

ABERDEEN DEVELOPMENT CAPITAL PLC

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 31 MAY 2010

1. CHAIRMAN'S STATEMENT

Background

The year ended 31 May 2010 has been characterised by a low level of portfolio activity, driven by the continuing challenging market conditions facing small and medium sized businesses. However, towards the year end there were encouraging signs of an improvement in market sentiment which has allowed three successful realisations to take place.

As a result of the lack of corporate activity during the economic downturn, the Group was not in a position to repay the Zero dividend preference ("ZDP") shares of ADC Zeros 2010 PLC which were due for final redemption on 30 April 2010. Shareholders meetings were therefore convened with the purpose of seeking an extension to the life of the 2010 ZDPs until 30 April 2012, as outlined in the Circular to shareholders of 2 March 2010, and this proposal was duly approved by all shareholder classes at EGM's held earlier this year.

Despite the difficult market conditions, it is pleasing to note that two returns of capital to shareholders were possible during the year. Firstly on 16 June 2009 a total of £0.5 million was returned to shareholders, with ZDP shareholders receiving 2.6p per share and Ordinary shareholders receiving 0.3p per share, and then on 28 May 2010, £3 million was returned to shareholders with ZDP shareholders receiving 20p per share. To date ZDP shareholders have received 88.6p per share against their issue price of 100p and their final entitlement at 30 April 2012 now stands at 42.11p. Ordinary shareholders have to date received 7.3p per share.

Performance

The net asset value per Ordinary share ("NAV") fell from 10.1p to 7.8p, of which some 1.5p was attributable to the annual allocation of entitlement to holders of ZDP shares.

Given the tough trading environment for certain portfolio companies, the illiquidity of a number of holdings, and also the proximity of the Zero repayment date in 2012, the Board has written down the carrying value of a number of portfolio investments, details of which can be found in the Manager's Report.

Dividend

In last year's report I advised that due to the diminishing number of yielding investments in the portfolio as the better quality assets are realised, the frequency of dividends would be reduced from a quarterly basis to a final dividend payable subject to approval by Ordinary shareholders at the Annual General Meeting. In recommending a final dividend of 0.5 pence per share, the Board is mindful both of the entitlement of Ordinary shareholders to share in any revenue surpluses, but also of the need to conserve cash to meet the primary objective of returning capital to shareholders as part of the ongoing winding up of the Company.

Portfolio Activity

In accordance with the investment objective, no new investments have been made during the year and there were no calls for follow-on investment.

The most significant realisation during the year was that of Norson Holdings, which occurred in April. The Company acquired an interest in Norson Holdings, the hydraulics division of former investee company Norson Group, as part of the successful sale of that company in 2007, at a book cost of £79,000. Having traded profitably for the last three years, Norson Holdings has been acquired by EnerMech Limited, an Aberdeen based company which provides mechanical engineering products and services to the energy industry. Under the terms of the sale ADC received cash of £1.604 million, with the prospect of receiving up to a further £91,000 in deferred consideration proceeds upon satisfactory conclusion of certain warranties over the next twelve months. The disposal represented an uplift of £604,000 to carrying value, some 1.69p per Ordinary share. In line with the Company's policy no deferred consideration proceeds will

be recognised in the accounts until received. Over the lifetime of the investment, an internal rate of return (“IRR”) of 195.6% was generated.

In May, two further successful exits were achieved; holdings in Homelux Nenplas and Oliver Kay Holdings being acquired by a consortium of existing shareholders. The holding in Homelux Nenplas generated proceeds of £560,000 compared with cost and a previous carrying value of £316,000 whilst the disposal of Oliver Kay Holdings generated proceeds of £550,000 compared with cost and a previous carrying value of £497,000. The respective IRRs of the investments over their lifetime were 23.5% and 13.8%.

Further small redemptions were received during the year as well as a small amount of final liquidation proceeds, which are noted in the Manager’s Report.

Unsurprisingly, perhaps, given the strength and depth of the economic downturn, performance has been mixed throughout the remaining investments within the portfolio. Whilst a number, such as Tennants Consolidated, Cash Bases and Enpure, continue to perform creditably, others, such as THL Midlands, have yet to see a return to former levels of trading, and, disappointingly, one investment, the Scottish housebuilder TLA Holdings, fell into administration.

VAT Recovery

The Company accepted the Manager’s offer to refund 100% of VAT charged on investment management fees for the period 1 January 2004 to 31 August 2007 and the amounts recoverable by the Manager from HMRC in respect of prior periods. As a result £559,000 has now been received in respect of the period 1 January 2001 to 31 August 2007 and this has been recognised within the financial statements and allocated to revenue and capital in accordance with the underlying accounting policy. A claim in respect of the period 1 January 1990 to 3 December 1996 remains to be settled between the Manager and HMRC and once agreement is reached this will be recognised in the financial statements and allocated to revenue and capital, again in accordance with the underlying accounting policy during the period in which the VAT was paid.

No account has been taken for any interest due on the above amount or claims for the earlier period, which are still to be agreed with HMRC.

Annual General Meeting

The Annual General Meeting (“AGM”) has been convened for Wednesday, 27th October 2010 at 10 Queen’s Terrace, Aberdeen and the Board looks forward to meeting any shareholders who wish to attend. I would be grateful if you would confirm your attendance by completing the notice that accompanies the Annual Report and returning it together with an indication of any particular questions that you would like to ask.

Mr Gilbert, Mr Scott and I will be retiring by rotation at the AGM and your Board, having reviewed the proposed re-elections, and bearing in mind the wind-up nature of the Company, recommends that shareholders vote in favour of their reappointment.

The Future

The Board’s primary objective is to maximise the value of remaining investments in order to return as much cash as possible to shareholders. The exact amount and timing will of course be uncertain, due largely to the illiquid nature of the investments and the continuing fragile economic climate, but the extension to the life of the 2010 ZDP shares should enhance prospects for returns.

John Milligan
Chairman
30 July 2010

2. MANAGER'S REPORT

Background

The year under review proved to be another challenging one in which to progress the orderly realisation programme sought by shareholders in 2007. The paucity of available credit facilities in the market place has not only curtailed merger and acquisition activity as companies seek to position themselves for sale but also hampered trading activity in certain businesses. Consequently, exit opportunities have been restricted and trading performance has been mixed although the management teams of a number of holdings have dealt with the recessionary pressures commendably.

Net Asset Value Performance

Audited NAV per Ordinary share as at 31 May 2009		10.1p
Major Uplifts		
Norson Holdings	3.5p	
Homelux Nenplas	<u>0.7p</u>	4.2p
Major Downgrades		
Pilgrim Systems	(0.7)p	
Tennants Consolidated	(1.3)p	
THL Midlands (formerly Transys Holdings)	(2.2)p	
TLA Holdings	<u>(1.1)p</u>	(5.3)p
Appropriation to Zero dividend preference shares		(1.5)p
Return of capital to Ordinary shareholders		(0.3)p
VAT Repayment		0.8p
Other movements		<u>(0.2)p</u>
Audited NAV per Ordinary share as at 31 May 2010		<u>7.8p</u>

Investments

There were no new or follow-on investments during the year, however £49,000 loan stock interest due from THL Midlands was rolled over into loan stock.

Realisations

During the year there were a number of realisations from the unlisted portfolio.

Company	Proceeds £'000	Cost £'000	Gain/(Loss) £'000
Cash Bases	31	2	29
Fispak	55	55	-
Homelux Nenplas	560	316	244
Norson Holdings	1,604	79	1,525
Oliver Kay Holdings	550	497	53
Riverdale Publishing ^A	-	617	(617)
Scottish Equity Partnership ^A	10	246	(236)
Tuscan Energy Group ^A	-	1,000	(1,000)
Total	2,810	2,812	(2)

^AInvestments written down to £nil in prior years; liquidation process now complete.

Changes in Carrying Values

In attributing carrying values to investments the Board has considered the illiquid nature of unlisted holdings and applied a discount on a case by case basis to arrive at a value which represents a best estimate of net realisable value. The Board has a policy of not increasing the value of a holding unless the failure to

do so would result in a material understatement of the net assets of the Group. Provisions against the value of underperforming investments are normally applied at the year end or half year end, however, if there is an imminent risk of the underlying business failing then an immediate provision is made.

Valuation Principles

The unlisted portfolio is valued at fair value in accordance with the International Private Equity and Venture Capital Valuation Guidelines.

Methodology	Category
Earnings Multiple	Primary
Price of Recent Investment	Primary
Net Assets	Primary
Industry Valuation Benchmarks	Secondary

Earnings multiple – this methodology is likely to be appropriate for an investment in an established business with an identifiable stream of continuing earnings that can be considered to be maintainable. A multiple is applied to the earnings of the business being valued in order to derive a value for the business. In this case a discount used in the investment’s valuation is typically 25%-50% of the listed equivalent rating to reflect a lack of marketability.

Price of recent investment – this methodology is considered where there has been a recent investment in the company, to base the valuation on the price of that investment. Where the investment being valued was itself made recently, its cost will generally provide a good indication of value. The length of period for which it would remain appropriate to use this methodology for a particular investment will depend on the specific circumstances of the case, but a period of one year is often applied in practice.

Net assets – this methodology is likely to be considered appropriate for a business whose value derives mainly from the underlying value of its assets rather than its earnings. The methodology may also be appropriate for a business that is not making an adequate return on assets and for which greater value can be realised by liquidating the business and selling its assets. It may therefore be appropriate, in certain circumstances, for valuing investments in loss-making companies and companies making only marginal levels of profits.

Industry valuation benchmarks – a number of industries have industry-specific valuation benchmarks, including the information technology sector and service sectors where long-term contracts are a key feature and use multiples of revenue as a valuation benchmark. These industry norms are often based on the assumption that investors are willing to pay for turnover or market share, and that the normal profitability of businesses in the industry does not vary much.

The portfolio is valued at fair value and in the absence of the requirement to realise assets over the next two years International Private Equity and Venture Capital Valuation Guidelines would normally be applied. However, the Board believes that these Guidelines based on usual methodologies relating to earnings, recent transactions, net assets or industry benchmarks are not particularly relevant in the current circumstances.

Where there is no relevant methodology the Board will apply a value based on an assessment of market value, taking into account factors such as trading, the size of the investment and its liquidity.

Outlook

Although some progress has been made in recent months realising particular holdings we expect uncertain market conditions to persist in the short term which will undoubtedly impact adversely on the ability to achieve exits unless more liquidity enters capital markets. However, the Managers believe the sectors in which some investee companies operate will remain attractive to buyers and we will seek to realise value for shareholders where opportunities exist.

3. RESULTS

Financial Highlights

	31 May 2010	31 May 2009	% change
Total assets (£'000)	8,378	12,072 ^A	-30.6%
Total equity shareholders' funds (Net assets) (£'000)	2,786	3,620	-23.0%
Share price (mid market)	1.85p	6.75p	-72.6%
Net Asset Value per share	7.80p	10.13p	-23.0%
Discount to Net Asset Value	-76.3%	-33.4%	
FTSE Small Cap Index (ex Investment Trusts)	2249.0	2290.9	-1.8%
Actual gearing	167.5%	197.0%	
Potential gearing	200.7%	233.5%	
Total expense ratio	2.9%	2.2%	

Earnings

Total return per share	(1.8)p	(6.2)p
Revenue return per share	0.3p	0.7p
Revenue reserves (£'000)	153	153

^A restated to exclude 2010 ZDP shares entitlement which was classed as a current liability, their life having been extended from 30 April 2010 to 30 April 2012 during the year.

Performance (total return)

	1 year % return	3 year % return	5 year % return
Share price	-70.2	-87.0	-91.9
Net Asset Value	-18.8	-57.7	-71.9
FTSE Small Cap Index (ex Investment Trusts)	20.9	-38.8	-6.7

Dividends

Dividend	Rate	Xd Date	Record Date	Payment Date
Proposed final 2010	0.50p	29 September 2010	1 October 2010	29 October 2010

Dividend	Rate	Xd Date	Record Date	Payment Date
First Interim paid	0.25p	15 October 2008	17 October 2008	14 November 2008
Second Interim paid	0.25p	14 January 2009	16 January 2009	13 February 2009
Third Interim paid	0.25p	8 April 2009	14 April 2009	13 May 2009
Fourth Interim paid	0.25p	1 July 2009	3 July 2009	31 July 2009
Total 2009	1.00p			

4. BUSINESS REVIEW

A review of the Company's activities is given in the Chairman's Statement in Section 1 and the Manager's Report in Section 2. This includes a review of the business of the Company and its principal activities, recommended dividends and likely future developments of the business. The major risks associated with the Company are detailed in the section on "Principal Risks and Uncertainties".

Monitoring Performance – Key Performance Indicators

An outline of the performance, market background, investment activity and portfolio strategy during the period under review, as well as the market outlook, is provided in the Chairman's Statement and Manager's Report.

The Key Performance Indicators for the Company, NAV performance (total return), discount of share price to net asset value and share price performance, are detailed in "Results".

Principal Activity

The Company was incorporated as a public limited company on 22 April 1986 and was listed on the London Stock Exchange on 8 September 1986. The Company's registration number is SC 98542. The business of the Company is that of an investment trust investing development capital in private companies in the UK and by the acquisition of companies or other entities investing development capital.

Status

The Company is an investment company as defined by Section 833 of the Companies Act 2006 and is registered as a public limited company.

The Company has been provisionally approved by the Inland Revenue as an investment trust under Section 842 of the Income and Corporation Taxes Act 1988 for the year ended 31 May 2009. The Company has subsequently conducted its affairs so as to enable it to continue to qualify for such approval.

The Company is a qualifying trust for the purposes of Individual Savings Accounts and it is the Directors' intention that the Company should continue to be a qualifying trust.

Investment Objective and Investment Policy

The Board's objective is to conduct an orderly realisation of the Group's assets in a manner which maximises value for shareholders, in accordance with proposals approved by shareholders on 3 August 2007. It is intended that the mechanism for returning surplus cash to shareholders over time be through a combination of ad hoc returns of capital and buying back shares through the market.

Principal Risks and Uncertainties

Investments in smaller unlisted companies carry substantially greater risk, in terms of price and liquidity, than investments in larger companies or in companies listed on the Official List. In addition, many of the businesses in which the Company invests may be exposed to the risk of political change, exchange controls, tax or other regulations that may affect their value and marketability.

As the volume of the Group's shares traded on the market is likely to be small, the shares may trade at a significant discount to the Net Asset Value.

The Group currently utilises gearing in the form of ZDP shares held within its subsidiary companies. Gearing has the effect of exacerbating market falls and market gains.

Going Concern

The Company has announced its intention to conduct an orderly realisation of its investment portfolio and to that extent the financial statements have been prepared on a basis other than that of a going concern which includes, where appropriate, writing down the Company's net assets to a net realisable value.

In March and April 2010 separate class and general meetings were held for the Company, ADC Zeros 2010 PLC and ADC Zeros 2012 PLC at which proposals to extend the life of the ZDP shares of ADC Zeros 2010 PLC until 30 April 2012 were passed.

5. STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation. Under company law the Directors must not approve the accounts 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, International Accounting Standard 1 requires that the Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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

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

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the Directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

For Aberdeen Development Capital PLC

John Milligan

Chairman

30 July 2010

6. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 May 2010

	Notes	Year ended 31 May 2010			Year ended 31 May 2009		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Interest income	3	319	-	319	370	-	370
Dividend income	3	73	-	73	149	-	149
Other income	3	4	-	4	2	-	2
		<u>396</u>	<u>-</u>	<u>396</u>	<u>521</u>	<u>-</u>	<u>521</u>
Losses on held at fair value investments	10	-	(230)	(230)	-	(2,130)	(2,130)
Expenses							
Management fees	4	(33)	(67)	(100)	(33)	(67)	(100)
Other operating expenses	5	(291)	(97)	(388)	(226)	-	(226)
VAT recovered on investment management fees	18	95	193	288	89	182	271
		<u>167</u>	<u>(201)</u>	<u>(34)</u>	<u>351</u>	<u>(2,015)</u>	<u>(1,664)</u>
Profit/(loss) before finance costs and taxation							
Finance costs							
Zero dividend preference shares	6,14	-	(526)	(526)	-	(431)	(431)
		<u>167</u>	<u>(727)</u>	<u>(560)</u>	<u>351</u>	<u>(2,446)</u>	<u>(2,095)</u>
Profit/(loss) before taxation							
Taxation	7	(78)	-	(78)	(106)	-	(106)
		<u>89</u>	<u>(727)</u>	<u>(638)</u>	<u>245</u>	<u>(2,446)</u>	<u>(2,201)</u>
Profit/(loss) for the year	16						
Earnings per Ordinary share – basic (pence)	9	0.25	(2.04)	(1.79)	0.69	(6.85)	(6.16)

The Company does not have any income or expense that is not included in profit/(loss) for the year, and therefore the “Profit/(loss) for the year” is also the “Total comprehensive income for the year” as defined in IAS 1 (revised).

All of the profit/(loss) and total comprehensive income is attributable to the equity holders of Aberdeen Development Capital PLC. There are no minority interests.

The total column of this statement represents the Statement of Comprehensive Income of the Group, prepared in accordance with IFRS. The revenue and capital columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies.

All items in the above statement derive from continuing operations.

The accompanying notes are an integral part of the financial statements.

7. BALANCE SHEETS

As at 31 May 2009

	Notes	Group 2010 £'000	Company 2010 £'000	Group 2009 £'000	Company 2009 £'000
Non-current assets					
Investments at fair value through profit or loss	10	7,590	5,390	10,649	8,199
Subsidiary undertaking	10	-	8	-	281
		<u>7,590</u>	<u>5,398</u>	<u>10,649</u>	<u>8,480</u>
Current assets					
Cash and cash equivalents		925	544	1,319	803
Loans and receivables	12	31	6,587	409	6,884
		<u>956</u>	<u>7,131</u>	<u>1,728</u>	<u>7,687</u>
Current liabilities					
Financial liabilities measured at amortised cost		(168)	(4,023)	(305)	(8,311)
Zero dividend preference shares	14	-	-	(4,226)	-
Total current liabilities	13	<u>(168)</u>	<u>(4,023)</u>	<u>(4,531)</u>	<u>(8,311)</u>
Net current assets/(liabilities)		<u>788</u>	<u>3,108</u>	<u>(2,803)</u>	<u>(624)</u>
Total assets less current liabilities		<u>8,378</u>	<u>8,506</u>	<u>7,846</u>	<u>7,856</u>
Non-current liabilities					
Zero dividend preference shares	14	(5,592)	-	(4,226)	-
Amounts due to subsidiary	14	-	(5,592)	-	(4,226)
Total net assets		<u>2,786</u>	<u>2,914</u>	<u>3,620</u>	<u>3,630</u>
Equity					
Share capital	15	357	357	357	357
Special reserve	16	17,395	17,395	17,502	17,502
Capital redemption reserve	16	12	12	12	12
Capital reserve – realised	16	(13,926)	(14,020)	(13,494)	(13,845)
Capital reserve – unrealised	16	(1,205)	(1,430)	(910)	(866)
Revenue reserve	16	153	600	153	470
Total shareholders' funds		<u>2,786</u>	<u>2,914</u>	<u>3,620</u>	<u>3,630</u>
Equity shareholders' funds		<u>2,786</u>	<u>2,914</u>	<u>3,620</u>	<u>3,630</u>
Net asset value per Ordinary share - basic (pence)		7.80	8.16	10.13	10.16

The accompanying notes are an integral part of the financial statements.

8. STATEMENTS OF CHANGES IN EQUITY

Group							
For year ended 31 May 2010	Share capital	Special reserve	Capital redemption reserve	Capital reserve realised	Capital reserve unrealised	Revenue reserve	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Net assets at 31 May 2009	357	17,502	12	(13,494)	(910)	153	3,620
Return of capital to Ordinary shareholders	-	(107)	-	-	-	-	(107)
Dividends paid (note 8)	-	-	-	-	-	(89)	(89)
Net (loss)/gain on ordinary activities after taxation	-	-	-	(432)	(295)	89	(638)
Net assets at 31 May 2010	357	17,395	12	(13,926)	(1,205)	153	2,786
For year ended 31 May 2009	Share capital	Special reserve	Capital redemption reserve	Capital reserve realised	Capital reserve unrealised	Revenue reserve	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Net assets at 31 May 2008	357	18,216	12	(7,302)	(4,656)	406	7,033
Return of capital to Ordinary shareholders	-	(714)	-	-	-	-	(714)
Dividends paid (note 8)	-	-	-	-	-	(498)	(498)
Net (loss)/gain on ordinary activities after taxation	-	-	-	(6,192)	3,746	245	(2,201)
Net assets at 31 May 2009	357	17,502	12	(13,494)	(910)	153	3,620
Company							
For year ended 31 May 2010	Share Capital	Special Reserve	Capital Redemption Reserve	Capital Reserve Realised	Capital Reserve Unrealised	Revenue Reserve	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Net assets at 31 May 2009	357	17,502	12	(13,845)	(866)	470	3,630
Return of capital to Ordinary shareholders	-	(107)	-	-	-	-	(107)
Dividends paid (note 8)	-	-	-	-	-	(89)	(89)
Net (loss)/gain on ordinary activities after taxation	-	-	-	(175)	(564)	219	(520)
Net assets at 31 May 2010	357	17,395	12	(14,020)	(1,430)	600	2,914
For year ended 31 May 2009	Share Capital	Special Reserve	Capital Redemption Reserve	Capital Reserve Realised	Capital Reserve Unrealised	Revenue Reserve	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Net assets at 31 May 2008	357	18,216	12	(8,335)	(3,686)	612	7,176
Return of capital to Ordinary shareholders	-	(714)	-	-	-	-	(714)
Dividends paid (note 8)	-	-	-	-	-	(498)	(498)
Net (loss)/gain on ordinary activities after taxation	-	-	-	(5,510)	2,820	356	(2,334)
Net assets at 31 May 2009	357	17,502	12	(13,845)	(866)	470	3,630

9. CASH FLOW STATEMENTS

For the year ended 31 May 2010

	Year ended 31 May 2010		Year ended 31 May 2009	
	Group £'000	Company £'000	Group £'000	Company £'000
Operating activities				
Loss before tax	(560)	(520)	(2,095)	(2,334)
Bad debt expense	87	12	-	-
ZDP shares finance cost	526	-	431	-
Amounts due to subsidiary undertaking	-	526	-	431
Losses on investments held at fair value through profit and loss	230	263	2,130	2,402
Purchases of investments held at fair value through profit and loss	(49)	(49)	-	-
Sales of investments held at fair value through profit and loss	2,878	2,868	2,777	2,631
Decrease/ (increase) in other receivables	291	285	(105)	(125)
(Decrease)/increase in other payables	(129)	(62)	(14)	162
Net cash inflow from operating activities before interest and corporation tax	3,274	3,323	3,124	3,167
Corporation tax paid	(86)	-	(168)	-
Corporation tax refunded	-	-	5	-
Net cash from operating activities	3,188	3,323	2,961	3,167
Financial activities				
Dividends paid on Ordinary shares	(89)	(89)	(498)	(498)
Return of capital on Ordinary shares	(107)	(107)	(714)	(714)
Return of capital on ZDP shares	(3,386)	(3,386)	(2,307)	(2,307)
Repurchase of ZDP shares	-	-	(286)	(286)
Net cash used in financing activities	(3,582)	(3,582)	(3,805)	(3,805)
Net decrease in cash and cash equivalents	(394)	(259)	(844)	(638)
Cash and cash equivalents at start of year	1,319	803	2,163	1,441
Cash and cash equivalents at end of year	925	544	1,319	803
Cash and cash equivalents at end of year are represented by:				
Cash at bank	925	544	1,319	803

10. NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 May 2010

1. Principal activity

The principal activity of the Company is that of an investment trust company within the meaning of Sections 1158-1159 of the Corporation Tax Act 2010 ("s1158-1159 CTA 2010") (formerly Section 842 of the Income and Corporation Taxes Act 1988).

2. Accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted by the European Union. The Group therefore complies with Article 4 of the EU IAS regulation.

(a) Basis of preparation

The financial statements have been prepared on a basis other than that of a going concern which includes, where appropriate, writing down the Company's net assets to a net realisable value. The financial statements do not include any provision for the future costs of terminating the business of the Company except to the extent that such were committed at the Balance Sheet date.

The financial statements are prepared under the historical cost convention, except for the measurement at fair value of investments and in accordance with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (issued in January 2009).

The Group adopted the amendments to IFRS 7 'Financial Instruments: Disclosures' effective from 1 January 2009. The disclosures required by this standard are given in notes 20 and 21.

(b) Group accounts

The Group accounts consolidate the accounts, on an acquisition accounting basis, of the Company and its subsidiaries ADC Fund Limited Partnership, ADC (Glasgow) Limited, ADC Zeros 2010 PLC and ADC Zeros 2012 PLC. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(c) Associated undertaking

An associate is an entity over which the Group is in a position to exercise significant influence, but does not control or jointly control, through participation in the financial and operating policy decisions of the entity. The Group's associates are accounted for in accordance with IAS 39: 'Financial Instruments: Recognition and Measurement' ("IAS 39") as investments designated at fair value through profit and loss, and in accordance with paragraph 1 of IAS 28: 'Investments in Associates' ("IAS 28") equity accounting is not required.

(d) Presentation of Consolidated Income Statement

In order to better reflect the activities of an investment trust company, and in accordance with guidance issued by the AIC, supplementary information which analyses the Consolidated Statement of Comprehensive Income between items of a revenue and capital nature has been presented alongside the Consolidated Statement of Comprehensive Income. In accordance with the Company's status as a UK investment company under Section 833 of the Companies Act 2006, net capital returns may not be distributed by way of dividend. Additionally, the net revenue is the measure the Directors believe appropriate in assessing the Group's compliance with certain requirements set out in Sections 1158-1159 of the Corporation Tax Act 2010.

(e) Valuation of investments

Subsidiary and main company investments are all held at fair value through the Consolidated Statement of Comprehensive Income.

Listed investments are measured initially at cost, and are recognised at trade date.

For financial assets acquired, the cost is the fair value of the consideration. Subsequent to initial recognition, all listed investments are measured at their quoted bid prices without deduction for the estimated future selling costs.

Unlisted investments are valued by Directors at fair value having regard to International Private Equity and Venture Capital Valuation Guidelines as far as it is prudent to do so in light of the investment objective. They are valued at cost unless subsequent financings or other circumstances indicate a different valuation is appropriate. When a valuation is undertaken consideration is given to the most recent information available, including the latest trading figures, performance against forecast, management's view of prospects and the price of transactions in the security.

Realisable value in the short term could differ materially from the amount which these investments are included in the accounts.

(f) Movements in fair value

Changes in the fair value of all held at fair value assets are taken to the Consolidated Statement of Comprehensive Income.

On disposal, realised gains and losses are also recognised in the Consolidated Statement of Comprehensive Income.

(g) Income

Dividends receivable on equity shares are brought into account on the ex-dividend date. Dividends receivable on equity shares where no ex-dividend date is quoted are brought into account when the Company's right to receive payment is established. Fixed returns on non-equity shares are recognised when it is reasonably certain that they will be receivable. Other returns on non-equity shares are recognised when the right to the return is established.

The fixed return on a debt security is recognised when it is reasonably certain that they will be receivable. Where the Company has elected to receive its dividends in the form of additional shares rather than in cash, the amount of cash dividend is recognised as income. Any excess in the value of shares received over the amounts of the cash is recognised in capital reserves.

(h) Expenses and interest payable

All expenses are accounted for on an accruals basis. Expenses are charged through the revenue account except as follows:

- expenses which are incidental to the acquisition of an investment are charged to capital; and
- where a connection with the maintenance or enhancement of the value of the investments can be demonstrated certain expenses are reported in the capital column of the Consolidated Statement of Comprehensive Income. These are investment management fee, performance fee and overdraft interest and have been allocated 67% to capital and 33% to revenue in line with the Board's expected long term split of returns, in the form of capital gains and income respectively, from the investment portfolio of the Company.

(i) Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to insignificant risk of changes in value.

(j) Taxation

The charge for taxation is based on the taxable profits for the period. Deferred taxation is accounted for using the balance sheet liability method based on the percentage which was substantially enacted at the Balance Sheet date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which temporary differences can be utilised. In line with the recommendations of the SORP, the allocation method used to calculate tax relief on expenses presented against capital returns in the supplementary information in the Consolidated Statement of Comprehensive Income is the "marginal basis".

(k) Dividends payable

Dividends are recognised from the date on which they are declared ex-dividend.

3. Income	2010		2009	
	£'000		£'000	
Income from investments				
Franked investment income	73		149	
UK unfranked investment income	314		257	
	<hr/>		<hr/>	
	387		406	
Other income				
Deposit interest	5		113	
Other income	4		2	
	<hr/>		<hr/>	
	9		115	
Total income comprises:				
Dividends	73		149	
Interest	319		370	
Other income	4		2	
	<hr/>		<hr/>	
	396		521	
Income from investments				
Unlisted UK	387		406	
	<hr/>		<hr/>	
	387		406	

4. Investment management fee	2010			2009		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee	33	67	100	33	67	100

The Company has an agreement with Aberdeen Asset Managers Limited (“AAM”) for the provision of management services. This contract may be terminated subject to twelve months prior notice of termination by either party. Management fees are payable monthly in arrears, and are based on a fixed annual amount of £100,000 (£60,000 per annum from 1 June 2010). The basic fee shall be reduced by the amount of any management fees or priority profit share payable to the Manager by ADC Zeros 2010, ADC Zeros 2012 and ADC Fund Limited Partnership. The balance due to AAM at the year end was £6,000 (2009 - £8,000). ADC Fund Limited Partnership has a priority profit share agreement with Aberdeen GP Limited, a subsidiary of AAM. The fee is payable quarterly in arrears and is based on an annual amount of 1.47% of the gross asset value of the Limited Partnership. The balance due to Aberdeen GP Limited at the year end was £8,000 (2009 - £9,000).

An incentive fee of 20 per cent. is payable to the Manager (i) the amount by which the aggregate returns of capital per Ordinary share of the Company paid on or before 31 December 2012 exceed 35 pence multiplied by the number of Ordinary shares in issue at the time of the relevant return of capital; and (ii) the amount by which the repurchase price of an Ordinary share under the Buy Back Programme exceeds the targeted return, being 35 pence less any returns of capital paid in respect of the Capital Return Scheme up to a maximum of 35 pence, multiplied by the number of Ordinary shares bought back on the relevant occasion.

5. Other expenses	2010			2009		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Directors' fees	41	-	41	41	-	41
Auditors remuneration:						
- audit (including £14,000 (2009 £14,000) relating to the parent undertaking)	25	-	25	21	-	21
- for other services	-	-	-	4	-	4
- tax compliance	6	-	6	16	-	16
- tax advisory	-	-	-	-	-	-
Other	219	97	316	144	-	144
	<u>291</u>	<u>-</u>	<u>388</u>	<u>226</u>	<u>-</u>	<u>226</u>

During the year ended 31 May 2010 other expenses allocated to revenue included a write off of £75,000 (2009 - £21,000) in respect of income previously recognised, which is not anticipated to be recovered. In addition, other expenses allocated to capital include a write-off of £12,000 (2009 - £nil) in respect of a debtor previously recognised, which is not anticipated to be recovered and an adjustment of £85,000 (2009 -£nil) in respect of the discharge of a guarantee provided to Riverdale Publishing.

The emoluments of the Chairman, who was also the highest paid Director, were £21,000 (2009 - £23,083). No pension contributions were made in respect of any of the Directors. The Company does not have any employees.

6. Finance costs	2010			2009		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Finance costs attributable to ZDP shares	-	526	526	-	431	431
	<u>-</u>	<u>526</u>	<u>526</u>	<u>-</u>	<u>431</u>	<u>431</u>

7. Tax on ordinary activities	2010			2009		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
a) Analysis of charge for the year						
UK corporation tax on profits for the period	78	-	78	106	-	106
Corporation tax charge	<u>78</u>	<u>-</u>	<u>78</u>	<u>106</u>	<u>-</u>	<u>106</u>

	2010 £'000	2009 £'000
b) Factors affecting tax charge for the year		
Loss on ordinary activities before tax	(560)	(2,095)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2009 – 28%)	(157)	(587)
Effects of:		
Franked investment income	(20)	(42)
Non-taxable gains and losses on investments	64	596
Other non-taxable income and expenses	195	125
Prior year adjustment	(4)	14
Current tax charge for the period (note 7(a))	<u>78</u>	<u>106</u>

Provision for deferred taxation

No provision for deferred taxation has been made due to the fact that the Group has approximately £4,659,000 (2009 - £4,668,000) of excess management expenses, and £215,000 (2009 - £130,000) of expenses from settlement of a guarantee. This is because the Group is not expected to generate taxable income in the future in excess of the deductible expenses of that future period, and, accordingly, it is unlikely that the Group will be able to reduce future tax liabilities through the use of existing surplus expenses.

A company qualifying as an investment trust company under Sections 1158-1159 of the Corporation Tax Act 2010 is exempt from taxation on capital gains. In the opinion of the Directors, the Company has conducted and intends to continue to conduct its affairs so as to enable it to retain investment trust approval. Given the Company's status as an investment trust no provision has been made for the deferred tax on any capital gains and losses arising on the revaluation and disposal of investments.

	2010 £'000	2009 £'000
8. Dividends and other appropriations to shareholders		
Ordinary dividends on equity shares deducted from reserves are analysed below:		
Fourth interim dividend 2009 of 0.25p (2008 -0.625p)	89	231
First interim dividend 2009 of 0.25p	-	89
Second interim dividend 2009 of 0.25p	-	89
Third interim dividend 2009 of 0.25p	-	89
	89	498
	89	498

The proposed final dividend for the year ended 31 May 2010 is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

The table below sets out the final dividend proposed in respect of the financial year, which is the basis on which the requirements of Section 1159 of the Corporation Tax Act 2010 are considered. The revenue available for distribution by way of dividend for the year is £219,000.

	2010 £'000	2009 £'000
Proposed final dividend for 2010 of 0.5p (2009 – nil)	178	-

9. Return per Ordinary share

The earnings per Ordinary share is based on the net loss after taxation of £638,000 (2009 - £2,201,000) and on a weighted average number of Ordinary shares of 35,719,225 (31 May 2009 – 35,719,225) Ordinary shares, being the number of Ordinary shares in issue during the year.

The return per ordinary share detailed above can be further analysed between revenue and capital as follows:

	2010			2009		
	Revenue	Capital	Total	Revenue	Capital	Total
Net profit/(loss) £'000	89	(727)	(638)	245	(2,446)	(2,201)
Return per Ordinary share (pence)	0.25	(2.04)	(1.79)	0.69	(6.85)	(6.16)

10. Investments held at fair value through profit and loss

a) Group

	31 May 2010		31 May 2009	
	Unlisted £'000	Total £'000	Unlisted £'000	Total £'000
Opening book cost	11,559	11,559	19,583	19,583
Opening unrealised depreciation	(910)	(910)	(4,656)	(4,656)
Opening valuation	<u>10,649</u>	<u>10,649</u>	<u>14,927</u>	<u>14,927</u>
Movements in the year:				
Purchases at cost	49	49	-	-
Sales – proceeds	(2,878)	(2,878)	(2,148)	(2,148)
- realised gains/(losses) on sales	65	65	(5,876)	(5,876)
(Increase)/decrease in unrealised depreciation	(295)	(295)	3,746	3,746
Closing valuation	<u>7,590</u>	<u>7,590</u>	<u>10,649</u>	<u>10,649</u>
Closing book cost	8,795	8,795	11,559	11,559
Closing unrealised depreciation	(1,205)	(1,205)	(910)	(910)
	<u>7,590</u>	<u>7,590</u>	<u>10,649</u>	<u>10,649</u>
Losses on held at fair value investments				
Realised gains/(losses) on sales of investments	65	65	(5,876)	(5,876)
(Increase)/decrease in unrealised depreciation	(295)	(295)	3,746	3,746
	<u>(230)</u>	<u>(230)</u>	<u>(2,130)</u>	<u>(2,130)</u>

b) Company

	Subsidiary			Subsidiary		
	Unlisted £'000	Undertaking £'000	Total £'000	Unlisted £'000	Undertaking £'000	Total £'000
Opening book cost	9,113	233	9,346	16,337	233	16,570
Opening unrealised depreciation	(914)	48	(866)	(4,993)	1,307	(3,686)
Opening valuation	<u>8,199</u>	<u>281</u>	<u>8,480</u>	<u>11,344</u>	<u>1,540</u>	<u>12,884</u>
Movements in the year:						
Purchases at cost	49	-	49	-	-	-
Sales – proceeds	(2,868)	-	(2,868)	(2,002)	-	(2,002)
- realised gains/(losses) on sales	301	-	301	(5,222)	-	(5,222)
(Increase)/ decrease in unrealised depreciation	(291)	(273)	(564)	4,079	(1,259)	2,820
Closing valuation	<u>5,390</u>	<u>8</u>	<u>5,398</u>	<u>8,199</u>	<u>281</u>	<u>8,480</u>

	Unlisted	Subsidiary Undertaking	Total	Unlisted	Subsidiary Undertaking	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Closing book cost	6,595	233	6,828	9,113	233	9,346
Closing unrealised (depreciation)/ depreciation	(1,205)	(225)	(1,430)	(914)	48	(866)
	<u>5,390</u>	<u>8</u>	<u>5,398</u>	<u>8,199</u>	<u>281</u>	<u>8,480</u>

	Unlisted	Subsidiary Undertaking	Total	Unlisted	Subsidiary Undertaking	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Losses on held at fair value investments						
Realised gains/(losses) on sales of investments	301	-	301	(5,222)	-	(5,222)
(Increase)/ decrease in unrealised depreciation	(291)	(273)	(564)	4,079	(1,259)	2,820
	<u>10</u>	<u>(273)</u>	<u>(263)</u>	<u>(1,143)</u>	<u>(1,259)</u>	<u>(2,402)</u>

c) Transaction costs	Year ended 31 May 2010		Year ended 31 May 2009	
	Group £'000	Company £'000	Group £'000	Company £'000
Sales	-	-	-	-
Purchases	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The details of the Group's subsidiaries are as follows:

Subsidiary Name	Country of incorporation	Principal activity	Percentage of ordinary shares held by the Group
ADC (Glasgow) Limited	Scotland	Investment company	100% ^A
ADC Fund Limited Partnership	Scotland	Investment company	100%
ADC Zeros 2010 PLC	Scotland	Investment company	100%
ADC Zeros 2012 PLC	Scotland	Investment company	100%

^A held indirectly through ADC Fund Limited Partnership

11. Significant holdings

Information about investments required by Section 409 of the Companies Act 2006, all of which are incorporated and operate in England and Scotland.

- a) As at 31 May 2010, Aberdeen Development Capital PLC held in excess of 20% in any class of the following investee companies share capital:

Name	Class of share	% of Class held	% of Equity held	Capital & reserves £'000	Post tax Profit/(loss) £'000
Cash Bases Limited	'B' Ords	63	19	2,051	(202)
	Prefs	63			
	SLS	63			
Enpure Holdings Limited	'A' Ords	2	2	5,349	1,209
	SLS	45			
Fispak Limited	SLS	100	-	n/a	n/a
IFC Holdings Limited	Ord	26	26	4,659	253
Pilgrim Systems Limited	CCPPO	100	20	1,124	(142)
PLM Dollar Group Limited	CCPPO	100	20	3,857	271
	SLS	100			
TLA Holdings Limited	'A' Ords	73	34	2,006	(35)
Transys Holdings Limited	B Ords	19	14	(394)	(698)
	Prefs	19			
	SLS	26			

b) Other interests of 10% or more of any class of the following investee company's share capital:

Name	Class of share	% of class held
Ortak Jewellery Limited	'A' Ords	12
PSCA International Limited	SLS	12
Unique Communications Limited	'B' Ords	13
	'A' Prefs	13
	'B' Prefs	13
	Prefs	13
	SLS	13

SLS Secured Loan Stock
CCPPO Cumulative Convertible Participating Preferred Ordinary

	Group 2010 £'000	Company 2010 £'000	Group 2009 £'000	Company 2009 £'000
12. Loans and receivables				
Prepayments and accrued income	13	13	112	27
Tax recoverable	18	4	14	4
VAT recoverable	-	-	271	271
Other debtors	-	-	12	12
Amounts due from subsidiary undertakings	-	6,570	-	6,570
	<u>31</u>	<u>6,587</u>	<u>409</u>	<u>6,884</u>
13. Current liabilities				
Amounts due from subsidiary undertakings	-	3,951	-	8,113
Other creditors	80	72	209	198
Tax creditor	88	-	96	-
Zero dividend preference shares	-	-	4,226	-
	<u>168</u>	<u>4,023</u>	<u>4,531</u>	<u>8,311</u>

14. Non-current liabilities

The ZDP shares of ADC Zeros 2010 PLC and ADC Zeros 2012 PLC were issued on 30 June 2005 at 100 pence per share and are due to redeem on 30 April 2012 at 42.11 pence each, following four returns of capital totalling 88.6 pence per share; an effective rate of 6.5% per annum. During the year, due to a lack of sufficient cash it was apparent that the redemption due for 2010 ZDP shares would not be met and accordingly a proposal was put to shareholders to postpone the redemption date until 30 April 2012, to coincide with the redemption of 2012 ZDP shares. The proposal was passed by shareholders at meetings convened on 25 March 2010 and 6 April 2010. On 16 June 2009 and 28 May 2010 returns of 2.6 pence and 20 pence per share respectively were made to holders of both ADC Zeros 2010 PLC and ADC Zeros 2012 PLC. There were 7,491,110 ZDP shares in issue at 31 May 2010 for each of ADC Zeros 2010 PLC and ADC Zeros 2012 PLC (2009 – 7,491,110). The entitlement due in respect of the ZDP shares at the year end was £5,592,000 (2009 - £8,452,000).

	Number of ZDP shares		Amount due to ZDP shareholders (£'000)	
	2010	2009	2010	2009
At 31 May 2009	14,982,220	15,714,284	4,226	10,614
Repurchase of ZDP shares	-	(732,064)	-	(286)
Return of capital to ZDP shares	-	-	(3,386)	(2,307)
ZDP shares finance cost	-	-	526	431
Transfer from/ (to) current liabilities	-	-	4,226	(4,226)
At 31 May 2010	<u>14,982,220</u>	<u>14,982,220</u>	<u>5,592</u>	<u>4,226</u>

15. Called-up share capital

	2010		2009	
	Authorised £'000	Issued and fully paid £'000	Authorised £'000	Issued and Fully paid £'000
Ordinary shares of 1p	825	357	825	357

Voting rights

In accordance with the Articles of Association of the Company, on a show of hands, every member (or duly appointed proxy) present at a general meeting of the Company has one vote; and, on a poll, every member present in person or by proxy shall have one vote for every £4 nominal amount of Ordinary shares held.

16. Share capital and reserves

	Share capital	Special reserve	Capital redemption reserve	Realised capital reserve	Unrealised capital reserve	Revenue reserve
Group	£'000	£'000	£'000	£'000	£'000	£'000
At 31 May 2009	357	17,502	12	(13,494)	(910)	153
Return of capital to ordinary shareholders	-	(107)	-	-	-	-
Net gain on realisation of investments	-	-	-	65	-	-
Increase in unrealised depreciation	-	-	-	-	(295)	-
ZDP finance costs	-	-	-	(526)	-	-
Costs charged to capital	-	-	-	(164)	-	-
VAT recovered	-	-	-	193	-	-
Dividends paid	-	-	-	-	-	(89)
Retained earnings	-	-	-	-	-	89
At 31 May 2010	357	17,395	12	(13,926)	(1,205)	153

	Share Capital	Special Reserve	Capital Redemption Reserve	Realised Capital Reserve	Unrealised Capital Reserve	Revenue Reserve
Company	£'000	£'000	£'000	£'000	£'000	£'000
At 31 May 2009	357	17,502	12	(13,845)	(866)	470
Return of capital to ordinary shareholders	-	(107)	-	-	-	-
Net gain on realisation of investments	-	-	-	301	-	-
Increase in unrealised depreciation	-	-	-	-	(564)	-
ZDP finance costs	-	-	-	(526)	-	-
Costs charged to capital	-	-	-	(143)	-	-
VAT recovered	-	-	-	193	-	-
Dividends paid	-	-	-	-	-	(89)
Retained earnings	-	-	-	-	-	219
At 31 May 2010	357	17,395	12	(14,020)	(1,430)	600

Company revenue reserve

As permitted by Section 408 of the Companies Act 2006, the Company has not presented its own Statement of Comprehensive Income. The amount of Company revenue before appropriation dealt with in the accounts of the Group is £219,000 (2009 - £356,000).

17. Net asset value per share

The net asset value per Ordinary share is based on a net asset value of £2,786,000 (2009 - £3,620,000) and on 35,719,225 (2008 - 35,719,225) Ordinary shares, being the number of Ordinary shares in issue at the year end.

18. Contingent assets

On 5 November 2007, the European Court of Justice ruled that management fees on investment trusts should be exempt from VAT. HMRC has announced its intention not to appeal against this ruling to the UK VAT Tribunal and therefore protective claims which have been made in relation to the Company will be processed by HMRC in due course.

The Manager has refunded £559,000 to the Group for VAT charged on investment management fees for the period 1 January 2001 to 31 August 2007. The sum of £271,000 was reflected in previous financial statements for the period 1 January 2004 to 31 August 2007 and the sum of £288,000 has been reflected in these financial statements for the period 1 January 2001 to 31 December 2003. These repayments have been allocated to capital and revenue in line with the accounting policy of the Group for the periods in which the VAT was charged. The reclaim for previous periods plus any interest due in respect of payments made to date and payable for previous periods, and the timescale for receipt remain uncertain and the Group has taken no account in these financial statements of any such repayment.

There are a number of other deferred considerations from previous sales transactions where the amount and timing of receipt remain uncertain and the Group has taken no account of any such receipt in the financial statements.

19. Related party disclosure

The transactions with Aberdeen Asset Managers Limited and the year end balances disclosed in note 4 of the financial statements.

20. Financial instruments

The Group's financial instruments comprise securities and other investments, cash balances and debtors and creditors that arise directly from its operations; for example, in respect of sales and purchases awaiting settlement, and debtors for accrued income. The Company may not enter into derivative transactions in the form of forward foreign currency contracts, futures and options without the written permission of Directors. No derivative transactions were entered into during the period.

The main risks arising from the Group's financial instruments are (i) market price risk, being the risk that the value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or currency movement; (ii) interest rate risk; and (iii) liquidity risk. In line with the Company's investment objective, the portfolio comprises UK securities and, therefore, has no exposure to foreign currency risk.

The Manager's policies for managing these risks are summarised below and have been applied throughout the year. The numerical disclosures below exclude short-term debtors and creditors, which are included in the Balance Sheet at fair value.

(i) Market price risk

The Company's investment portfolio is exposed to market price fluctuations, which are monitored by the Manager in pursuance of the investment objective. Adherence to investment guidelines and to investment and borrowing powers set out in the management agreement mitigates the risk of excessive exposure to any particular type of security or issuer. Further information on the investment portfolio (including sector concentration and deal type analysis) is set out in the Manager's Report and the Largest Investments table.

(ii) Interest rate risk

The interest rate risk profile of financial assets at the Balance Sheet date was as follows:

	Fixed interest	Floating rate	Non-interest bearing
	£'000	£'000	£'000
31 May 2010			
Sterling			
Unlisted	2,055	200	5,335
Cash	-	925	-
	<hr/>	<hr/>	<hr/>
	2,055	1,125	5,335
	<hr/>	<hr/>	<hr/>
31 May 2009			
Sterling			
Unlisted	3,467	200	6,982
Cash	-	1,319	-
	<hr/>	<hr/>	<hr/>
	3,467	1,519	6,982
	<hr/>	<hr/>	<hr/>

The unlisted fixed interest assets have a weighted average life of 1.53 years (2009 – 3.03 years) and a weighted average interest rate of 7.38% (2009 – 6.70%). The floating rate interest assets are linked to base rates set by the Bank of England.

It is the Directors' opinion that the carrying amounts of these financial assets represent the maximum credit exposure at the Balance Sheet date

Maturity profile

The maturity rate profile of the Company's financial assets at the Balance Sheet date was as follows:

	Within 1 year £'000	Within 1-2 years £'000	Within 2-3 years £'000	Within 3-4 years £'000	Within 4-5 year £'000	More than 5 years £'000	Total £'000
At 31 May 2010							
Fixed interest							
Unlisted	100	1,677	278	-	-	-	2,055
	<u>100</u>	<u>1,677</u>	<u>278</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,055</u>

Within "more than 5 years" there is a figure of £nil (2009 -£417,000) in respect of preference and ordinary shares which bear fixed franked investment income and do not have a redemption date.

	Within 1 year £'000	Within 1-2 years £'000	Within 2-3 years £'000	Within 3-4 years £'000	Within 4-5 year £'000	More than 5 years £'000	Total £'000
At 31 May 2009							
Fixed interest							
Unlisted	100	274	1,676	1,000	-	417	3,467
	<u>100</u>	<u>274</u>	<u>1,676</u>	<u>1,000</u>	<u>-</u>	<u>417</u>	<u>3,467</u>

(iii) Liquidity risk

Due to their nature, unlisted investments may not be readily realisable; cash is held to mitigate this liquidity risk.

Credit risk and interest rate risk is minimised by acquiring high quality treasury stocks or other bonds which have a relatively short time to maturity, when sufficient funds are available.

The Company, generally, does not hold significant cash balances as this is returned to shareholders via either the capital repayment scheme or share buyback programme. Any cash held is with reputable banks with high external credit ratings.

(iv) Price risk sensitivity

As the Company's does not hold any listed investments, the Board does not believe the Company is at risk of possible changes in market prices.

21. Fair value hierarchy

The Company adopted the amendments to IFRS 7 'Financial Instruments: Disclosures' effective from 1 January 2009. These amendments require an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making measurements. The fair value hierarchy shall have the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (ie as prices) or indirectly (ie derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table summarises by level within the fair value hierarchy the Group's financial assets and liabilities at fair value at 31 May 2010:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss	-	-	7,590	7,590

Additional notes for Annual Financial Report:

The Annual Financial Report Announcement is not the Company's statutory accounts. The above results for the year ended 31 May 2010 have been agreed with the auditors and are an abridged version of the Company's full accounts, which have been approved and audited with an unqualified report. The 2009 and 2010 statutory accounts received unqualified reports from the Company's auditors and did not include any reference to matters to which the auditors drew attention by way of emphasis without qualifying the reports, and did not contain a statement under Section 498(2) or 498(3) of the Companies Act 2006. The financial information for 2009 is derived from the statutory accounts for 2009 which have been delivered to the Registrar of Companies. The 2010 accounts will be filed with the Registrar of Companies in due course.

The Annual General Meeting of the Company will be held at 12 noon on 27 October 2010 at 10 Queen's Terrace, Aberdeen AB10 1YG.

The Annual Report and Accounts will be posted to shareholders at the end of August 2010 and copies will be available from the registered office of the investment manager or from the Company's website www.developmentcap.co.uk

Please note that past performance is not necessarily a guide to the future and that the value of investments and the income from them may fall as well as rise. Investors may not get back the amount they originally invested.

For Aberdeen Development Capital PLC
Aberdeen Asset Management PLC, Secretaries
30 July 2010

END