

## ADC ZEROS 2012 PLC

### ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 31 MAY 2010

#### 1. CHAIRMAN'S STATEMENT

The year ended 31 May 2010 has been characterised by a low level of portfolio activity in the parent undertaking Aberdeen Development Capital PLC where the Group's investments are held. This has been 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 the Company 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 ZDP shares 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.

The Board's primary objective is to maximise the value of remaining Group 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.

	31 May 2010
	£m
Total assets less current liabilities (Group)	8.38
Less prior ranking liabilities:	
ZDP 2010 shares <sup>A</sup>	(2.80)
ZDP 2012 shares <sup>A</sup>	(2.80)
Cover	<hr/> 2.78 <hr/>

<sup>A</sup> rank pari passu for capital return purposes

John R Milligan  
Chairman  
30 July 2010

## 2. 2012 ZDP Share Information

- Group Asset Cover at 31 May 2010: 1.33 times repayment value at 30 April 2012
- Redemption Yield: 6.5% at 42.11 pence per share
- Hurdle Rate at 31 May 2010 to reach final entitlement: -82.73% compound per annum.

The 2012 ZDP shares offer a pre-determined rate of growth in capital entitlement up to the repayment date of 30 April 2012, but no right to income. At the issue date, the 2012 ZDP shares were entitled to a repayment of 100p per share. This entitlement increases on a daily basis up to and including 30 April 2012 at a rate equivalent to 6.5% per annum, compound to reach 42.11 pence per share on the repayment date. Following a return of capital of 51 pence per share dated 27 November 2007 and a return of capital of 15 pence per share dated 14 November 2008, a return of 2.6 pence per share on 16 June 2009 and 20 pence per share on 28 May 2010, at 31 May 2010, this figure stood at 37.32 per share.

Following each return of capital under the Capital Return Scheme described in the circular to shareholders published on 11 July 2007 by Aberdeen Development Capital PLC, the Company and ADC Zeros 2010 PLC, the capital entitlements of the 2012 ZDP shares will be adjusted by deducting from the accrued capital entitlement of the 2012 ZDP shares, at the date on which the relevant return of capital is made, the amount of such return of capital per 2012 ZDP share and thereafter the capital entitlement per 2012 ZDP share will continue to accrue at a rate of 6.5% per annum compounded on a daily basis, based on the adjusted capital entitlement.

The 2012 ZDP shares rank ahead of Ordinary shareholders but behind any bank borrowings. It should be noted that repayment at the rate indicated for the 2012 ZDP shares is not guaranteed should the Group's net assets be insufficient at the repayment date of 30 April 2012.

The 2012 ZDP shares do not normally carry voting rights at general meetings of the Group. The separate approval of a special resolution of holders of the Group's 2012 ZDP shares is required for certain proposals which would be likely to affect their rights, or general interests.

### **3. BUSINESS REVIEW**

A review of the Company's activities is given in the Chairman's Statement in Section 1 and 2012 ZDP Share Information in Section 2. The major risks associated with the Company are that 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 parent 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 Company'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 Key Performance Indicators for the Company including NAV performance and share price are detailed in ZDP Share Information in Section 2. Other Group risks include:

- **Discount volatility:** The Company's share price can trade at a discount to its underlying net asset value. The Company operates a share buyback programme which is reviewed on a continuing basis.
- **Regulatory risk:** The Company operates in a complex regulatory environment and faces a number of regulatory risks. Breaches of regulations, such as Sections 1158-1159 of the Corporation Tax Act 2010, the UKLA Listing Rules and the Companies Act 2006 could lead to a number detrimental outcomes and reputational damage. The Audit Committee monitors compliance with regulations by reviewing internal control reports from the Manager.

Additionally, each Director confirms that, so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware, and he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information. Additionally, there are no important events since the year end which have not been disclosed.

The Company has made no political or charitable donations during the year and in common with most investment trusts, the Company has no employees. Directors' & Officers' liability insurance cover has been maintained throughout the year at the expense of the Company.

#### **Principal Activity**

The business of the Company is that of an investment company under Section 833 of the Companies Act 2006 with capital growth as its principal objective.

#### **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 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 Policies**

It is intended that the Company's assets be maintained at a level to cover the entitlement of the 2012 ZDP shares at all time. Subject to there being sufficient assets after deductions made, any shortfall in assets will be covered under the subscription agreement referred to above. Following approval by Shareholders of both the Company and the parent company on 3 August 2007 to approve a recommendation to effect an orderly realisation of the Group's assets, a policy to realise value to Shareholders through either ad hoc returns of capital or purchases of shares for cancellation was adopted.

#### 4. 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 have elected to prepare the 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 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.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with 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 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, together with a description of the principal risks and uncertainties it faces.

For ADC Zeros 2012 PLC

John Milligan

Chairman

30 July 2010

## 5. STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 May 2010

	Notes	Year ended 31 May 2010 £'000	Year ended 31 May 2009 £'000
Investment income			
Interest income	3	-	4
Total revenue		<u>-</u>	<u>4</u>
Loan interest		263	216
		<u>263</u>	<u>220</u>
Expenses			
Management fees		-	-
Other operating expenses		-	(1)
Profit before finance costs and tax		<u>263</u>	<u>219</u>
Finance costs			
Zero dividend preference shares	4	(263)	(216)
Profit before taxation		<u>-</u>	<u>3</u>
Taxation	5	(36)	(56)
Loss for the year		<u>(36)</u>	<u>(53)</u>
Earnings per Ordinary share – basic (pence)	6	<u>(30.86)</u>	<u>(45.43)</u>

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

All of the loss and total comprehensive income is attributable to the equity holders of ADC Zeros 2012 PLC. There are no minority interests.

All items in the above statement are derived from continuing operations.

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

## 6. BALANCE SHEET

As at 31 May 2010

	Notes	2010 £'000	2009 £'000
Non-current assets			
Investments held at fair value through profit or loss		-	-
Current assets			
Loan and receivables	7	2,796	4,226
Cash and cash equivalents		163	206
		<hr/>	<hr/>
		2,959	4,432
Current liabilities			
Financial liabilities measured at amortised cost	8	(214)	(221)
		<hr/>	<hr/>
Net current assets		2,745	4,211
		<hr/>	<hr/>
Total assets less current liabilities		2,745	4,211
Non-current liabilities			
Zero dividend preference shares	9	(2,796)	(4,226)
		<hr/>	<hr/>
Total net liabilities		(51)	(15)
Equity			
Called-up Ordinary shares	10	117	117
Revenue reserve	11	(168)	(132)
		<hr/>	<hr/>
Total shareholders' funds		(51)	(15)
		<hr/>	<hr/>
Equity shareholders' funds		(51)	(15)
Net asset value per share (pence)			
2012 ZDP share	12	37.32	56.41
Ordinary share	12	(43.71)	(12.86)

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

## 7. STATEMENT OF CHANGES IN EQUITY

For the year ended 31 May 2010

	Share capital £'000	Revenue reserve £'000	Total £'000
For year ended 31 May 2010			
Net liabilities at 31 May 2009	117	(132)	(15)
Net loss on ordinary activities after taxation	-	(36)	(36)
Net liabilities at 31 May 2010	<u>117</u>	<u>(168)</u>	<u>(51)</u>

	Share capital £'000	Revenue reserve £'000	Total £'000
For year ended 31 May 2009			
Net assets at 31 May 2008	117	(79)	38
Net loss on ordinary activities after taxation	-	(53)	(53)
Net liabilities at 31 May 2009	<u>117</u>	<u>(132)</u>	<u>(15)</u>

## 8. CASH FLOW STATEMENT

For the year ended 31 May 2010

	Year ended 31 May 2010 £'000	Year ended 31 May 2009 £'000
Operating activities		
Profit before tax	-	3
ZDP shares finance cost	263	216
Decrease in other receivables	1,430	1,081
Net cash inflow from operating activities	<u>1,693</u>	<u>1,300</u>
Corporation tax paid	(43)	(84)
Financing activities		
Return of capital to ZDP holders by parent company	(1,693)	(1,154)
Repurchase of ZDP shares by parent company	-	(143)
Net cash from financing activities	<u>(1,693)</u>	<u>(1,297)</u>
Net decrease in cash and cash equivalents	(43)	(81)
Cash and cash equivalents at start of year	<u>206</u>	<u>287</u>
Cash and cash equivalents at end of year	<u>163</u>	<u>206</u>

## 9. 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 company within the meaning of Section 833 of the Companies Act 2006.

2. Accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006. The principal accounting policies adopted by the Company are set out below.

The financial statements are prepared under the historical cost convention, except for the measurement at fair value of investments.

(a) Basis of accounting

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 May 2010. 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 Company financial statements are presented in Sterling, which the currency of the primary environment in which it operates. All values are rounded to the nearest thousand pounds (£’000) except when otherwise indicated.

The Company has adopted the amendments to IFRS 7: ‘Financial Instruments Disclosures’ in these accounts. This standard does not have any impact on the classification and/or valuation of the Group’s financial instruments.

(b) Valuation of investments

No investments are currently held by the Company, but investments are held elsewhere in the Group.

Investments are held at fair value through the Statement of Comprehensive Income.

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 the 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.

- (c) **Movements in fair value**  
Changes in the fair value of all held-at-fair-value assets are taken to the Statement of Comprehensive Income.

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

- (d) **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 it 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 the shares received over the amounts of the cash is recognised in capital reserves.

- (e) **Expenses and interest payable**  
All expenses are accounted for on an accruals basis. Remuneration of the Company's auditors is borne by the Company's parent.

- (f) **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.

- (g) **Dividends payable**  
Dividends are recognised from the date on which they are declared ex-dividend.

- (h) **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 that are subject to insignificant risk of change in value.

- (j) **Zero dividend preference shares**  
Zero dividend preference shares are treated as a liability of the Company, in accordance with IAS 32 (as amended), calculated on the effective yield basis. Full details of the Zero dividend preference shares are given in note 9.

	2010 £'000	2009 £'000
3. Income		
Other income		
Deposit interest	-	4
	<hr/>	<hr/>
	-	4
Total income comprises:		
Interest	-	4
	<hr/>	<hr/>
	-	4
	<hr/>	<hr/>

		2010	2009
4.	Finance costs	£'000	£'000
	Zero dividend preference shares	263	216
		<u>263</u>	<u>216</u>
		2010	2009
5.	Tax on ordinary activities	£'000	£'000
	a) Analysis of charge for the year		
	UK Corporation tax on profits for the period	36	56
		<u>36</u>	<u>56</u>
		2010	2009
	b) Factors affecting tax charge for the year	£'000	£'000
	Net income before tax	-	3
	Net income multiplied by the standard rate of corporation tax in the UK of 28% (2009 – 28%)	-	1
	Effects of:		
	ZDP finance charge	74	60
	Utilisation of tax losses	(32)	(12)
	Marginal relief	(4)	(4)
	Prior year adjustment	(2)	11
	Current tax charge for the period (note 5(a))	<u>36</u>	<u>56</u>
6.	Earnings per share		
	The earnings per Ordinary share is based on a loss after taxation of £36,000 (2009 – £53,000) and on 116,667 (2009 – 116,667) Ordinary shares, being the number of Ordinary shares in issue during the year.		
		2010	2009
7.	Loans and receivables	£'000	£'000
	Amounts due from parent company	2,796	4,226
		<u>2,796</u>	<u>4,226</u>
		2010	2009
8.	Financial liabilities measured at amortised cost	£'000	£'000
	Amounts due to parent company	176	176
	Taxation	38	45
		<u>214</u>	<u>221</u>

9. Zero dividend preference shares

The ZDP shares of ADC Zeros 2012 PLC were issued on 30 June 2005. They were issued at 100 pence per share and are due to redeem on 30 April 2012 at 42.11 pence, an effective rate of 6.5% per annum. During the year returns of 22.6 pence per share were made to ZDP holders of ADC Zeros 2012 PLC bringing the total returns of capital to date to 88.6 pence per share. The entitlement due in respect of the ZDP shares at the year end was £2,796,000 (2009 - £4,226,000).

	Number of ZDP Shares		Amount due to ZDP shareholders £'000	
	2010	2009	2010	2009
At 31 May 2009	7,491,110	7,857,142	4,226	5,307
Repurchase of ZDP shares	-	(366,032)	-	(143)
Return of capital to ZDP shares	-	-	(1,693)	(1,154)
ZDP shares finance cost	-	-	263	216
At 31 May 2010	<u>7,491,110</u>	<u>7,491,110</u>	<u>2,796</u>	<u>4,226</u>

	2010		2009	
	Authorised £'000	Issued and fully paid £'000	Authorised £'000	Issued and fully paid £'000
10. Called-up share capital	20,000	117	20,000	117
Ordinary shares of 100p				

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 share held.

	Share	Revenue	Share	Revenue
	Capital	Reserve	Capital	Reserve
	2010	2010	2009	2009
	£'000	£'000	£'000	£'000
11. Share capital and reserves				
At 1 June	117	(132)	117	(79)
Retained earnings	-	(36)	-	(53)
At 31 May	<u>117</u>	<u>(168)</u>	<u>117</u>	<u>(132)</u>

12. Net asset value per share

The net asset value per Ordinary share is based on a net liability of £51,000 (31 May 2009 - £15,000) and on 116,667 Ordinary shares (31 May 2009 - 116,667), being the number of Ordinary shares in issue at the year end.

The net asset value per ZDP share is based on the entitlement due of £2,796,000 (31 May 2009 - £4,226,000) at the year end and on 7,491,110 ZDP shares, (31 May 2009 - 7,491,110) being the number of ZDP shares in issue at the year end.

13. Financial instruments

The Company's financial instruments comprise cash and liquid resources that arise directly from the Company's operations and ZDP shares.

The main risks arising from the Company's financial instruments are (i) interest rate risk; (ii) liquidity risk; and (iii) credit 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) Interest rate risk

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

	Weighted Average Period for which Rate is fixed Years	Weighted Average Interest Rate %	Fixed rate £'000	Floating rate £'000	Non-interest Bearing £'000
As at 31 May 2010					
Assets					
Cash	-	-	-	163	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	-	163	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Liabilities					
ZDP shares	1.92	6.50	2,796	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	1.92	6.50	2,796	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 May 2009					
Assets					
Cash	-	2.90	-	206	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	-	2.90	-	206	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Liabilities					
ZDP shares	0.92	6.50	4,226	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	0.92	6.50	4,226	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The weighted average interest rate is based on the current yield of cash deposits. The weighted average interest rate on ZDP shares is based on the entitlement payable to shareholders.

The cash assets consist of cash deposits on call earning interest at prevailing market rates.

## Maturity profile

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

	Within 1 year £'000	Within 1-2 years £'000	Within 2-3 years £'000
At 31 May 2010			
Assets			
Cash	163	-	-
	<hr/>	<hr/>	<hr/>
	163	-	-
	<hr/>	<hr/>	<hr/>
Liabilities			
ZDP shares	-	2,796	-
	<hr/>	<hr/>	<hr/>
	-	2,796	-
	<hr/>	<hr/>	<hr/>
At 31 May 2009			
Assets			
Cash	206	-	-
	<hr/>	<hr/>	<hr/>
	206	-	-
	<hr/>	<hr/>	<hr/>
Liabilities			
ZDP shares	-	-	4,226
	<hr/>	<hr/>	<hr/>
	-	-	4,226
	<hr/>	<hr/>	<hr/>

### (i) Liquidity risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk is considered to be significant as the Company is reliant upon the sale of assets within its parent undertaking, which mainly comprises unlisted investments. Details of how this risk is managed are contained within the financial statements of the parent company.

### (ii) Credit risk

This is failure of the counter party to a transaction to discharge its obligations under that transaction that could result in the Company suffering a loss.

The risk is not considered to be significant as cash is held only with reputable banks with high quality external credit enhancements.

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 12.10pm 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](http://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 ADC Zeros 2012 PLC  
Aberdeen Asset Management PLC, Secretaries  
30 July 2010

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