate assumptions at that date, giving due regard to all information available from each investee company. Valuations are subject to fluctuations in market conditions and the sensitivity of the Company to such changes is shown within note 17.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2012

10. Debtors

	2012 £'000	2011 £'000
Prepayments and accrued income	<u>90</u>	<u>52</u>

11. Creditors: amounts falling due within one year

	2012 £'000	2011 £'000
Other creditors	137	133
Other taxes and social security	6	6
Accruals and deferred income	<u>48</u>	<u>47</u>
	<u>191</u>	<u>186</u>

12. Share capital

	2012 £'000	2011 £'000
Authorised:		
50,036,500 (2011: 50,036,500) Ordinary Shares of 5p each	<u>2,502</u>	<u>2,502</u>
Issued, allotted, called up and fully paid:		
29,873,533 (2011: 28,701,675) Ordinary Shares of 5p each	<u>1,494</u>	<u>1,435</u>

Between 5 April 2012 and 2 May 2012, the Company allotted 1,348,003 Ordinary Shares, under the terms of a prospectus dated 9 December 2011, at an average price of 70.7p per share. Gross proceeds received thereon were £953,000 with issue costs in respect of the offer amounting to £52,000.

In June 2012, the Company purchased 237,429 Ordinary Shares for cancellation for an aggregate consideration of £131,000, at an average price of 55.0p per share. A further 125,000 Ordinary Shares were purchased, in October 2012, for cancellation for an aggregate consideration of £67,000, at an average price of 53.0p per share. Both purchases were undertaken at a price approximately equivalent to a 15% discount to the most recently published NAV at the time of purchase, and the combined total represented 1.3% of the issued Ordinary Share capital held at 1 January 2012. These shares were subsequently cancelled.

On 23 November 2012 and 27 November 2012 the following transactions took place under the Enhanced Share Buyback scheme which was approved by Shareholders at a General Meeting on 5 November 2012:

- 3,563,586 Ordinary Shares were purchased for cancellation at a price of 59.8p per Ordinary Share.
- 3,456,451 Ordinary Shares were allotted in respect of the shares tendered for cancellation at a price of approximately 61.6p per Ordinary Share.

In addition, on 23 November 2012, the Company allotted 293,419 Ordinary Shares at a price of approximately 61.6p per Ordinary Share, under the terms of the top-up offer document dated 25 September 2012. Gross proceeds received thereon were £181,000 with issue costs in respect of the offer amounting to £75,000.

Management of capital

The Company's capital is managed in accordance with its investment policy, as shown in the Directors' Report on pages 14 to 15, in pursuit of its principal investment objectives as stated on page 3. The Company has the authority to buy back shares as described in the Corporate Governance Statement on page 21.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2012

12. Share capital (continued)

Management of capital (continued)

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 levels 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.

13. Reserves

	Capital redemption reserve £'000	Merger reserve £'000	Share premium £'000	Special reserve £'000	Capital reserve - unrealised £'000	Capital reserve - realised £'000	Revenue reserve £'000
At 1 January 2012	229	2,034	8,999	1,216	1,705	2,844	399
Issue of new shares	-	-	1,052	-	-	-	-
Issue of new shares under Enhanced Share Buyback scheme	-	-	1,958	-	-	-	-
Share issue costs	-	-	(127)	-	-	-	-
Purchase of own shares	18	-	-	(198)	-	-	-
Purchase of own shares under Enhanced Share Buyback scheme	178	-	(1,953)	(189)	-	-	-
Expenses charged to capital	-	-	-	-	-	(285)	-
Gains on investments	-	-	-	-	1,883	120	-
Realisation of revaluations from prior years	-	-	-	-	(232)	232	-
Realisation of impaired valuations from prior years	-	-	-	-	3,184	(3,184)	-
Realisation of fair value assets previously acquired	-	(152)	-	-	-	152	-
Transfer between reserves	-	-	-	(829)	-	829	-
Retained net revenue	-	-	-	-	-	-	406
Dividends paid	-	-	-	-	-	(895)	(300)
At 31 December 2012	425	1,882	9,929	-	6,540	(187)	505

The special reserve is available to the Company to enable the purchase of its own shares in the market without affecting its ability to pay dividends, and also allows the Company to write back realised capital losses arising on disposals and impairments.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2012

13. Reserves (continued)

Distributable reserves are calculated as follows:

	2012	2011
	£'000	£'000
Special reserve	-	1,216
Capital reserve – realised	(187)	2,844
Revenue reserve	505	399
Merger reserve – distributable element	477	477
Unrealised losses (excluding unrealised unquoted gains)	(256)	(2,827)
	<u>539</u>	<u>2,109</u>

On 27 February 2013 the Company obtained court approval to cancel the £9.8 million of the Company's share premium account. Distributable reserves have therefore been uplifted by £9.8 million.

14. Basic and diluted net asset value per share

	Shares in issue		2012 Net asset value		2011 Net asset value	
	2012	2011	Pence per share	£'000	Pence per share	£'000
Ordinary Shares	<u>29,873,533</u>	<u>28,701,675</u>	<u>68.9</u>	<u>20,588</u>	<u>65.7</u>	<u>18,861</u>

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

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

	2012	2011
	£'000	£'000
Return/(loss) on ordinary activities before tax	2,124	(2,026)
(Gains)/losses on investments	(2,003)	2,000
Increase in debtors	(38)	(25)
Decrease in creditors	-	(23)
Net cash inflow/(outflow) from operating activities and returns on investments	<u>83</u>	<u>(74)</u>

16. Reconciliation of net cash flow to movement in net funds

	2012	2011
	£'000	£'000
Beginning of year	4,111	1,127
Net cash (outflow)/inflow for the year	<u>(1,081)</u>	<u>2,984</u>
End of year	<u>3,030</u>	<u>4,111</u>

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2012

17. Financial instruments and derivatives

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

The fair value of investments is determined using the detailed accounting policy as shown in note 1. The composition of the investments is set out in note 9. The fair value of cash deposits and short-term debtors and creditors equates to their carrying value in the balance sheet.

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

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

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

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

Investment risks

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

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

- Investment price risk, and
- Interest rate risk

The Company has undertaken sensitivity analysis on its financial instruments, split into the relevant component parts, taking into consideration the economic climate at the time of review in order to ascertain the appropriate risk allocation.

Investment price risk

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

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2012

17. Financial instruments and derivatives (continued)

Quoted investments

The Company's sensitivity to fluctuations in the share prices of its quoted investments (AIM quoted but excluding fixed interest investments) is summarised below. A 50% movement in the share price in each of the quoted investments held by the Company would have an effect as follows:

Sensitivity	2012 50% mvmt			2011 50% mvmt		
	Risk exposure £'000	Impact on net assets £'000	Impact on NAV per share pence	Risk exposure £'000	Impact on net assets £'000	Impact on NAV per share pence
Quoted stocks	2,631	1,315	4.4p	3,181	1,591	5.5p

Unquoted investments

As many of the Company's unquoted investments are valued using earnings multiples of comparable companies or sectors, a change in the relevant market sectors could impact on the valuation of the equity and preference shares held in the unquoted portfolio by up to 25%. Loan notes held in the Company would not be immediately impacted and would therefore retain their value. The impact on the unquoted shares held by the Company of a 25% movement in share price would therefore be as follows:

Sensitivity	2012 25% mvmt			2011 25% mvmt		
	Risk exposure £'000	Impact on net assets £'000	Impact on NAV per share pence	Risk exposure £'000	Impact on net assets £'000	Impact on NAV per share pence
Unquoted shares	9,395	2,349	7.9p	6,783	1,696	5.9p

Fixed interest investments

The Company also has exposure to variations in the price of its non-qualifying investments. As the investments are government gilts, such securities are typically subject to lower price fluctuations. A 2.5% movement in the valuation of these assets held by the Company would have the following impact:

Sensitivity	2012 2.5% mvmt			2011 2.5% mvmt		
	Risk exposure £'000	Impact on net assets £'000	Impact on NAV per share pence	Risk exposure £'000	Impact on net assets £'000	Impact on NAV per share pence
Gilts	1,490	37	0.1p	1,469	37	0.1p

In each case, the impact of such changes on the return for the year would be the same as that on net assets and NAV per share.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2012

17. Financial instruments and derivatives (continued)

Interest rate risk

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

Interest rate risk profile of financial assets and financial liabilities

There are three levels of interest which are attributable to the financial instruments as follows:

- "Fixed rate" assets represent investments with predetermined yield targets and comprise fixed interest and loan note investments.
- "Floating rate" assets predominantly bear interest at rates linked to Bank of England base rate and comprise cash at bank and Cash Trust investments.
- "No interest rate" assets do not attract interest and comprise equity investments, loans and receivables (excluding cash at bank) and other financial liabilities.

	Weighted average interest rate	Weighted average period until maturity	2012 £'000	2011 £'000
Fixed rate	4.6%	1098 days	4,952	3,970
Floating rate	0.9%		3,097	4,130
No interest rate		731 days*	12,539	10,761
			<u>20,588</u>	<u>18,861</u>

* In respect of non interest bearing stock only

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

The Bank of England base rate stood at 0.5% per annum throughout the year. Any potential change in the base rate, at the current level, would have an immaterial impact on the net assets and total return of the Company.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument is unable to discharge a commitment to the Company made under that instrument. The Company is exposed to credit risk through its holdings of loan notes in investee companies, investments in fixed income securities, cash deposits and debtors.

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

	2012 £'000	2011 £'000
<i>Fair value through profit or loss assets</i>		
Investments in fixed interest securities	1,490	1,469
Investments in loan notes	4,143	3,451
<i>Loans and receivables</i>		
Cash and cash equivalents	3,030	4,111
Interest and other receivables	83	45
	<u>8,746</u>	<u>9,076</u>

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2012

17. Financial instruments and derivatives (continued)

Credit risk (continued)

The Manager manages credit risk in respect of loan notes with a similar approach as described under investment risks above. In addition the credit risk is partially mitigated by registering floating charges over the assets of certain investee companies. The strength of this security in each case is dependent on the nature of the investee company's business and its identifiable assets. The level of security is a key means of managing credit risk. Similarly, the management of credit risk associated interest, dividends and other receivables is covered within the investment management procedures.

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

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

Liquidity risk

Liquidity risk is the risk that the Company encounters difficulties in meeting obligations associated with its financial liabilities. Liquidity risk may also arise from either the inability to sell financial instruments when required at their fair values or from the inability to generate cash inflows as required. The Company only normally has a relatively low level of creditors (2012: £191,000, 2011: £186,000) and has no borrowings. The Company always holds sufficient levels of funds as cash and readily realisable investments in order to meet expenses and other cash outflows as they arise. For these reasons, the Board believes that the Company's exposure to liquidity risk is minimal.

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

The carrying value of loan note investments held at fair value through the profit and loss account at 31 December 2012, as analysed by expected maturity date, is as follows:

As at 31 December 2012	Not later than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 3 years £'000	Between 3 and 5 years £'000	Passed maturity date £'000	Total £'000
Fully performing loan notes	50	958	671	1,052	-	2,731
Past due loan notes	-	-	-	1,202	210	1,412
	50	958	671	2,254	210	4,143

Loan notes categorised as past due refers to three loan note investments. A loan note valued at £572,000 has not yet past its maturity date, however, the investee company is not fully servicing the interest obligations under the loan note, with total interest arrears thereon falling within a banding of one to three months. A further loan note valued at £630,000 has also not yet past its maturity date, however, the investee company is not fully servicing the interest obligations under the loan note, with total interest arrears thereon falling within a banding of six to twelve months. The loan note valued at £210,000 has past its maturity date falling within a banding of six to twelve months, with total interest arrears falling within a banding of one to two years. Notwithstanding the interest arrears and the passing of the maturity date, the Directors do not consider that the loan notes themselves have been impaired or the maturity of the principals has altered.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 December 2012

17. Financial instruments and derivatives (continued)

Liquidity risk (continued)

As at 31 December 2011	Not later than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 3 years £'000	Between 3 and 5 years £'000	Passed maturity date £'000	Total £'000
Fully performing loan notes	100	580	958	1,031	-	2,669
Past due loan notes	210	-	-	-	572	782
	310	580	958	1,031	572	3,451

Financial liabilities

The Company has no financial liabilities or guarantees, other than the creditors disclosed within the balance sheet (2011: none).

Currency exposure

As at 31 December 2012, the Company had no foreign investments (2011: none).

Borrowing facilities

The Company has no committed borrowing facilities as at 31 December 2012 (2011: none)

18. Contingencies, guarantees and financial commitments

The Company had no commitments, contingencies or guarantees at the year end.

19. Related party transactions

Michael Jackson is a director of Elderstreet Investments Limited which provides investment management services to the Company. During the year, £380,000 (2011: £394,000) was due in respect of these services. No performance incentive fees are due to Elderstreet Investments Limited in respect of the year under review (2011: £Nil). The Company also paid £53,000 to Elderstreet Investments Limited in respect of the fundraising undertaken during 2012 (2011: £66,000), and a further £2,500 in respect of work undertaken on the Enhanced Share Buyback scheme. Michael Jackson is also chairman of Access Intelligence plc and Concorde Solutions Limited. Details of these investments, including amounts invested and interest received during the year are shown on pages 7 to 11.

Nicholas Lewis is a partner of Downing LLP which provides administration services to the Company. During the year, £60,000 (2011: £60,000) (including VAT) was due to Downing LLP in respect of these services. The Company also paid £7,500 to Downing LLP in respect of work undertaken on the Enhanced Share Buyback scheme.

20. Controlling party

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

21. Post balance sheet event

On 27 February 2013, the Company obtained court approval to cancel £9.8 million of the share premium account and created a distributable special reserve.

Between 3 April 2013 and 16 April 2013, the Company allotted 1,282,167 Ordinary Shares of 5p each under the terms of an offer document dated 14 January 2013, at an average price of 67.5p per share, with gross proceeds received thereon of £865,000.

NOTICE OF THE ANNUAL GENERAL MEETING of Elderstreet VCT plc

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Elderstreet VCT plc will be held at 32 Bedford Row, London WC1R 4HE at 11.00 a.m. on 5 June 2013 for the transaction of the following business:

As **Ordinary Business**, to consider and, if thought fit, pass the following resolutions which will be proposed as **Ordinary Resolutions**:

1. To receive and adopt the Report of the Directors and Accounts of the Company for the year ended 31 December 2012, together with the Report of the Auditor thereon.
2. To approve the Directors' Remuneration Report.
3. To approve the payment of a final dividend of 2.0p per Ordinary Share.
4. To appoint BDO LLP as Auditor of the Company to hold office until the conclusion of the next Annual General Meeting at which accounts of the Company are presented and to authorise the Directors to determine their remuneration.
5. To re-elect as Director, Hugh Aldous, who retires and, being eligible, offers himself for re-election.
6. To re-elect as Director, David Brock, who retires and, being eligible, offers himself for re-election.
7. To re-elect as Director, Barry Dean, who retires and, being eligible, offers himself for re-election.
8. To re-elect as Director, Michael Jackson, who retires and, being eligible, offers himself for re-election.
9. To re-elect as Director, Nicholas Lewis, who retires and, being eligible, offers himself for re-election.

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

Ordinary Resolution

10. That, the Directors be and are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 ("the Act") to exercise all the powers of the Company to allot shares or to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £1,250,000 during the period commencing on the passing of this resolution and expiring at the conclusion of the Company's next Annual General Meeting, or on the expiry of 15 months following the passing of the resolution, whichever is the later (unless previously revoked, varied or extended by the Company in a general meeting), but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require shares to be allotted or rights to be granted to subscribe for or to convert any security into shares in the Company after such expiry and all previous authorities given by the Directors in accordance with Section 551 of the Act be and are hereby revoked, provided that such revocation shall not have retrospective effect.

Special Resolutions


11. That, conditional upon the passing of the other resolutions set out in this Notice, in substitution for any existing power under Section 570 of the Act, but without prejudice to the exercise of any such power prior to the date hereof, the Directors be and are hereby empowered, during the period commencing on the passing of this special resolution and expiring at the conclusion of the Company's next Annual General Meeting, or on the expiry of 15 months following the passing of the resolution, whichever is the later (unless previously revoked, varied or extended by the Company in general meeting), pursuant to Section 570 of the Act, to allot equity securities (as defined in Section 560(1) of the Act) for cash pursuant to the authority given in accordance with Section 551 of the Act, pursuant to resolution 10 above, as if Section 561 of the Act did not apply to any such allotment but so that this authority shall allow the Company to make offers or agreements before the expiry and the Directors may allot equity securities in pursuance of such offers or agreements as if the powers conferred hereby had not so expired.

NOTICE OF THE ANNUAL GENERAL MEETING
of Elderstreet VCT plc (continued)

12. That, the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 693(4) of the Companies Act 2006) of Ordinary Shares of 5p each in the capital of the Company (“Ordinary Shares”) provided that:
- (i) the maximum number of Ordinary Shares hereby authorised to be purchased shall not exceed 14.9% of the present issued capital of the Company;
 - (ii) the minimum price which may be paid for an Ordinary Share is 5p, exclusive of all expenses;
 - (iii) the maximum price which may be paid for an Ordinary Share is an amount, exclusive of all expenses, equal to 105% of the average of the middle market quotations of the Ordinary Shares as derived from the Daily Official List of the London Stock Exchange, for each of the five business days immediately preceding the day on which the Ordinary Share is contracted to be purchased; and
 - (iv) the Company may validly make a contract to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may validly make a purchase of Ordinary Shares in pursuance of any such contract;

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

By order of the Board



Grant Whitehouse
Secretary

Registered office:
10 Lower Grosvenor Place
London SW1W 0EN

24 April 2013

Note:

Information regarding the Annual General Meeting, including the information required by section 311A of the Companies Act 2006 (the “Act”), is available from www.downing.co.uk.

NOTICE OF THE ANNUAL GENERAL MEETING of Elderstreet VCT plc (continued)

Notes:

- (a) Any member of the Company entitled to attend and vote at the Annual General Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the Annual General Meeting in order to represent his appointer. A member entitled to attend and vote at the Annual General Meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person. If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in these Notes. Please read Note (h) below. Under section 319A of the Act, the Company must answer any question a member asks relating to the business being dealt with at the Annual General Meeting unless:
- answering the question would interfere unduly with the preparation for the Annual General Meeting or involve the disclosure of confidential information;
 - the answer has already been given on a website in the form of an answer to a question; or
 - it is undesirable in the interests of the Company or the good order of the Annual General Meeting that the question be answered.
- (b) To be valid, a Form of Proxy and the power of attorney or other written authority, if any, under which it is signed or an office or notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority, must be delivered to Downing LLP, 10 Lower Grosvenor Place, London SW1W 0EN or electronically at proxy@downing.co.uk, in each case not less than 48 hours (excluding weekends and public holidays) before the time appointed for holding the Annual General Meeting or adjourned meeting at which the person named in the Form of Proxy proposes to vote. In the case of a poll taken more than 48 hours (excluding weekends and public holidays) after it is demanded, the document(s) must be delivered as aforesaid not less than 24 hours (excluding weekends and public holidays) before the time appointed for taking the poll, or where the poll is taken not more than 48 hours (excluding weekends and public holidays) after it was demanded, be delivered at the meeting at which the demand is made.
- (c) In order to revoke a proxy instruction a member will need to inform the Company using one of the following methods:
- by sending a signed hard copy notice clearly stating the intention to revoke the proxy appointment to Downing LLP, 10 Lower Grosvenor Place, London SW1W 0EN. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.
 - by sending an e-mail to proxy@downing.co.uk.
- In either case, the revocation notice must be received by Downing LLP before the Annual General Meeting or the holding of a poll subsequently thereto. If a member attempts to revoke his or her proxy appointment but the revocation is received after the time specified then, subject to Note (d) directly below, the proxy appointment will remain valid.
- (d) Completion and return of a Form of Proxy will not preclude a member of the Company from attending and voting in person. If a member appoints a proxy and that member attends the Annual General Meeting in person, the proxy appointment will automatically be terminated.
- (e) Copies of the Directors' Letters of Appointment and the Register of Directors' interests in the Ordinary Shares of the Company, will be available for inspection at the registered office of the Company during usual business hours on any weekday (excluding weekends and public holidays) from the date of this notice, until the end of the Annual General Meeting for at least 15 minutes prior to and during the meeting.
- (f) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those holders of the Company's shares registered on the Register of Members of the Company as at 11:00 a.m. on 3 June 2013 or, in the event that the Annual General Meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the said Annual General Meeting in respect of such shares registered in their name at the relevant time. Changes to entries on the Register of Members after 11:00 a.m. on 3 June 2013 or, in the event that the Annual General Meeting is adjourned, on the Register of Members less than 48 hours before the time of any adjourned meeting, shall be disregarded in determining the right of any person to attend and vote at the Annual General Meeting.
- (g) As at 9:00 a.m. on 24 April 2013, the Company's issued share capital comprised 31,155,700 Ordinary Shares and the total number of voting rights in the Company was 31,155,700. The website referred to above will include information on the number of shares and voting rights.
- (h) If you are a person who has been nominated under section 146 of the Act to enjoy information rights ("Nominated Person"):
- You may have a right under an agreement between you and the member of the Company who has nominated you to have information rights ("Relevant Member") to be appointed or to have someone else appointed as a proxy for the Annual General Meeting;
 - If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights; and
 - Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.
- (i) A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.
- (j) A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, the proxy will vote or abstain from voting at his or her discretion. The proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Annual General Meeting.
- (k) Except as provided above, members who have general queries about the Annual General Meeting should write to the Chairman at the registered office set out above.
- (l) Members may not use any electronic address provided either in this notice of Annual General Meeting, or any related documents (including the Chairman's letter and Form of Proxy), to communicate with the Company for any purposes other than those expressly stated.



ELDER STREET
VCT plc

ELDERSTREET VCT PLC
FORM OF PROXY

For use at the Annual General Meeting of the above-named Company to be held on 5 June 2013 at 32 Bedford Row, London WC1R 4HE at 11:00 a.m.

I/We* (in BLOCK CAPITALS please)

of

being the holder(s)* of Ordinary Shares of 5p in the capital of the above-named Company, hereby appoint the Chairman of the meeting (see note 1)

or

of

as my/our* proxy to attend for me/us* on my/our* behalf at the Annual General Meeting of the Company to be held at 32 Bedford Row, London WC1R 4HE on 5 June 2013 or at any adjournment thereof.

I/We* desire to vote on the resolutions as indicated in the appropriate column below. Please indicate with an "X" how you wish your vote to be cast.

Details of the resolutions are set out in the Notice of the Annual General Meeting.

ORDINARY BUSINESS	FOR	AGAINST	WITHHELD
1. To receive and adopt the Directors' report and accounts	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. To approve the Directors' Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. To approve the payment of a final dividend of 2p	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. To appoint BDO LLP as the Auditor and authorise the Directors to determine their remuneration	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect Hugh Aldous as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. To re-elect David Brock as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. To re-elect Barry Dean as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. To re-elect Michael Jackson as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. To re-elect Nicholas Lewis as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
SPECIAL BUSINESS			
10. To authorise the Company to allot shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. To authorise the Company to disapply pre-emption rights	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12. To authorise the Company to make market purchases of its shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Dated this day of 2013

Signature(s)/.....

* Delete as appropriate



PLEASE RETURN TO DOWNING LLP IN THE PREPAID ENVELOPE PROVIDED

Notes:

1. Any member of the Company entitled to attend and vote at the Annual General Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the Annual General Meeting in order to represent his appointer. A member entitled to attend and vote at the meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person.
2. Delete "the Chairman of the meeting" if it is desired to appoint any other person and insert his or her name and address. If no name is inserted, the proxy will be deemed to have been given in favour of the Chairman of the meeting. If this Form of Proxy is returned without stating how the proxy shall vote on any particular matter the proxy will exercise his discretion as to whether, and if so how, he votes.
3. Any alterations to the Form of Proxy should be initialled.
4. To be valid, a Form of Proxy and the power of attorney or other written authority, if any, under which it is signed or an office or notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority, must be delivered to Downing LLP, 10 Lower Grosvenor Place, London SW1W 0EN or electronically at proxy@downing.co.uk, in each case not less than 48 hours (excluding weekends and public holidays) before the time appointed for holding the Annual General Meeting or adjourned meeting at which the person named in the Form of Proxy proposes to vote. In the case of a poll taken more than 48 hours (excluding weekends and public holidays) after it is demanded, the document(s) must be delivered as aforesaid not less than 24 hours (excluding weekends and public holidays) before the time appointed for taking the poll, or where the poll is taken not more than 48 hours (excluding weekends and public holidays) after it was demanded, be delivered at the meeting at which the demand is made.
5. In the case of a corporation, this form must be under its common seal or under the hand of some officer or attorney duly authorised on that behalf.
6. In the case of joint holders, the vote of the senior holder tendering a vote will be accepted to the exclusion of the votes of the other joint holders. Seniority depends on the order in which the names stand in the register of members.
7. The completion and return of this Form of Proxy will not preclude you from attending and voting at the Annual General Meeting should you subsequently decide to do so. If a member appoints a proxy and that member attends the Annual General Meeting in person, the proxy appointment will automatically be terminated.
8. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, the proxy will vote or abstain from voting at his or her discretion. The proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Annual General Meeting.

