

07

Aberdeen Development Capital PLC

Annual Report and Financial Statements

31 May 2007



Aberdeen

Contents

| | |
|----|--|
| 1 | Corporate Summary |
| | Annual Report |
| 2 | Board of Directors |
| 4 | Information about the Manager |
| 5 | Year's Summary |
| 6 | Five Year Financial Record |
| 7 | Chairman's Statement |
| 9 | Manager's Review |
| 12 | Twenty Largest Investments |
| 16 | Classification of Investments |
| | Report and Financial Statements |
| 18 | Directors' Report |
| 20 | Directors' Remuneration Report |
| 22 | Statement of Corporate Governance |
| 26 | Statement of Directors' Responsibilities |
| 27 | Independent Auditors' Report |
| 28 | Consolidated Income Statement |
| 29 | Balance Sheets |
| 30 | Statements of Changes in Equity |
| 31 | Cash Flow Statements |
| 32 | Notes to the Financial Statements |
| | Annual General Meeting |
| 43 | Notice of Meeting |
| 44 | Your Company's Capital History |
| 45 | Corporate Information |

Financial Calendar

| | |
|-------------------|---|
| 3 August 2007 | Announcement of results for year ended 31 May 2007 |
| 10 August 2007 | Fourth interim dividend for year ended 31 May 2007 |
| 28 September 2007 | Annual General Meeting |
| November 2007 | First interim dividend for year ending 31 May 2008 |
| February 2008 | Second interim dividend for year ending 31 May 2008 |
| May 2008 | Third interim dividend for year ending 31 May 2008 |
| August 2008 | Fourth interim dividend for year ending 31 May 2008 |

Corporate Summary

The Group

Aberdeen Development Capital PLC ("the Company"), incorporated in Scotland, registered number SC 98542, is an investment trust and its shares are listed on the London Stock Exchange. The Company is a member of the Association of Investment Companies. ADC Zeros 2010 PLC and ADC Zeros 2012 PLC are investment companies whose Zero Dividend Preference ("ZDP") Shares are listed on the London Stock Exchange.

Objective

The Group's investment policy is to conduct an orderly realisation of the assets of the Company, to be effected in a manner which seeks to maximise value for Ordinary Shareholders.

Benchmark

As a result of the Company now being in realisation mode, the Board believes there is no perfect benchmark measuring performance of a split-capital investment trust with an underlying portfolio of private equity assets.

Investment Manager

Aberdeen Asset Managers Limited, 10 Queen's Terrace, Aberdeen AB10 1YG.

Capital Structure

The Group has a capital structure comprising Ordinary shares and ZDP shares, both classes of shares being listed on the London Stock Exchange. The Ordinary shares are held within the Company and the ZDP shares through ADC Zeros 2010 PLC and ADC Zeros 2012 PLC.

Total Assets and Net Asset Value

The Group had total net assets of £11.3 million and a net asset value of 30.6 pence per Ordinary share at 31 May 2007. The net asset value per ZDP share on 31 May 2007 was 112.9 pence.

Websites

www.developmentcap.co.uk

www.aberdeen-asset.com

Company Secretary

Aberdeen Asset Management PLC, 10 Queen's Terrace AB10 1YG.

Customer Services

Freephone: 0500 00 00 40 (open Monday – Friday, 9am – 5pm)

Email: invtrusts@aberdeen-asset.com

Duration

There is no fixed life on the Ordinary shares of the Group. ZDP shares in ADC Zeros 2010 PLC will be repaid between 30 April 2010 and 31 October 2010 at the Board's discretion. ZDP shares in ADC Zeros 2012 PLC will be repaid between 30 April 2012 and 31 October 2012 also at the Board's discretion.

Risk

The market price of the Group's shares and of ordinary shares, ZDP shares, fixed interest stocks and other investments will be affected by changes in general interest rates. The maintenance of dividend levels on the Company's shares depends on the receipt of revenue from securities in which the Company invests. The use of gearing is likely to lead to volatility in the net asset value in that a relatively small movement in the Company's total assets may result in a magnified movement in net asset value.

Share Dealing/PEP/ISA Status

Ordinary shares in Aberdeen Development Capital PLC and ZDP shares in both ADC Zeros 2010 PLC and ADC Zeros 2012 PLC can be bought in the open market through a stockbroker. They can also be purchased through the Aberdeen Savings Scheme and are fully qualifying for inclusion within tax efficient tax wrappers.

Management Agreement

The Company has an agreement with Aberdeen Asset Managers Limited for the provision of management services, details of which are given in note 4 of the financial statements. The Directors review the terms of the investment management agreement on a regular basis and have confirmed that in their opinion the continuing appointment of Aberdeen Asset Managers Limited is in the interests of Shareholders as a whole.

Your Board

The Board of four Directors, all of whom are non-executive and the majority of whom are considered by the Board to be independent of the Manager, supervises the management of Aberdeen Development Capital PLC and looks after the interests of its Shareholders.

John R Milligan CBE, *Chairman*

Age: 66

Length of service: 8 years

Relevant experience and other directorships: He was the founder and Chairman of PGS Atlantic Power. He is the Chairman of Court at Dundee University and is the past Chairman of the Scottish Welfare to Work Taskforce.

Last re-elected to the Board: 29 September 2006

Committee membership: Chairman of the Management Engagement and Nomination Committees; member of the Audit Committee

Other public company directorships: None

Employment by the Manager: None

Other connections with the Manager: None

Shared directorships with other Directors: ADC Zeros 2010 PLC, ADC Zeros 2012 PLC

Shareholding in Company: 10,000 Ordinary shares

Martin J Gilbert, *Director*

Age: 52

Length of service: 21 years

Relevant experience and other directorships: He qualified as a chartered accountant in 1982 and thereafter pursued a career in investment management. He was one of the founding directors, and is now chief executive of Aberdeen Asset Management PLC. He is chairman of FirstGroup PLC and a director of a number of other companies.

Last re-elected to the Board: 29 September 2006

Committee membership: Nomination committee

Other public company directorships: Chaucer Holdings PLC, Primary Health Properties PLC, Aberdeen Asian Smaller Companies PLC, Aberdeen Growth VCT PLC, Aberdeen Growth Opportunities VCT PLC, Aberdeen Growth Opportunities 2 VCT and The Enhanced Zero Trust PLC.

Employment by the Manager: Chief executive of Aberdeen Asset Management PLC

Other connections with the Manager: None

Shared directorships with other Directors: Aberdeen Football Club PLC, ADC Zeros 2010 PLC, ADC Zeros 2012 PLC

Shareholding in Company: 189,922 Ordinary shares

Willie C H Phillips, *Director*

Age: 68

Length of service: 10 years

Relevant experience and other directorships: He is a chartered accountant and is chairman of the Scottish Malt Whisky Society Limited. Formerly, he was managing director of Macallan Glenlivet PLC between 1979 and 1996.

Last re-elected to the Board: 30 September 2005

Committee membership: Management Engagement Committee, Audit Committee and Nomination Committee

Other public company directorships: Blavod Extreme Spirits PLC

Employment by the Manager: None

Other connections with the Manager: None

Shared directorships with other Directors: ADC Zeros 2010 PLC, ADC Zeros 2012 PLC

Shareholding in Company: None

Charles M Scott, *Director*

Age: 62

Length of service: 10 years

Relevant experience and other directorships: He qualified as a chartered accountant in 1967 and was a partner of Ernst & Young in Glasgow from 1975 to 1993. Since 1993 he has been a non-executive director of various businesses in Central Scotland including ten years as Vice Chair of Greater Glasgow Primary Care NHS Trust. Twelve years concluding as Chair of Langside FE College, and acts as a business development executive for Targeting Innovation Limited.

Last re-elected to the Board: 30 September 2004

Committee membership: Chairman of Audit Committee and member of Management Engagement Committee

Other public company directorships: None

Employment by the Manager: None

Other connections with the Manager: None

Shared directorships with other Directors: ADC Zeros 2010 PLC, ADC Zeros 2012 PLC

Shareholding in Company: 30,000 Ordinary shares

All the Directors are non-executive and, with the exception of Mr Gilbert, independent.

Information about the Manager

The Company's investment manager is Aberdeen Asset Managers Limited ("AAM"). It is a subsidiary of Aberdeen Asset Management PLC ("Aberdeen"), whose Group companies as at 30 June 2007 managed a combined £89 billion of funds for UK institutions, investment trusts, closed-end funds, unit trusts, private clients and offshore funds.

It has its headquarters in Aberdeen with offices in Birmingham, Edinburgh, Fort Lauderdale, Glasgow, Hong Kong, Inverness, Jersey, Leeds, London, Luxembourg, Manchester, Philadelphia, Singapore and Sydney.

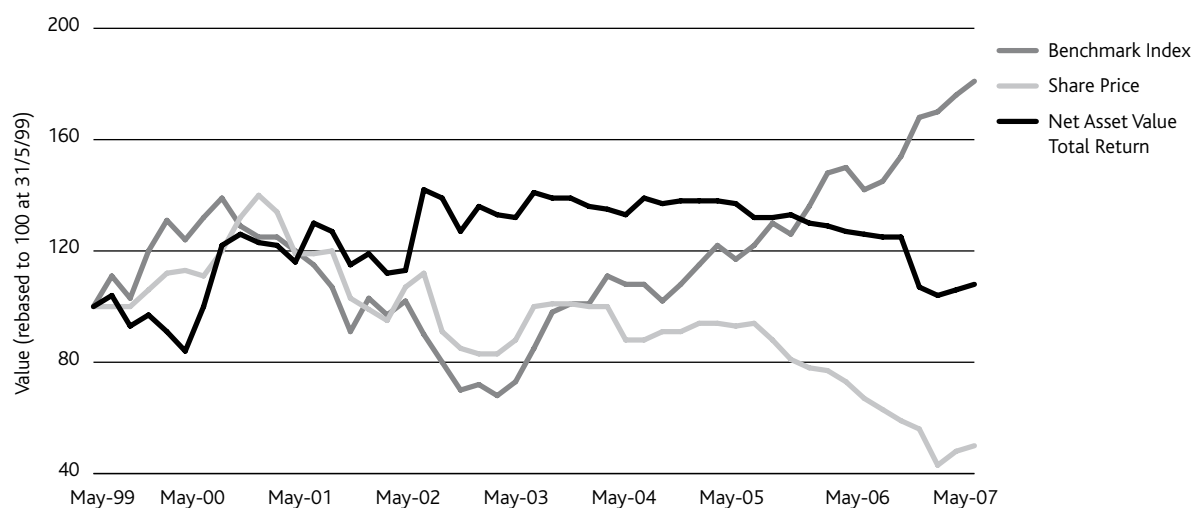
The Group now manages 23 investment trusts and other closed-end funds representing £5.5 billion under management.

Year's Summary

| Ordinary share | 2007 | 2006 | % change |
|--|---------|---------|----------|
| Net asset value per Ordinary share at 31 May | 30.6p | 44.4p | (31.1)% |
| Share price at 31 May (mid market) | 26.8p | 37.8p | (29.1)% |
| Discount | (12.4)% | (14.9)% | – |
| Highest net asset value per Ordinary share in year | 44.4p | 52.8p | (15.9)% |
| Lowest net asset value per Ordinary share in year | 29.3p | 44.4p | (34.1)% |
| Highest share price (mid market) in year | 37.8p | 50.8p | (25.6)% |
| Lowest share price (mid market) in year | 21.8p | 37.8p | (42.3)% |
| Total dividends per Ordinary share (net)* | 2.5p | 2.5p | – |
| Total shareholders' funds (£'000) | 11,283 | 16,407 | (31.1)% |

* During the year three interim dividends of 0.625p per Ordinary share each were paid, with a fourth interim dividend of 0.625p declared after the year end.

Net asset value v Share price v Benchmark Index



Five Year Financial Record

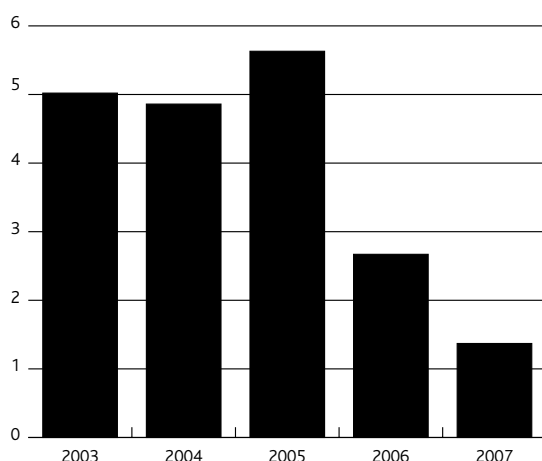
Year to 31 May 2007

| | 2003 | 2004 | 2005* | 2006 | 2007 |
|--------------------------------|--------|--------|--------|--------|--------|
| Per Ordinary share: | | | | | |
| Net earnings | 5.02p | 4.86p | 5.63p | 2.46p | 1.37p |
| Net dividends paid | 5.20p | 5.20p | 5.20p | 3.48p | 2.5p |
| Net asset value | 65.74p | 58.16p | 52.79p | 44.44p | 30.56p |
| Share price | 50.5p | 47.25p | 50.25p | 37.8p | 26.8p |
| Total shareholders funds £'000 | 49,530 | 48,756 | 19,489 | 16,407 | 11,283 |

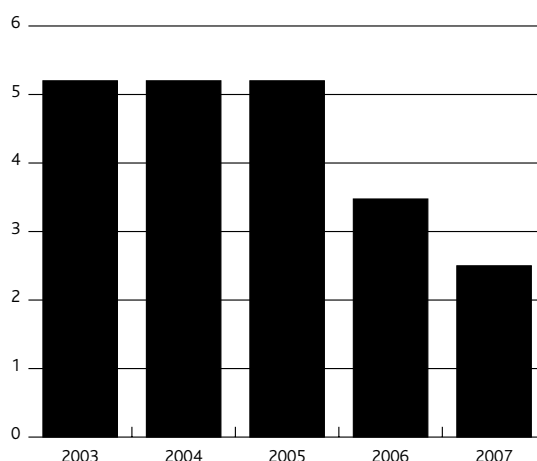
*2005 reflects a change to the accounting treatment of Zero dividend preference shares which were cancelled by the Company and reissued in ADC Zeros 2005 PLC. They were therefore treated as a creditor in accordance with the Statement of Recommended Practice "financial statements of Investment Trust Companies" and also International Financial Reporting Standards (IFRS). The Zero Dividend Preference shares of ADC Zeros 2010 PLC and ADC Zeros 2012 PLC are treated in the same manner.

The reduction in dividends paid in 2006 is in accordance with the projections contained within the Circular sent to Shareholders relating to the refinancing of the Group in that financial year.

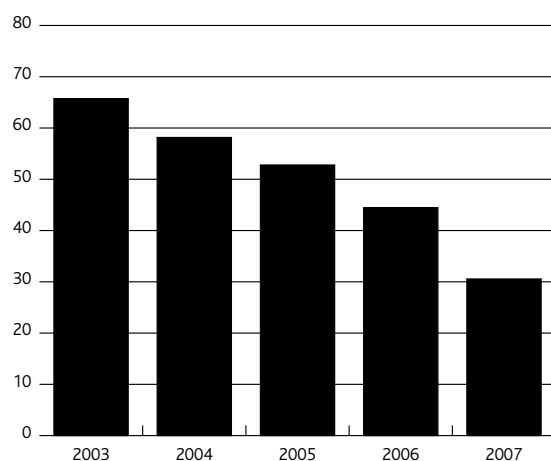
Net earnings per Ordinary share (p)



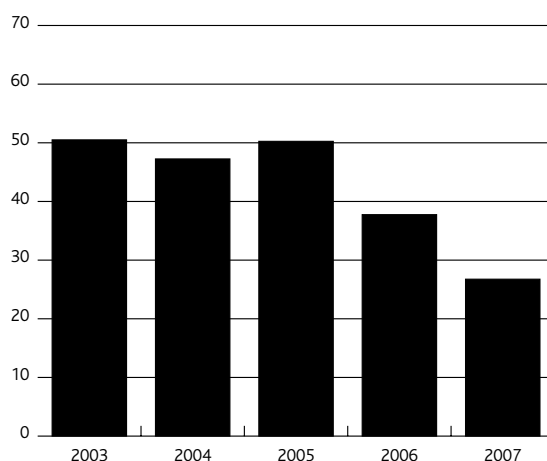
Net dividends paid per Ordinary share (p)



Net asset value per Ordinary share (p)



Share price per Ordinary share (p)



Chairman's Statement

Background

The year to May 31, 2007 has been challenging, given the loss of the Company's largest investment, Transrent Holdings, as indicated in my statement in the Interim Report back in January. This loss precipitated a review of all available options, which was carried out in consultation with the major shareholders. This review was completed in June and proposals were subsequently sent to Shareholders with a view to changing the investment objective and policy, implementing capital reductions, the return of capital to Shareholders through a combination of a capital return scheme and buy back programme, amendments to the articles of association of ADC Zeros 2010 and ADC Zeros 2012 and proposed changes to the management fee arrangements. I am pleased to advise that at an Extraordinary General Meeting ("EGM") held on 3 August 2007, these proposals were approved.

Performance

The Net Asset Value per Ordinary Share ("NAV") fell from 44.4p to 30.6p, of which some 14.5p was attributable to Transrent, including the write-off of some 1.6p of income previously accrued but not received. A further 3.3 pence per share is attributable to the annual allocation of capital entitlement to holders of Zero Dividend Preference shares.

On a more positive note, a number of profitable realisations have been achieved during the second half of the year, and these are detailed both later in my statement and in the Annual Report and Accounts.

Dividend

I am pleased to report that despite the afore-mentioned loss of income from Transrent, a dividend of 2.5 pence per share was paid during the year, albeit part of the dividend was funded by revenue reserves accumulated in previous years. In the absence of unforeseen circumstances, the company will continue to pay dividends to Ordinary Shareholders on a quarterly basis, and to distribute, by way of dividend, substantially all of its distributable profits available for the purpose. However, the recently approved changes to the Company's investment objective and policy are expected to adversely impact the level of distributable profits in the future. The Board intend to use the Company's revenue reserves to minimise such impact on the level of dividends payable, to the extent that it has revenue reserves so to do.

Investment Activity

Following the Board's announcement to review the Company's investment strategy in January, it was decided to suspend investment in new opportunities from that date. As a result, only two new investments have been made in the year.

Firstly, in November £450,000 was invested in Enpure Holdings, which provides process engineering and project management services including design, installation and commissioning solutions on behalf of a wide range of clients. Based in Kidderminster, the company employs approximately 220 people and counts all of the major UK water utility companies among its clients.

Additionally, in January the Company invested £497,000 in Bolton based Oliver Kay, a supplier of top quality fresh fruit, vegetables, delicatessen products and associated sundries to the catering industry.

During the year £10.9 million was received in a number of profitable realisations. There are four exits which merit specific mention:

Equity Insurance Group, a mid-sized insurance business focused on predominately niche risk areas within motor insurance was sold to a trade buyer in January and the Company received proceeds of £2.2 million compared with an original cost of £1 million producing a cash multiple of 2.2x and an IRR of 58.6%.

Next, in March, investee company Norson Group completed the sale of its pipeline services division to US company, BJ Services, in a deal which valued ADC's holding at approximately £3.78 million, which compared with the previous carrying value of £2.36 million. Under the terms of the deal, £2.66 million in cash has been received, £79,000 of value has been retained in the continuing business for a 23% stake, and the remaining deferred proceeds of £1.04 million will be held in escrow, payable in instalments over the next 15 months. Although it is anticipated that a full recovery of the deferred consideration proceeds will occur, it will not be recognised until received. Proceeds including income over the ten year lifetime of the investment are expected to total £5.21 million against a cost of £1.10 million, representing a cash multiple of 4.7x and an IRR of 21.3%.

During April, the Company disposed of its interest in ABZ Group, an Aberdeen based business concerned with the design, manufacture and sale of specialised cabins for the energy sector. ADC received cash proceeds of £1.48 million compared with a cost of £550,000 and a carrying value of £955,000. In addition, income proceeds over the period of investment since May 2005 totalled £100,000 giving a cash exit multiple of 2.87x and an IRR of 74.8%.

Finally, in May, the Company sold its stake in Plaxton, the Yorkshire based coach manufacturer. ADC received cash proceeds of £1.02 million compared with a cost of £21,000 and a carrying value of £689,000. In addition, income proceeds over the period of investment since May 2004 totalled £159,000 and a redemption of loan stock and equity in July 2006 realised a further £775,000. As a result the investment generated a cash multiple of 2.61x on original cost of £750,000 and an IRR of 46.3%.

The remaining portfolio of investments are generally performing satisfactorily.

ECJ VAT Judgement

As you may be aware The European Court of Justice has recently ruled in favour of the AIC and JP Morgan Claverhouse in a test case brought about to challenge the imposition on Investment Trust Companies of VAT on their management fees. Although this judgement serves to advance the case, there is as yet no certainty as to its final outcome, as the case has still to come before the UK VAT and Duties Tribunal and also HMRC may appeal the decision. Should the case ultimately be successful, it is possible that the Company may be able to recover VAT payable in previous years, but given the considerable uncertainty over the timing and amounts of any such possible recoveries, the Board does not believe it is appropriate at this time to include any such amount as an asset of the Company.

Annual General Meeting

Mr Gilbert and Mr Scott will be retiring by rotation at the Annual General Meeting ("AGM") to be held on Friday, 28th September 2007. Your Board, having reviewed the proposed re-elections, strongly recommends Shareholders to vote in favour of the reappointments.

One of the Company's Directors, Willie Phillips will retire at the forthcoming AGM. His experience in industry and commerce has been particularly helpful to us and we thank him for the benefit of his wise counsel and sound judgement over the last ten years.

The Future

As a result of Shareholder approval at the recent EGM, the Company's investment objective has been changed. The new investment objective is to conduct an orderly realisation of the assets of the Company to be effected in a manner which aims to maximise value for Ordinary Shareholders, and your Board, together with the Manager, will strive towards this objective. Consequently, subject to Court approval, the Board anticipates making a return to Shareholders of at least £9.5 million in or before November 2007. The Board will, of course, ensure that Shareholders are updated of progress nearer to the proposed date of payment.

John R Milligan

Chairman

3 August 2007

Manager's Review

The period under review has been dominated by the failure of the largest investment, prior to its collapse, Transrent Holdings and the subsequent repercussions.

As has been previously intimated to Shareholders in an announcement to the London Stock Exchange on 5 January 2007, Transrent had been experiencing a significant downturn in its marketplace, resulting in lower utilisation and more especially lower rental rates from its trailer fleet. Despite remaining very profitable at the EBITDA line, the level of debt in the business meant that the company suffered from increasing cash flow difficulties in the absence of either a recovery in its market or a financial restructuring. Despite an enormous amount of effort by the Manager, it was not possible to complete such a refinancing, and the company went into liquidation on 8 January 2007. As a result, it was necessary to make a full provision against the carrying value of this investment, representing 14.5 pence per Ordinary share.

Given the magnitude of the impact of the failure of Transrent, the Board made a decision to suspend investment in new opportunities with immediate effect and this policy was formally approved by Shareholders on 3 August 2007. Accordingly, the Company is now focused on maximising value for Ordinary Shareholders through an orderly realisation of assets.

Net Asset Value Performance

| | | | |
|---|--------------------|---------|--------------|
| Audited NAV per Ordinary share as at 31 May 2006 | | | 44.4p |
| Major Gains: | EIG Investments | 2.7p | |
| | ABZ Group | 2.5p | |
| | Homelux Nenplas | 1.2p | |
| | Norson Group | 1.0p | 7.4p |
| Major Downgrades: | Transrent Holdings | (14.5)p | |
| | FFC (UK) | (1.4)p | |
| | Focus DIY Group | (1.1)p | (17.0)p |
| Appropriation to Zero dividend preference shares | | | (3.3)p |
| Other movements | | | (0.9)p |
| Audited NAV per Ordinary share as at 31 May 2007 | | | 30.6p |

New Unlisted Investments

| Company | Sector | Transaction Type | Cost £'000 |
|--------------|-------------------------------|------------------|------------|
| Enpure | Gas, Water and Multiutilities | MBO | 497 |
| Oliver Kay | Food Producers and Processors | MBO | 450 |
| Total | | | 947 |

Enpure provides process engineering and project management services including design, installation and commissioning solutions on behalf of a wide range of clients. Based in Kidderminster, the company employs approximately 220 people and counts all the major UK water utility companies as its clients.

Oliver Kay is a supplier of top quality fresh fruit, vegetables, delicatessen products and associated sundries to the "On-Trade" Catering Industry (hotels, pubs and restaurants that prepare food on site). OKL has over 1,000 customers predominately located within an 80 mile radius of the 47,000 sq ft head office and distribution centre in Bolton and currently has 114 employees.

Follow On Investments

| Company | Sector | Transaction Type | Cost £'000 |
|--------------------|-----------------------------------|---------------------|--------------|
| Transrent Holdings | Support Services | Dev Cap | 895 |
| FFC (UK) | Household Goods | Dev Cap | 100 |
| Astraeus | Travel and Leisure | Dev Cap | 86 |
| Norson Holdings | Support Services | Dev Cap | 79 |
| Citel | Technology Hardware and Equipment | Dev Cap | 48 |
| Chiltern Invadex | Healthcare Equipment and Services | Dev Cap | 21 |
| Plaxton | Industrial Transportation | Replacement Capital | 20 |
| Palgrave Brown | Construction and Materials | Replacement Capital | 6 |
| Total | | | 1,255 |

Transrent Holdings was the trailer rental business based in the West Midlands. Funding by way of loan notes and called up bank guarantees was provided in an attempt to allow the company an opportunity to find a suitable refinancing alternative as it became apparent the business was under significant cash flow pressures. Unfortunately, a suitable arrangement could not be agreed and the company went into liquidation in January 2007.

FFC (UK) concentrates on the design and manufacture of office furniture. The company relocated premises during the year and shareholders contributed to the funding requirement with ADC's share amounting to £100,000.

Astraeus is charter airline business operating a fleet of Boeing 737 and 757 planes. Following a £5 million investment by a new investor in late 2006, existing shareholders also provided follow-on investment.

In March 2007 the larger of two divisions of existing oil and gas service investment Norson Group was sold and the company wound up. The remaining hydraulics division was incorporated as Norson Holdings with the Company retaining a 24% interest for a value of £79,000.

Citel provides leading edge technology allowing traditional telephone headsets to be used over a lower cost internet protocol based environment. In July ADC provided per-IPO funding ahead of the company's listing on AIM.

Chiltern Invadex is concerned with the manufacture and supply of products for the elderly and infirm. During the year £21,000 was provided to assist the working capital facilities of the business.

Plaxton was the Yorkshire based coach and bus manufacturer, which was sold in May 2007. Prior to this a follow-on investment was made to acquire the shares of the ex-chairman.

Palgrave Brown is concerned with the manufacture and supply of high quality windows and doors, MDF and timber trading. During the year further shares in the business were acquired from existing management.

In addition, and not included in the table above, during the year £4 million was invested in short-term fixed income securities including certificates of deposits and UK T-Bills. The amounts associated with these purchases were redeemed in full in the period.

Realisations

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

| Company | Proceeds £'000 | Cost £'000 | Gain/(Loss) £'000 |
|--------------------------------|-------------------|---------------|----------------------|
| Norson Group | 2,337 | 1,100 | 1,237 |
| EIG Investments | 2,015 | 1,003 | 1,012 |
| Plaxton | 1,744 | 769 | 975 |
| ABZ Group | 1,481 | 550 | 931 |
| Original Shoe Company | 1,024 | 700 | 324 |
| TMI Foods | 896 | 153 | 743 |
| Feather Diesel Services | 560 | 560 | – |
| Transys Projects | 546 | 364 | 182 |
| Enterprise Food Group Holdings | 208 | – | 208 |
| Spencer Coatings Group | 36 | 36 | – |
| Fispak | 17 | 17 | – |
| Scottish Equity Partnership | 15 | 15 | – |
| Citel | 4 | 13 | (9) |
| Total | 10,883 | 5,280 | 5,603 |

It was a very strong year in terms of realisations with many profitable as can be seen above. Details of the major exits for Norson Group, EIG Investments, Plaxton and ABZ Group are given in the Chairman's Statement but a number of other realisations have been achieved demonstrating the Board and Manager's commitment to realising the portfolio whilst attempting to maximise Ordinary Shareholder value.

As noted above, during the year a further £4 million was invested in short-term fixed income securities including certificates of deposits and UK T-Bills. The amounts associated with these purchases were redeemed in full in the period.

Valuation Principles

The unlisted portfolio is valued at fair value in accordance with the guidelines set out by 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.

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

The market in which the Company operates in has been fairly strong over the past year in terms of realisations, and the Board along with the Manager will continue to strive to maximise returns for Ordinary Shareholders.

Twenty Largest Investments

As at 31 May 2007

| Company | Fair value £'000 | Book cost £'000 |
|---|---------------------|--------------------|
| <p>Tennants Consolidated Tennants Consolidated is engaged in the manufacture and sale of chemicals and chemical products.</p> | 2,656 | 1,043 |
| <p>Pilgrim Systems Pilgrim Systems is concerned with the origination, supply and support of specialised software packages predominantly for use within the legal profession.</p> | 2,500 | 1,500 |
| <p>Cash Bases Cash Bases is a leading designer and manufacturer of customised cash drawers and is based in Newhaven, Sussex. Since its formation in 1981 the company has created over 10,000 different product variations for its "blue-chip" customer base, which includes major retailers, banks, lottery operators and shipping companies in over 60 different countries.</p> | 1,750 | 1,250 |
| <p>Transys Projects Transys Projects supplies engineering services and equipment to the UK rail industry. Its activities are broadly split between Turnkey Projects which involve the design, supply and fitting of specialist equipment and the provision of engineering and consultancy services. The business is based in Birmingham and employs approximately 40 members of staff.</p> | 1,282 | 161 |
| <p>IFC Holdings IFC Holdings is concerned with the processing and distribution of canned fish products.</p> | 1,200 | 501 |
| <p>TLA Holdings Trading as Boyack Homes, the company is an established housebuilder in Fife.</p> | 1,143 | 145 |
| <p>PLM Dollar Group PLM Dollar is one of the largest providers of on-shore helicopter services in the UK that has an operational pedigree stretching back over 30 years. The company provides a wide range of services including passenger and corporate contracts, fish transportation, path maintenance, filming, construction, tree lifting and erecting radio masts.</p> | 933 | 700 |
| <p>FFC (UK) FFC (UK) designs and manufactures office furniture.</p> | 820 | 1,250 |
| <p>RMS Europe RMS Europe operates ports at Goole, on the River Humber and at Flixborough and Gunness on the River Trent, providing stevedoring and ships agency services together with the storage and onward transport of materials.</p> | 744 | 522 |
| <p>Brookhouse Holdings Brookhouse is a specialist aerospace company providing high performance composite tooling and components and lightweight metallic components, structures and ground support equipment to the world's leading military and civil aircraft manufacturers and operators.</p> | 673 | 400 |

| Year-end | % of fully diluted equity held | Dividend per share (p) | Dividend cover | Net assets attributable by equity held £'000 |
|-------------|--------------------------------|------------------------|----------------|--|
| 31-Dec-2006 | 2.2 | 19.91 | 2.62 | 2,731 |
| 30-Sep-2006 | 20.0 | n/a | n/a | 230 |
| 31-Dec-2006 | 18.8 | n/a | n/a | 476 |
| 31-Dec-2006 | 13.8 | n/a | n/a | 335 |
| 31-Mar-2006 | 23.5 | n/a | n/a | 1,017 |
| 30-Jun-2006 | 34.1 | 64.16 | 1.67 | 644 |
| 30-Sep-2006 | 20.0 | n/a | n/a | 858 |
| 30-Jun-2006 | 30.0 | n/a | n/a | (19) |
| 31-Dec-2005 | 6.5 | n/a | n/a | 186 |
| 30-Sep-2006 | 4.7 | n/a | n/a | (113) |

Twenty Largest Investments – continued

| Company | Fair value £'000 | Book cost £'000 |
|--|---------------------|--------------------|
| <p>Homelux Nenplas Homelux Nenplas is based in Ashbourne, Derbyshire and is leading supplier of extruded and injection moulded plastic products primarily to the home improvement and building products sector. It also supplies products to the caravan, shop fitting and furniture markets.</p> | 668 | 423 |
| <p>Palgrave Brown Palgrave Brown is a manufacturer of specialist timber products.</p> | 602 | 500 |
| <p>Oliver Kay Oliver Kay is a supplier of top quality fresh fruit, vegetables, delicatessen products and associated sundries to the "On-Trade" Catering Industry .</p> | 497 | 497 |
| <p>Astraeus Astraeus is a charter airline which was launched in April 2002. The company, which is based at Gatwick Airport, operates a fleet of ten Boeing 737 and 757 planes, offering short-haul charter flights to independent tour operators and the oil services sector.</p> | 478 | 478 |
| <p>Enpure Enpure provides process engineering and project management services including design, installation and commissioning solutions on behalf of a wide range of clients.</p> | 450 | 450 |
| <p>PSCA International PSCA International is a producer of a number of high quality publications that are aimed at public sector officials in central and local government. An Events business has been developed recently and Web based sales continue to increase.</p> | 443 | 308 |
| <p>Spencer Coatings Spencer Coatings is the largest coatings manufacturer in Scotland producing a range of products to suit the General Industrial, Heavy Duty, Architectural and Decorative markets.</p> | 346 | 346 |
| <p>Citel Citel has created a leading edge solution that allows traditional telephone handsets to be used over a lower cost Internet Protocol based environment.</p> | 182 | 635 |
| <p>Whiteness Property Company Whiteness Property Company is a property development opportunity located near Inverness</p> | 167 | 171 |
| <p>Ortak Jewellery Ortak Jewellery is concerned with the production and retail of jewellery and other giftware.</p> | 125 | 125 |

| Year-end | % of fully diluted equity held | Dividend per share (p) | Dividend cover | Net assets attributable by equity held £'000 |
|-------------|--------------------------------|------------------------|----------------|--|
| 31-May-2007 | 7.2 | n/a | n/a | n/a |
| 31-Mar-2006 | 3.9 | 9.3 | n/a | 294 |
| 30-Sep-2007 | 3.2 | n/a | n/a | n/a |
| 31-Dec-2006 | 2.9 | n/a | n/a | (195) |
| 31-Mar-2007 | 1.9 | n/a | n/a | n/a |
| 31-Dec-2006 | 3.6 | n/a | n/a | 78 |
| 31-Mar-2006 | 10.0 | n/a | n/a | 328 |
| 31-Mar-2006 | 1.6 | n/a | n/a | (17) |
| 30-Nov-2006 | 3.3 | n/a | n/a | 191 |
| 31-Jan-2007 | 12.5 | n/a | n/a | 218 |

Classification of Investments

Classification of Investments by sector

Based on valuation at 31 May 2007

| | 2007 % | 2006 % |
|---|--------------|--------------|
| Chemicals | 16.9 | 10.0 |
| Basic Materials | 16.9 | 10.0 |
| Aerospace & Defence | 3.8 | 0.7 |
| Construction & Materials | 13.6 | 7.9 |
| Industrial Engineering | 7.2 | 7.1 |
| Industrial Transportation | 4.2 | 7.4 |
| Support Services | 15.6 | 31.4 |
| General Industrials | 44.4 | 54.5 |
| Food Producers & Processors | 9.6 | 6.0 |
| Household Goods | 4.6 | 4.1 |
| Consumer Goods | 14.2 | 10.1 |
| Health Care Equipment & Services | 0.0 | 0.3 |
| Health Care | 0.0 | 0.3 |
| General Retailers | 0.7 | 6.5 |
| Media | 2.5 | 1.4 |
| Travel & Leisure | 2.7 | 3.2 |
| Consumer Services | 5.9 | 11.1 |
| Software & Computer Services | 14.1 | 8.2 |
| Technology Hardware & Equipment | 1.0 | 1.1 |
| Technology | 15.1 | 9.3 |
| Gas, Water and Multiutilities | 2.6 | 0.0 |
| Utilities | 2.6 | 0.0 |
| Equity Investment Instruments | 0.0 | 0.5 |
| Nonlife insurance | 0.0 | 3.3 |
| Real Estate | 0.9 | 0.9 |
| Financials | 0.9 | 4.7 |
| Total fixed asset investments | 100.0 | 100.0 |
| Classification of investments by instrument held | | |
| Equities | 67.0 | 51.4 |
| Convertible securities | 0.0 | 0.1 |
| Fixed interest securities | 33.0 | 48.5 |
| | 100.0 | 100.0 |

Aberdeen Development Capital PLC

Directors' Reports & Financial Statements

Year ended 31 May 2007

Directors' Report

The Directors present their report and financial statements for the year to 31 May 2007.

Business Review

A review of the Group's activities is given in the Corporate Summary on page 1, Chairman's Statement on pages 7 and 8 and the Manager's Review on pages 9 to 11. This includes a review of the Group and its principal activities, likely future developments of the business and recommended dividend levels. The major risks associated with the Group are detailed in note 20 to the Financial Statements. The Key Performance Indicators for the Group including NAV performance, share price performance and benchmark performance are detailed on page 5.

Additionally, each Director confirms that, so far as he is aware, there is no relevant audit information of which the Group'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 Group's auditors are aware of that information. Additionally, there are no important events since the year end which have not been disclosed. Details of the Directors are given in Your Board on pages 2 and 3 and also further below in the Directors Report.

The Group has made no political or charitable donations during the year and in common with most investment trusts, the Group has no employees.

Principal Activity

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 266 of the Companies Act 1985 and is registered as a public limited company. The Company is also a member of the Association of Investment Companies ("AIC").

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 2006.

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

Results and Dividends

Details of the Group's results and dividends are shown on page 28 of this Report.

Directors

The current Directors of the Company are shown on pages 2 and 3 along with brief biographical details. In accordance with the Articles of Association Mr Scott retires by rotation and being eligible, will offer himself for re-election. As a non-independent director, Mr M J Gilbert offers himself for re-election annually. As explained in the Chairman's Statement, Mr Phillips will be retiring at the Annual General Meeting.

The Directors at 31 May 2007 and their beneficial interests in the Ordinary shares of the Company and alterations since the balance sheet date are as follows:

| | 31 July 2007 Ordinary | 31 May 2007 Ordinary | 31 May 2006 Ordinary |
|----------------|--------------------------|-------------------------|-------------------------|
| J R Milligan | 10,000 | 10,000 | 10,000 |
| M J Gilbert | 189,922 | 189,922 | 181,158 |
| W C H Phillips | – | – | – |
| C M Scott | 30,000 | 30,000 | 30,000 |

None of the Directors have had any interest in the Group's Zero dividend preference shares at any time during the year.

Mr Gilbert is a director of Aberdeen Asset Managers Limited which acts as the Company's investment manager and is also a director of Aberdeen Asset Management PLC, the Secretary of the Company and the holding company of Aberdeen Asset Managers Limited. During the year Aberdeen Asset Managers Limited waived its right to receive fees under the marketing agreement described in note 5 to the financial statements.

No Director has a service contract with the Company.

Corporate Governance

The Statement of Corporate Governance is shown on pages 22 to 25.

Financial Statements

The Directors' responsibilities regarding the financial statements are set out on page 26. The Directors acknowledge that their responsibility to present a balanced and understandable assessment extends to interim and other price sensitive public reports and reports to regulators as well as to information required to be presented by statutory requirements.

Risk Management

The major risks associated with the Group's businesses are market risk, liquidity risk, interest rate risk and credit risk. The Group has established a comprehensive framework for managing these risks, which evolves as the Group's business activities change in response to market, credit and other developments. The group's policies for managing each of these risks and its exposure thereto are detailed in note 20 to the financial statements.

Going Concern

As explained in the Chairman's Statement, the Company has announced its intention to conduct an orderly realisation of its investment portfolio following the balance sheet date. These 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.

Substantial Interests

On 31 July 2007 the following were registered or had notified the Company as being interested in 3% or more of the Company's Ordinary share capital:

| Name of shareholder | Number of Shares held | % held |
|--|-----------------------|--------|
| Midas Capital Partners | 7,190,000 | 19.5 |
| Merseyside Superannuation Fund | 5,197,042 | 14.1 |
| New Star Asset Management Limited | 4,500,000 | 12.2 |
| Clients of Aberdeen Asset Managers Limited | 3,671,043 | 9.9 |
| Dartmoor Investment Trust | 3,150,000 | 8.5 |
| Jupiter Asset Management Limited | 2,424,927 | 6.6 |
| Aberdeen City Council Pension Fund | 1,512,500 | 4.1 |

Creditor Payment Policy

It is the policy of the Company to settle all investment transactions in accordance with the terms and conditions of the relevant market in which it operates. All other expenses are paid on a timely basis in the ordinary course of business. The Directors do not consider any creditors to represent trade creditors.

Business at Annual General Meeting

Resolution 6 will, if passed as an ordinary resolution, renew the Directors' existing general power to allot securities up to an aggregate nominal amount of £1,218,334 representing 33% of the issued share capital of the Company at the date of this document.

Resolution 7 will, if passed as a special resolution, renew the Directors' existing authority until the conclusion of the next Annual General Meeting to make limited allotments of shares for cash other than according to the statutory pre-emption rights which require all shares issued for cash to be offered first to all existing Shareholders. This would provide the Directors with flexibility to act in the best interests of Shareholders when the opportunity arises so that

- (i) the Company can follow normal practice in the event of a rights issue (if appropriate) and
- (ii) may, in addition, issue a limited number of shares up to a nominal value of £184,596, representing 5% of the current issued share capital of the Company, for cash on a non pre-emption basis.

Recommendation

Your Directors believe that the adoption of the Resolutions to be proposed at the Annual General Meeting is in the best interest of the Company and its Shareholders as a whole and accordingly recommend you to vote in favour of the Resolutions.

Auditors

Deloitte & Touche LLP, have indicated their willingness to continue in office and a resolution to re-appoint Deloitte & Touche LLP as auditors will be proposed at the forthcoming Annual General Meeting, along with a resolution to authorise the Directors to fix their remuneration.

10 Queen's Terrace
Aberdeen AB10 1YG
3 August 2007

By order of the Board
Aberdeen Asset Management PLC
Secretaries

Directors' Remuneration Report

This Report is prepared in accordance with Schedule 7A of the Companies Act 1985.

Remuneration Committee

As the Board of Directors is comprised solely of non-executive Directors, it is exempt under the Listing Rules from appointing a Remuneration Committee. The determination of the Directors' fees is a matter dealt with by the whole Board.

Remuneration Policy

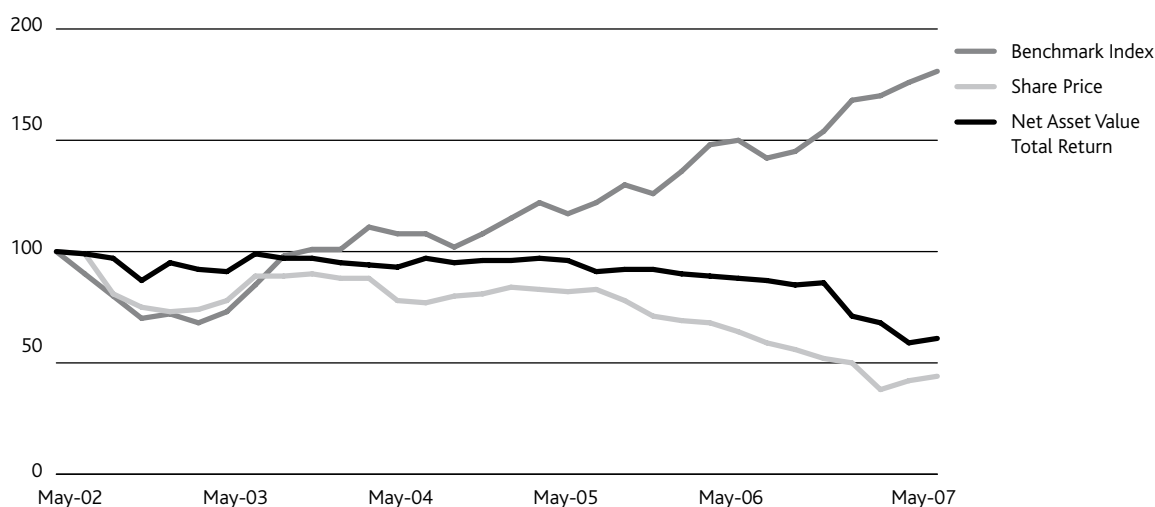
The Company's Articles of Association limit the aggregate fees payable to the Board of Directors to a total of £150,000 per annum. Subject to this overall limit, it is the Company's policy to determine the level of Directors' fees having regard to the level of fees payable to non-executive directors in the industry generally, the role that individual Directors fulfil in respect of Board and Committee responsibilities and the time committed to the Company's affairs.

No element of the Directors' remuneration is performance related.

A resolution to receive and adopt the Directors' Remuneration Report will be proposed at the Annual General Meeting.

Total Shareholder Return

The graph below illustrates the total Shareholder return for a holding in the Company's Ordinary shares as compared to the FTSE Small Cap Index (excluding Investment Trusts) for the five years until 31 May 2007. The Company considers the FTSE Small Cap Index (excluding Investment Trusts) to be the most appropriate index against which to measure the Company's performance.



Service Contracts

None of the Directors operate under a service contract with the Company. The Company's Articles of Association provide that the number of Directors nearest to, but not greater than, one third of the Board shall retire by rotation. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election, thereafter one third of the Directors who have been longest in office shall retire from office but, if there is only one Director who is subject to retire by rotation, he shall retire. There is no requirement for the Directors to be re-elected every three years. Consideration will be given to altering the Articles of Association in due course to make them comply with the Combined Code on this subject. However, this is unlikely to be undertaken until the Company requires a general redrafting of the Articles.

No Director past or present has any entitlement to pensions, and the Company has not awarded any share options or long-term performance incentives to any of the Directors.

Directors' and Officers' liability insurance cover is maintained by the Company on behalf of the Directors.

Directors' emoluments (audited information)

| Director | 2007 | 2006 |
|---|---------------|---------------|
| | £ | £ |
| J R Milligan* | 23,500 | 20,000 |
| M J Gilbert | 5,833 | 17,500 |
| C A MacLeod (resigned 31 December 2005) | – | 13,708 |
| W C H Phillips | 17,500 | 17,500 |
| G A Robb (resigned 30 September 2005) | – | 5,833 |
| C M Scott | 17,500 | 17,500 |
| | 64,333 | 92,041 |

* Appointed Chairman 1 January 2006

The amounts paid by the Company to the Directors were for services as non-executive directors.

Sums paid to Third Parties (audited information)

Of the fees disclosed above £5,833 (2006 - £17,500) was payable to third parties in respect of making available the services of Directors. These fees were assigned to Aberdeen Asset Management PLC (M J Gilbert). Fees payable in respect of the services of Mr Gilbert ceased with effect from 1 October 2006.

No Director has received any taxable expenses, compensation for loss of office or non-cash benefits for the year ended 31 May 2007.

3 August 2007

By order of the Board
Aberdeen Asset Management PLC
Secretaries

Statement of Corporate Governance

The Company is committed to a high standard of corporate governance. This statement describes how the principles and supporting principles identified in the Combined Code, published in July 2003, have been applied by the Group throughout the year ended 31 May 2007, except where disclosed below.

The exceptions to compliance with the Combined Code, which are explained more fully under the headings of "The Board" and "Remuneration Committee and Directors' Remuneration" were as follows:

- a senior independent director has not been appointed
- the chairman is a member of the Audit Committee

The Board

The Board currently consists of four non-executive Directors and one alternate Director. All Directors, with the exception of Mr Gilbert are considered by the Board to be independent of the Manager and free of any material relationship with the Investment Manager. Mr Gilbert is an employee of the Manager and as such is not considered to be independent. Each Director has the requisite high level and range of business and financial experience which enables the Board to provide clear and effective leadership and stewardship of the Company. The Board considers that the post of chief executive officer is not relevant for an investment trust company as this role has effectively been delegated to the Manager, under the terms of the investment management agreement.

Mr J R Milligan was independent of the Manager at the time of his appointment as a Director in October 1998 and as Chairman in January 2006. Mr Milligan has been identified as the senior independent non-executive Director, to whom any concerns can be conveyed by the other Directors.

The biographies of the Directors appear on pages 2 and 3 of this annual report and indicate the range of Directors' investment, commercial and professional experience.

The Board met eight times during the year ended 31 May 2007. In addition, the Audit Committee and Management Engagement Committee each met twice. Between these formal meetings there is regular contact with the Investment Manager.

| Director | Board Meetings | Committee Meetings |
|------------------------------|----------------|--------------------|
| J R Milligan (Chairman) | 8 | 4 |
| M J Gilbert (inc alternate)* | 8 | – |
| W C H Phillips | 8 | 4 |
| C M Scott | 8 | 4 |

* Mr Gilbert is not a member of the Audit or Management Engagement Committees

To enable the Board to function effectively and allow Directors to discharge their responsibilities, full and timely access is given to all relevant information. In the case of Board meetings, this consists of a comprehensive set of papers, including the Manager's review and discussion documents regarding specific matters. Directors have made further enquiries where necessary.

The Board and Committees have undertaken their annual performance evaluation, using questionnaires and discussion to ensure that members have devoted sufficient time and contributed adequately to the work of the Board and Committees. The Chairman has been evaluated by his fellow Directors.

The Board sets the Group's values and objectives and ensures that its obligations to its Shareholders are met. It has formally adopted a schedule of matters which are required to be brought to it for decision, thus ensuring that it maintains full and effective control over strategic, financial, operational and compliance issues.

These matters include:

- the maintenance of clear investment objectives and risk management policies;
- the monitoring of the business activities of the Group;
- Companies Act requirements such as the approval of the interim and annual financial statements and approval of the interim dividends;
- Major changes relating to the Group's structure, including share buybacks and share issues;
- Board appointments and related matters;
- Appointment and removal of the Manager and terms and conditions of the management and administration agreements;
- Terms of reference and membership of Board Committees; and
- Stock Exchange, UK Listing Authority and Financial Services Authority matters, such as approval of all circulars, listing particulars and releases concerning matters decided by the Board.

There is an agreed procedure for Directors to take independent professional advice, if necessary, at the Group's expense.

The Directors have access to the advice and services of the corporate Company Secretary through its appointed representatives, who are responsible to the Board:

- For ensuring that Board procedures are complied with;
- Under the discretion of the Chairman, for ensuring good information flows with the Board and its committees; and
- For advising on corporate governance matters

An induction meeting will be arranged by the Manager on the appointment of any new Director, covering details about the Group, the Manager, legal responsibilities and investment trust industry matters. Directors are provided on regular basis with key information on the Group's policies, regulatory and statutory requirements and internal controls. Changes affecting Directors' responsibilities are advised to the Board as they arise.

The Chairman of the Group is a non-executive Director. A senior non-executive Director has not been appointed, as required by provision A3.3 of the Combined Code, as the Board considers that each of the Directors has different qualities and areas of expertise on which they may lead. Consequently, no individual has unfettered powers of decision.

External Agencies

The Board has contractually delegated to external agencies, including the Manager and other service providers, certain services: the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), the registration services and day to day accounting and company secretarial requirements. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of services offered. The Board receives and considers reports from the Manager on a regular basis. In addition, ad hoc reports and information are supplied to the Board as requested.

Board Committees

Separate Audit and Management Engagement Committees have been established, along with a Nomination Committee. Given the nature of the Company the Board as a whole fulfils the role of the Remuneration Committee.

Nomination Committee

A Nomination Committee has been established with written terms of reference and currently comprises Mr M J Gilbert, Mr J R Milligan and Mr W C H Phillips. The Chairman of the Committee is the Chairman of the Group. One meeting was held during the year ending 31 May 2007. At its meeting in July 2006, the Nomination Committee recommended to the Board the nomination of Mr Gilbert and Mr Milligan at the September 2006 Annual General Meeting. Neither Mr Gilbert nor Mr Milligan took part in the discussion of their nomination.

The Committee makes recommendations to the Board on the following matters:

- The identification and nomination of candidates to fill Board vacancies as and when they arise for the approval of the Board;
- Succession planning;
- The re-appointment of any non-executive Director at the conclusion of their specified term of office;
- The re-election by Shareholders of any Director under the retirement by rotation provisions in the Company's Articles of Association;
- The continuation in office of any Director at any time; and
- The appointment of any Director to another office, such as Chairman of the Audit Committee, and including the position of Chairman.

At its meeting on 27 July 2007, the Nomination Committee recommended to the Board, the nomination for re-election of Mr Gilbert and Mr Scott and for the following reasons:

- Mr Gilbert, who has been a Director since 1986, brings to the Board a wide range of skills and experience and a particular knowledge of the investment industry; and
- Mr Scott, who been a Director since 1997 and Chairman of the Audit Committee from that date, has many years of technical, general business and company directorship experience. He brings to his role a valuable set of skills and experience.

Audit Committee

An Audit Committee has been established with written terms of reference and comprising all of the independent directors. Two meetings were held during the year. The terms of reference of the Committee, which are available on request, are reviewed and re-assessed for their adequacy at each meeting.

Statement of Corporate Governance - continued

The terms of reference of the Audit Committee include:

- The review of the effectiveness of the internal control environment of the Group including receiving reports from internal and external auditors on a regular basis;
- The review of the interim and annual reports and financial statements;
- The review of the terms of appointment of the Auditors together with their remuneration as well as any non-audit services provided by the Auditors;
- The review of the scope and results of the audit and the independence and objectivity of the Auditors;
- The review of the auditors management letter and management response; and
- Meetings with representatives of the Manager.

At each meeting, the Audit Committee examined the annual or interim report and financial statements, reviewed the Group's internal controls and reviewed the scope of the audit and the auditors management report to the Board.

The Group has in place a policy for controlling the provision of non-audit services by the Auditors, in order to safeguard their independence and objectivity. Non-audit work which might compromise independence is prohibited.

Management Engagement Committee

A Management Engagement Committee has been established comprising all of the independent Directors. The Chairman of the Committee is the Chairman of the Group. It meets twice a year to review the management contract with Aberdeen Asset Managers Limited, details of which are shown on page 34.

Remuneration Committee and Directors' remuneration

Where an investment trust has only non-executive Directors, the Combined Code principles relating to Director's remuneration do not apply.

The determination of the Directors' fees is a matter dealt with by the whole Board. The remuneration of the Directors has been set in order to attract individuals of a calibre appropriate to the future development of the Group. The Group's policy on remuneration, together with details of the remuneration of each Director, is detailed in the Directors' Remuneration Report on pages 20 and 21.

Directors' terms of appointment

All non-executive Directors are appointed for an initial term of three years, subject to re-election and Companies Act provisions and, in accordance with the existing Articles of Association, stand for election at the first Annual General Meeting following their appointment. The Articles of Association state that Directors must offer themselves for re-election at least once every three years. Any Director who reaches the age of 70 is subject to annual re-election. In addition, Mr Gilbert is subject to annual re-election in view of his position as chief executive of Aberdeen Asset Management PLC, the parent company of the Manager.

Policy on tenure

The Board's policy on tenure is that the Directors need not serve on the Board for a limited period of time only. The Board does not consider that the length of service of a Director is as important as the contribution he or she makes and therefore the length of service will be determined on a case by case basis.

Communication with Shareholders

The Group places a great deal of importance on communication with its Shareholders. As required under the Combined Code, the Annual Report is posted to Shareholders at least twenty business days before the Annual General Meeting.

The Notice of the Meeting sets out the business of the meeting and the resolutions are explained more fully in the Directors Remuneration Report on pages 20 and 21 and in the Directors' Report on pages 18 and 19. A separate resolution is proposed for each substantive issue.

The Board is conscious that the Annual General Meeting is an event at which all Shareholders are encouraged to attend and participate. Shareholders have the opportunity to put questions at the meeting and the results of proxy voting are relayed to Shareholders after each resolution has been voted on by a show of hands.

Shareholders also have direct access to the Group via the free Shareholder information telephone service run by the Manager, and Group and the Manager respond to letters from Shareholders. In order to ensure that Directors develop an understanding of the views of Shareholders, correspondence between the Manager or the Chairman and Shareholders is copied to the Board.

Accountability and audit

The Directors' Statement of Responsibilities in respect of the Financial Statements is on page 26 and the Statement of Going Concern is included in the Directors' Report on page 19. The Board is satisfied that the members of the Audit Committee have received recent and relevant financial experience.

Internal Controls

The Board is ultimately responsible for the Company's system of internal control and for reviewing its effectiveness. The Directors confirm that there is an ongoing process for identifying, evaluating and managing significant risks faced by the Group, which has been in place for the full year under review and up to the date of approval of the Financial Statements, and that this process is regularly reviewed by the Board and accords with the Turnbull guidance.

The Board has reviewed the effectiveness of the system of internal control and, in particular, it has reviewed the process for identifying and evaluating the significant risks affecting the Group and the policies and procedures by which these risks are managed.

The Directors have delegated the investment management of the Group's assets to the Manager within overall guidelines and this embraces implementation of the system of internal control, including financial, operational and compliance controls and risk management. Internal control systems are monitored and supported by the Internal Audit function of the Manager which undertakes periodic examination of business processes, including compliance with the terms of the management agreement, and ensures that recommendations to improve controls are implemented.

Risks are identified and documented through a risk management framework by each function within the Manager's activities. Risk is considered in the context of the Turnbull guidance and includes financial, regulatory, market operational and reputational risk. This enables the internal audit risk assessment model to identify those functions for review. Any weaknesses identified are reported to the Group and timetables are agreed for implementing improvements to systems. The implementation of any remedial action required monitored and feedback provided to the Board.

The key components designed to provide effective internal control are outlined below:

- The Manager prepares forecasts and management accounts which allow the Board to assess the Group's activities and review its performance;
- The Board and Manager have agreed clearly defined investment criteria, specified levels of authority and exposure limits. Reports on these issues, including performance statistics and investment valuations, are regularly submitted to the Board. The Manager's evaluation procedure and financial analysis of the companies concerned include detailed appraisal and due diligence;
- As a matter of course the compliance department of the Manager continually reviews the Manager's operations;
- Written agreements are in place which specifically define the roles and responsibilities of the Manager and other third party service providers; and
- The Board carries out an annual assessment of internal controls by considering reports from the Manager, including its internal audit and compliance functions and taking account of events since the relevant period end.

In addition, the Manager ensures that clearly documented contractual arrangements exist in respect of any activities that have been delegated to external professional organisations.

The Internal Audit function of the Manager reports annually to the Audit Committee of the Group and has direct access to the Directors at any time.

The internal control systems are designed to meet the Group's particular needs and risks to which it is exposed. Accordingly, the internal control systems are designed to manage rather than eliminate the risk of failure to achieve business goals and, by their nature, can provide reasonable but not absolute assurance against material misstatement or loss.

Socially responsible investment policy

The Directors are aware of their duty to act in the interests of the Group. They acknowledge that there are risks associated with investment in companies which fail to conduct business in a socially responsible manner and the Directors, therefore ensure that they take regular account of the social environment and ethical factors that may affect the performance or value of the Group's investments.

Exercise of voting powers

The Directors believe that the exercise of voting rights at company meetings lies at the heart of the regulation and promotion of corporate governance. The Board has therefore given discretionary voting powers to the Manager.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements. The directors have chosen to prepare accounts for the company and the group in accordance with International Financial Reporting Standards (IFRSs). Company law requires the directors to prepare such financial statements in accordance with International Financial Reporting Standards, the Companies Act 1985 and Article 4 of the IAS Regulation. International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to:

- 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 International Financial Reporting Standards is 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
- prepare the accounts on a going concern basis unless, having assessed the ability of the company to continue as a going concern, management either intends to liquidate the entity or to cease trading, or have no realistic alternative but to do so.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report which comply with the requirements of the Companies Act 1985.

Independent Auditors' Report to the Members of Aberdeen Development Capital PLC

We have audited the group and parent company financial statements (the "financial statements") of Aberdeen Development Capital PLC for the year ended 31 May 2007, which have been prepared on a basis other than that of going concern and which comprise the consolidated income statement, the consolidated and parent company balance sheets, the consolidated and parent company cash flow statements, the consolidated and parent company statements of changes in equity and the related notes 1 to 20. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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 auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and Manager's Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report to be audited.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 May 2007 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 May 2007;
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

Emphasis of matter

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 2 to the financial statements, which explains that the financial statements have been prepared on a basis other than that of a going concern.

Deloitte & Touche LLP

Chartered Accountants and
Registered Auditors
Glasgow, United Kingdom

3 August 2007

Consolidated Income Statement

For the year ended 31 May 2007

| | Notes | Year ended 31 May 2007 | | | Year ended 31 May 2006 | | |
|--|-----------|---------------------------|------------------|----------------|---------------------------|------------------|----------------|
| | | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Interest income | 3 | 1,003 | – | 1,003 | 821 | – | 821 |
| Dividend income | 3 | 796 | – | 796 | 691 | – | 691 |
| Other income | 3 | 105 | – | 105 | 30 | – | 30 |
| | | 1,904 | – | 1,904 | 1,542 | – | 1,542 |
| Losses on held-at-fair value investments | 10 | – | (3,250) | (3,250) | – | (1,180) | (1,180) |
| Expenses | | | | | | | |
| Management fees | 4 | (155) | (314) | (469) | (184) | (373) | (557) |
| Other operating expenses | 5 | (956) | (138) | (1,094) | (364) | 34 | (330) |
| Profit/(loss) before finance costs and tax | | 793 | (3,702) | (2,909) | 994 | (1,519) | (525) |
| Finance costs | | | | | | | |
| Zero dividend preference shares | 6,14 | – | (1,205) | (1,205) | – | (1,254) | (1,254) |
| Profit/(loss) before taxation | | 793 | (4,907) | (4,114) | 994 | (2,773) | (1,779) |
| Taxation | 7 | (287) | 200 | (87) | (87) | 67 | (20) |
| Profit/(loss) for the year | 16 | 506 | (4,707) | (4,201) | 907 | (2,706) | (1,799) |
| Earnings per ordinary share – basic (pence) | 9 | 1.37 | (12.75) | (11.38) | 2.46 | (7.33) | (4.87) |

*The total column of this statement represents the Income Statement 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.

All income is attributable to the equity holders of Aberdeen Development Capital PLC. There are no minority interests.

The accompanying notes on pages 32 to 42 are an integral part of the financial statements.

Balance Sheets

As at 31 May 2007

| | | Group 2007 | Company 2007 | Group 2006 | Company 2006 |
|--|-------|---------------|-----------------|---------------|-----------------|
| | Notes | £'000 | £'000 | £'000 | £'000 |
| Non-current assets | | | | | |
| Held-at-fair-value investments | 10 | 17,741 | 13,928 | 30,331 | 24,325 |
| Subsidiary undertaking | 10 | – | 1,645 | – | 2,738 |
| | | 17,741 | 15,573 | 30,331 | 27,063 |
| Current assets | | | | | |
| Cash and cash equivalents | | 13,007 | 12,330 | 3,333 | 3,095 |
| Other receivables | 12 | 574 | 6,951 | 1,491 | 7,775 |
| | | 13,581 | 19,281 | 4,824 | 10,870 |
| Current liabilities | | | | | |
| Other payables | 13 | (290) | (3,834) | (204) | (3,060) |
| Net current assets | | | | | |
| | | 13,291 | 15,447 | 4,620 | 7,810 |
| Total assets less current liabilities | | | | | |
| | | 31,032 | 31,020 | 34,951 | 34,873 |
| Non-current liabilities | | | | | |
| Zero dividend preference shares | 14 | (19,749) | – | (18,544) | – |
| Amounts due to subsidiary | 14 | – | (19,749) | – | (18,544) |
| Total net assets | | | | | |
| | | 11,283 | 11,271 | 16,407 | 16,329 |
| Equity | | | | | |
| Called-up Ordinary shares | 15 | 3,692 | 3,692 | 3,692 | 3,692 |
| Share premium account | 16 | 13,940 | 13,940 | 13,940 | 13,940 |
| Special reserve | 16 | 3,021 | 3,021 | 3,021 | 3,021 |
| Capital reserve – realised | 16 | (5,424) | (6,867) | (9,606) | (10,710) |
| Capital reserve – unrealised | 16 | (4,769) | (3,371) | 4,120 | 5,181 |
| Revenue reserve | 16 | 823 | 856 | 1,240 | 1,205 |
| Total shareholders' funds | | | | | |
| | | 11,283 | 11,271 | 16,407 | 16,329 |
| Equity shareholders' funds | | | | | |
| | | 11,283 | 11,271 | 16,407 | 16,329 |
| Net asset value per share - basic (pence) | | | | | |
| | 17 | 30.56 | 30.53 | 44.44 | 44.23 |

The financial statements were approved by the Board of Directors on 3 August 2007 and were signed on its behalf by:

John R Milligan
Chairman

The accompanying notes on pages 32 to 42 are an integral part of the financial statements.

Statements of Changes in Equity

For year ended 31 May 2007

| Group | Share | Share | Special | Capital | Capital | Revenue | Total |
|---|--------------|---------------|--------------|-------------------|---------------------|------------|---------------|
| | Capital | Premium | Reserve | Reserve | Reserve | Reserve | |
| For year ended 31 May 2007 | £'000 | £'000 | £'000 | Realised £'000 | Unrealised £'000 | £'000 | £'000 |
| Net assets at 1 June 2006 | 3,692 | 13,940 | 3,021 | (9,606) | 4,120 | 1,240 | 16,407 |
| Dividends paid (note 8) | – | – | – | – | – | (923) | (923) |
| Net gain/(loss) on ordinary activities after taxation | – | – | – | 4,182 | (8,889) | 506 | (4,201) |
| Net assets at 31 May 2007 | 3,692 | 13,940 | 3,021 | (5,424) | (4,769) | 823 | 11,283 |

| Group | Share | Share | Special | Capital | Capital | Revenue | Total |
|---|--------------|---------------|--------------|-------------------|---------------------|--------------|---------------|
| | Capital | Premium | Reserve | Reserve | Reserve | Reserve | |
| For year ended 31 May 2006 | £'000 | £'000 | £'000 | Realised £'000 | Unrealised £'000 | £'000 | £'000 |
| Net assets at 1 June 2005 | 3,692 | 13,940 | 3,021 | (6,937) | 4,157 | 1,616 | 19,489 |
| Dividends paid (note 8) | – | – | – | – | – | (1,283) | (1,283) |
| Net gain/(loss) on ordinary activities after taxation | – | – | – | (2,669) | (37) | 907 | (1,799) |
| Net assets at 31 May 2006 | 3,692 | 13,940 | 3,021 | (9,606) | 4,120 | 1,240 | 16,407 |

| Company | Share | Share | Special | Capital | Capital | Revenue | Total |
|---|--------------|---------------|--------------|-------------------|---------------------|------------|---------------|
| | Capital | Premium | Reserve | Reserve | Reserve | Reserve | |
| For year ended 31 May 2007 | £'000 | £'000 | £'000 | Realised £'000 | Unrealised £'000 | £'000 | £'000 |
| Net assets at 1 June 2006 | 3,692 | 13,940 | 3,021 | (10,710) | 5,181 | 1,205 | 16,329 |
| Dividends paid (note 8) | – | – | – | – | – | (923) | (923) |
| Net gain/(loss) on ordinary activities after taxation | – | – | – | 3,843 | (8,552) | 574 | (4,135) |
| Net assets at 31 May 2007 | 3,692 | 13,940 | 3,021 | (6,867) | (3,371) | 856 | 11,271 |

| Company | Share | Share | Special | Capital | Capital | Revenue | Total |
|---|--------------|---------------|--------------|-------------------|---------------------|--------------|---------------|
| | Capital | Premium | Reserve | Reserve | Reserve | Reserve | |
| For year ended 31 May 2006 | £'000 | £'000 | £'000 | Realised £'000 | Unrealised £'000 | £'000 | £'000 |
| Net assets at 1 June 2005 | 3,692 | 13,940 | 3,021 | (8,246) | 5,424 | 1,586 | 19,417 |
| Dividends paid (note 8) | – | – | – | – | – | (1,283) | (1,283) |
| Net gain/(loss) on ordinary activities after taxation | – | – | – | (2,464) | (243) | 902 | (1,805) |
| Net assets at 31 May 2006 | 3,692 | 13,940 | 3,021 | (10,710) | 5,181 | 1,205 | 16,329 |

Cash Flow Statements

For the year ended 31 May 2007

| | Year ended 31 May 2007 | | Year ended 31 May 2006 | |
|--|---------------------------|------------------|---------------------------|------------------|
| | Group £'000 | Company £'000 | Group £'000 | Company £'000 |
| Operating activities | | | | |
| Loss before tax | (4,114) | (4,135) | (1,779) | (1,805) |
| Add Zero dividend preference shares | 1,205 | – | 1,254 | – |
| Amounts due to subsidiary undertaking | – | 1,205 | – | 1,254 |
| Losses on investments held-at-fair value through profit and loss | 3,250 | 3,296 | 1,180 | 1,251 |
| Subsidiary income | – | (21) | – | (131) |
| Purchases of investments held-at-fair value through profit and loss | (6,189) | (6,186) | (1,955) | (1,955) |
| Sales of investments held-at-fair value through profit and loss | 15,522 | 14,373 | 9,128 | 3,911 |
| Decrease/(increase) in other receivables | 924 | 852 | (247) | (91) |
| Increase/(decrease) in other payables | (1) | 774 | (589) | (583) |
| Net cash inflow from operating activities before interest and corporation tax | 10,597 | 10,158 | 6,992 | 1,851 |
| Corporation tax paid | – | – | 63 | 36 |
| Net cash inflow from operating activities | 10,597 | 10,158 | 7,055 | 1,887 |
| Financing activities | | | | |
| Payments to subsidiaries | – | – | – | 9,904 |
| Dividends paid on Ordinary shares | (923) | (923) | (1,283) | (1,283) |
| Placing proceeds | – | – | 4,294 | – |
| Payment of Zero dividend preference shares | – | – | (16,470) | (16,470) |
| Net cash outflow from financing activities | (923) | (923) | (13,459) | (7,849) |
| Net increase/(decrease) in cash and cash equivalents | 9,674 | 9,235 | (6,404) | (5,962) |
| Cash and cash equivalents at start of period | 3,333 | 3,095 | 9,737 | 9,057 |
| Cash and cash equivalents at end of period | 13,007 | 12,330 | 3,333 | 3,095 |

The accompanying notes on pages 32 to 42 are an integral part of the financial statements.

Notes to the Financial Statements

For the year ended 31 May 2007

1. Principal activity

The principal activity of the Company is that of an investment trust company within the meaning of section 842 of the Income and Corporation Taxes Act 1988 ("s842").

2. Accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union, and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (IFRIC).

(a) Basis of preparation

As explained in the Chairman's Statement, the Company has announced its intention to conduct an orderly realisation of its investment portfolio following the balance sheet date. These financial statements have been prepared on a basis other than 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.

(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.

(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 IAS39 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 Income Statement between items of a revenue and capital nature has been presented alongside the Consolidated Income Statement. In accordance with the Company's status as a UK investment company under section 266 of the Companies Act 1985, 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 section 842 of the Income and Corporation Taxes Act 1988.

(e) Valuation of investments

Subsidiary and main company investments are all held at fair value through the income statement.

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 the International Private Equity and Venture Capital Valuation Guidelines. 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 Income Statement.

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

(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 on a time apportioned basis so as to reflect the effective yield on shares.

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 on a time apportioned basis so as to reflect the effective yield on the debt security. 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.

(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 charges 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 Income Statement. 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. 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 Income Statement is the "marginal basis".

(k) Dividends payable

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

(l) Foreign currency

Transactions involving foreign currencies are converted at the rate ruling at the date of the transaction.

Foreign currency monetary assets and liabilities are translated into Sterling at the rate ruling on the balance sheet date.

Foreign exchange differences arising on the translation are recognised in the Consolidated Income Statement.

| | 2007 | 2006 |
|--------------------------------|--------------|--------------|
| 3. Income | £'000 | £'000 |
| Income from investments | | |
| Franked investment income | 796 | 691 |
| UK unfranked investment income | 779 | 713 |
| | 1,575 | 1,404 |
| Other income | | |
| Deposit interest | 224 | 108 |
| Other income | 105 | 30 |
| | 329 | 138 |
| Total income comprises: | | |
| Dividends | 796 | 691 |
| Interest | 1,003 | 821 |
| Other income | 105 | 30 |
| | 1,904 | 1,542 |
| Income from investments | | |
| Listed UK | 1 | – |
| Unlisted | 1,574 | 1,404 |
| | 1,575 | 1,404 |

Notes to the Financial Statements – continued

| | 2007 | | | 2006 | | |
|-------------------------------------|------------------|------------------|----------------|------------------|------------------|----------------|
| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| 4. Investment management fee | | | | | | |
| Investment management fee | 132 | 267 | 399 | 157 | 317 | 474 |
| Irrecoverable vat | 23 | 47 | 70 | 27 | 56 | 83 |
| | 155 | 314 | 469 | 184 | 373 | 557 |

The Company has an agreement with Aberdeen Asset Managers Limited 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 an annual amount of 1.25% of the gross asset value of the Company. The balance due to AAM at the year end was £64,000 (2006 - £77,000). An incentive fee of 0.1% of the gross asset value is payable for each 1% by which the total return on the net assets exceeds 8% per annum. The total fee payable to the Investment Manager will be subject to an overall maximum fee of 2% per annum of the gross asset value of the Company. No performance fee is payable for the current year.

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 £14,000 (2006 - £21,000).

With effect from 3 August 2007, and as approved by Ordinary shareholders on that date, the management fee arrangements were changed in accordance with proposals set out in the Circular to Shareholders dated 11 July 2007.

| | 2007 | | | 2006 | | |
|---|------------------|------------------|----------------|------------------|------------------|----------------|
| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| 5. Other expenses | | | | | | |
| Share plan marketing contribution | 14 | – | 14 | 16 | – | 16 |
| Directors' fees | 64 | – | 64 | 92 | – | 92 |
| Auditors remuneration: | | | | | | |
| - audit (including £21,000 (2006 - £15,000) relating to the parent undertaking) | 35 | – | 35 | 22 | – | 22 |
| - for other services | – | – | – | 2 | – | 2 |
| - tax compliance | 9 | – | 9 | – | – | – |
| - tax advisory | 23 | – | 23 | – | – | – |
| Other* | 811 | 138 | 949 | 232 | (34) | 198 |
| | 956 | 138 | 1,094 | 364 | (34) | 330 |

* During the year other expenses allocated to revenue included a write off of £672,000 (2006 - £81,000) in respect of income previously recognised, which is not anticipated to be recovered. In addition, other expenses allocated to capital included a write off of £124,000 (2006 - £nil) in respect of deferred consideration proceeds previously recognised, which is not anticipated to be recovered. Costs relating to the reorganisation of the Group of £34,000 have been written back in the year ended 31 May 2006.

The emoluments of the Chairman, who was also the highest paid Director, were £23,500 (2006 - £20,000). No pension contributions were made in respect of any of the Directors. The Company does not have any employees.

The Group has an agreement with AAM for the provision of marketing services in relation to the Company's participation in the Aberdeen Investment Trust Share Plan and ISA. The total fees and payable under the agreement were £14,000 (2006 - £16,000).

| | 2007 | | | 2006 | | |
|---|------------------|------------------|----------------|------------------|------------------|----------------|
| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| 6. Finance costs | | | | | | |
| Finance costs attributable to Zero dividend preference shares | – | 1,205 | 1,205 | – | 1,254 | 1,254 |
| | – | 1,205 | 1,205 | – | 1,254 | 1,254 |

| 7. Tax on ordinary activities | 2007 | | | 2006 | | |
|--|------------------|------------------|----------------|------------------|------------------|----------------|
| | 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 | 307 | (200) | 107 | 87 | (67) | 20 |
| Prior year adjustment | (20) | – | (20) | – | – | – |
| Corporation tax charge | 287 | (200) | 87 | 87 | (67) | 20 |

| | 2007 £'000 | 2006 £'000 |
|--|---------------|---------------|
| b) Factors affecting tax charge for the year | | |
| Loss on ordinary activities before tax | (4,114) | (1,779) |
| Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2006 – 30%) | (1,234) | (534) |
| Effects of: | | |
| Franked investment income | (239) | (207) |
| Non-taxable gains and losses on investments | 975 | 354 |
| Other non-taxable income and expenses | 585 | 358 |
| Decrease/(increase) in unutilised management expenses | – | 49 |
| Current tax charge for the period (note 7(a)) | 87 | 20 |

Provision for deferred taxation

No provision for deferred taxation has been made to the fact that the Group has approximately £5,322,000 (2006 - £5,322,000) of excess management expenses. 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 section 842 of the Income and Corporation Taxes Act 1988 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.

| 8. Dividends and other appropriations to shareholders | 2007 £'000 | 2006 £'000 |
|--|---------------|---------------|
| Ordinary dividends on equity shares deducted from reserves are analysed below: | | |
| Fourth interim dividend 2006 of 0.625p (2005 -1.6p) | 231 | 591 |
| First interim dividend 2007 of 0.625p (2006 – 0.625p) | 231 | 231 |
| Second interim dividend 2007 of 0.625p (2006 – 0.625p) | 231 | 231 |
| Third interim dividend 2007 of 0.625p (2006 – 0.625p) | 230 | 230 |
| | 923 | 1,283 |

The proposed fourth interim dividend for the year ended 31 May 2007 of 0.625 pence per ordinary share was approved by the Board after the year-end and has not been included as a liability in these financial statements.

We also set out below the total dividend payable in respect of the financial period, which is the basis on which the requirements of s842 are considered.

Notes to the Financial Statements – continued

| | 2007 | 2006 |
|--|--------------|--------------|
| | £'000 | £'000 |
| First interim dividend 2007 of 0.625p (2006 – 0.625p) | 231 | 231 |
| Second interim dividend 2007 of 0.625p (2006 – 0.625p) | 231 | 231 |
| Third interim dividend 2007 of 0.625p (2006 – 0.625p) | 231 | 231 |
| Fourth interim dividend 2007 of 0.625p (2006 – 0.625p) | 230 | 230 |
| | 923 | 923 |

9. Return per Ordinary share

The earnings per Ordinary share is based on the net loss after taxation of £4,114,000 (2006 - £1,799,000) and on 36,919,225 (31 May 2006 – 36,919,225) 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:

| | 2007 | | | 2006 | | |
|-----------------------------------|----------------|----------------|--------------|----------------|----------------|--------------|
| | Revenue | Capital | Total | Revenue | Capital | Total |
| Net profit/(loss) £'000 | 506 | (4,707) | (4,201) | 907 | (2,706) | (1,799) |
| Return per Ordinary share (pence) | 1.37 | (12.75) | (11.38) | 2.46 | (7.33) | (4.87) |

10. Investments held at fair value through profit and loss

| | 31 May 2007 | | | 31 May 2006 | | |
|---|--------------------|-----------------|----------------|--------------------|-----------------|----------------|
| | Listed | | | Listed | | |
| | In UK | Unlisted | Total | In UK | Unlisted | Total |
| a) Group | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Opening book cost | – | 26,211 | 26,211 | 4,500 | 29,927 | 34,427 |
| Opening unrealised appreciation | – | 4,120 | 4,120 | – | 4,157 | 4,157 |
| Opening valuation | – | 30,331 | 30,331 | 4,500 | 34,084 | 38,584 |
| Movements in the year: | | | | | | |
| Purchases at cost | – | 6,189 | 6,189 | – | 1,955 | 1,955 |
| Reclassifications | 648 | (648) | – | – | – | – |
| Sales – proceeds | (4) | (15,525) | (15,529) | (4,500) | (4,528) | (9,028) |
| – realised gains/(losses) on sales | (9) | 5,648 | 5,639 | – | (1,143) | (1,143) |
| Decrease in unrealised appreciation | (453) | (8,436) | (8,889) | – | (37) | (37) |
| Closing valuation | 182 | 17,559 | 17,741 | – | 30,331 | 30,331 |
| Closing book cost | 635 | 21,875 | 22,510 | – | 26,211 | 26,211 |
| Closing unrealised (depreciation)/appreciation | (453) | (4,316) | (4,769) | – | 4,120 | 4,120 |
| | 182 | 17,559 | 17,741 | – | 30,331 | 30,331 |
| Gains/(losses) on held at fair value investments | | | | | | |
| Realised (losses)/gains on sales of investments | (9) | 5,648 | 5,639 | – | (1,143) | (1,143) |
| Decrease in unrealised appreciation | (453) | (8,436) | (8,889) | – | (37) | (37) |
| | (462) | (2,788) | (3,250) | – | (1,180) | (1,180) |

| | 31 May 2007 | | | | 31 May 2006 | | | |
|--|--------------|---------------|--------------|---------------|--------------|---------------|--------------|---------------|
| | Listed | Subsidiary | | | Listed | Subsidiary | | |
| | In UK | Unlisted | Undertaking | Total | In UK | Unlisted | Undertaking | Total |
| b) Company | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Opening book cost | – | 21,782 | 100 | 21,882 | – | 24,746 | 51 | 24,797 |
| Opening unrealised appreciation | – | 2,543 | 2,638 | 5,181 | – | 380 | 5,044 | 5,424 |
| Opening valuation | – | 24,325 | 2,738 | 27,063 | – | 25,126 | 5,095 | 30,221 |
| Movements in the year: | | | | | | | | |
| Purchases at cost | – | 6,186 | – | 6,186 | – | 1,955 | 100 | 2,055 |
| Reclassifications | 648 | (648) | – | – | | | | |
| Sales – proceeds | (4) | (14,376) | – | (14,380) | – | (3,911) | (51) | (3,962) |
| – realised gains/(losses) on sales | (9) | 5,265 | – | 5,256 | – | (1,008) | – | (1,008) |
| (Increase)/decrease in unrealised appreciation | (453) | (7,006) | (1,093) | (8,552) | – | 2,163 | (2,406) | (243) |
| Closing valuation | 182 | 13,746 | 1,645 | 15,573 | – | 24,325 | 2,738 | 27,063 |
| Closing book cost | 635 | 18,209 | 100 | 18,944 | – | 21,782 | 100 | 21,882 |
| Closing unrealised (depreciation)/appreciation | (453) | (4,463) | 1,545 | (3,371) | – | 2,543 | 2,638 | 5,181 |
| | 182 | 13,746 | 1,645 | 15,573 | – | 24,325 | 2,738 | 27,063 |

Gains/(losses) on held at fair value investments

| | | | | | | | | |
|---|--------------|----------------|----------------|----------------|----------|--------------|----------------|----------------|
| Realised (losses)/gains on sales of investments | (9) | 5,265 | – | 5,256 | – | (1,008) | – | (1,008) |
| (Increase)/decrease in unrealised appreciation | (453) | (7,006) | (1,093) | (8,552) | – | 2,163 | (2,406) | (243) |
| | (462) | (1,741) | (1,093) | (3,296) | – | 1,155 | (2,406) | (1,251) |

| | 31 May 2007 | | 31 May 2006 | |
|-----------------------------|-------------|----------|-------------|-----------|
| | Group | Company | Group | Company |
| | £'000 | £'000 | £'000 | £'000 |
| c) Transaction costs | | | | |
| Sales | 6 | 6 | 61 | 61 |
| Purchases | – | – | – | – |
| | 6 | 6 | 61 | 61 |

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%* |
| ADC Fund Limited Partnership | Scotland | Investment company | 100% |
| ADC Zeros 2010 PLC | Scotland | Investment company | 100% |
| ADC Zeros 2012 PLC | Scotland | Investment company | 100% |

* held indirectly

11. Significant holdings

Information about investments required by Schedule 5 of the Companies Act 1985, all of which are incorporated and operate in England and Scotland.

a) As at 31 May 2007, Aberdeen Development Capital PLC held in excess of 20% of 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 | 13 | 4 | 1,760 | 992 |
| | Prefs | 63 | | | |
| | SLS | 65 | | | |
| Enpure Holdings Limited | 'A' Ords | 2 | 2 | n/a | n/a |
| | SLA | 45 | | | |
| FFC (UK) Limited | Ords | 8 | 30 | (63) | (155) |
| | 'B' Ords | 40 | | | |
| | CCPPO | 100 | | | |
| | CRP | 100 | | | |
| | SLS | 100 | | | |
| | 'A' SLS | 100 | | | |
| | 'B' SLS | 100 | | | |
| Fispak Limited | SLS | 100 | – | | |
| | Ord | 24 | 24 | | |
| IFC Holdings Limited | Ord | 24 | 24 | 4,326 | (27) |
| MBM Oilfield Services Limited | 'B' Ords | 75 | 40 | | |
| | Def | 75 | | | |
| Norson Holdings Limited | 'A' Ords | 24 | 35 | n/a | n/a |
| Pilgrim Systems Limited | CCPPO | 100 | 20 | 1,152 | 300 |
| PLM Dollar Group Limited | CCPPO | 100 | 20 | 4,291 | 337 |
| | SLS | 100 | | | |
| RMS Europe Limited | 'A' Ords | 22 | 6 | 2,871 | 376 |
| | 'B' Ords | 22 | | | |
| | Pref | 22 | | | |
| | SLS | 22 | | | |
| Road & Sea Express (UK) Limited | CCPPO | 100 | 42 | N/A | N/A |
| | CRP | 100 | | | |
| | SLS | 100 | | | |
| Spencer Coatings Limited | 'A' Ord | 25 | 10 | 3,280 | 2,408 |
| | 'B' CRP | 50 | | | |
| | 'C' CRP | 50 | | | |
| | 'D' CRP | 28 | | | |
| | 'E' CRP | 28 | | | |
| TLA Holdings Limited | 'A' Ord | 73 | 34 | 1,888 | 456 |
| Transrent Holdings Limited | CCPPO | 34 | 10 | 17,426 | 1,722 |
| | CRP | 34 | | | |
| Transys Projects limited | B Ords | 32 | 14 | 672 | (138) |
| | Prefs | 18 | | | |
| | SLS | 32 | | | |

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 |
|-------------------------------|----------------|-----------------|
| Astraeus Limited | 'B' Ords | 14 |
| | Prefs | 11 |
| | SLS | 14 |
| CAP Aluminium Group Limited | 'B' Ords | 13 |
| | SLS | 16 |
| Freeport Scotland Limited | Ords | 14 |
| Oliver Kay | 'B' Ords | 16 |
| | Prefs | 17 |
| | SLS | 17 |
| Ortak Jewellery Limited | 'A' Ords | 12 |
| Plaxton Limited | 'A' Ords | 11 |
| | SLS | 11 |
| PSCA International Limited | 'A' Ords | 12 |
| | 'A' Prefs | 12 |
| | SLS | 12 |
| RMS Europe Limited | 'A' Ords | 1 |
| | 'B' Ords | 14 |
| | Prefs | 14 |
| | SLS | 14 |
| Tuscan Energy Group Limited | 'B' Ord | 13 |
| | SLS | 10 |
| Unique Communications Limited | 'B' Ords | 13 |
| | 'A' Prefs | 13 |
| | 'B' Prefs | 13 |
| | Prefs | 13 |
| | SLS | 13 |

CRP Cumulative Redeemable Preference

SLS Secured Loan Stock

ULS Unsecured Loan Stock

CCPPO Cumulative Convertible Participating Preferred Ordinary

CULN Cumulative Unsecured Loan Note

| | Group 2007 £'000 | Company 2007 £'000 | Group 2006 £'000 | Company 2006 £'000 |
|--|------------------------|--------------------------|------------------------|--------------------------|
| 12. Other receivables | | | | |
| Prepayments and accrued income | 431 | 245 | 1,299 | 1,030 |
| Tax recoverable | 15 | 15 | 10 | 10 |
| Other debtors | 128 | 126 | 182 | 182 |
| Amounts due from subsidiary undertakings | – | 6,565 | – | 6,553 |
| | 574 | 6,951 | 1,491 | 7,775 |

| | Group 2007 £'000 | Company 2007 £'000 | Group 2006 £'000 | Company 2006 £'000 |
|--|------------------------|--------------------------|------------------------|--------------------------|
| 13. Other payables | | | | |
| Amounts due from subsidiary undertakings | – | 3,677 | – | 2,889 |
| Other creditors | 183 | 157 | 204 | 171 |
| Tax creditor | 107 | – | – | – |
| | 290 | 3,834 | 204 | 3,060 |

14. Non-current liabilities

The Zero dividend shares of ADC Zeros 2010 PLC and ADC Zeros 2012 PLC were issued on 30 June 2005 at 100 pence per share and redeemed at the Board's discretion between 30 April 2010 and 31 October 2010 at 135.6 pence and 30 April 2012 and 31 October 2012 and 153.82 pence per share respectively, an effective rate of 6.5% per annum. There were 8,750,000 Zero dividend preference shares in issue at 31 May 2007 for each of ADC Zeros 2010 PLC and ADC Zeros 2012 PLC. The entitlement due in respect of the Zero dividend preference shares at the year end was £19,749,000, (2006 - £18,544,000).

| | 2007 | | 2006 | |
|------------------------------------|---------------------|-----------------------------------|---------------------|-----------------------------------|
| | Authorised £'000 | Issued and fully paid £'000 | Authorised £'000 | Issued and Fully paid £'000 |
| 15. Called-up share capital | | | | |
| Ordinary shares of 10p | 5,651 | 3,692 | 5,651 | 3,692 |

| | Share | | Special Reserve £'000 | Realised | Unrealised | Revenue Reserve £'000 |
|---|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | Share Capital £'000 | Premium Account £'000 | | Capital Reserve £'000 | Capital Reserve £'000 | |
| 16. Share premium and capital reserves | | | | | | |
| Group | | | | | | |
| Beginning of year | 3,692 | 13,940 | 3,021 | (9,606) | 4,120 | 1,240 |
| Net gain on realisation of investments | – | – | – | 5,639 | – | – |
| Decrease in unrealised appreciation | – | – | – | – | (8,889) | – |
| ZDP finance costs | – | – | – | (1,205) | – | – |
| Costs charged to capital | – | – | – | (252) | – | – |
| Dividends paid | – | – | – | – | – | (923) |
| Retained earnings | – | – | – | – | – | 506 |
| End of year | 3,692 | 13,940 | 3,021 | (5,424) | (4,769) | 823 |

| | Share | | Special Reserve £'000 | Realised | Unrealised | Revenue Reserve £'000 |
|--|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | Share Capital £'000 | Premium Account £'000 | | Capital Reserve £'000 | Capital Reserve £'000 | |
| Company | | | | | | |
| Beginning of year | 3,692 | 13,940 | 3,021 | (10,710) | 5,181 | 1,205 |
| Net gain on realisation of investments | – | – | – | 5,256 | – | – |
| Decrease in unrealised appreciation | – | – | – | – | (8,552) | – |
| ZDP finance costs | – | – | – | (1,205) | – | – |
| Costs charged to capital | – | – | – | (208) | – | – |
| Dividends paid | – | – | – | – | – | (923) |
| Retained earnings | – | – | – | – | – | 574 |
| End of year | 3,692 | 13,940 | 3,021 | (6,867) | (3,371) | 856 |

Company Revenue Reserve

As permitted by section 230 of the Companies Act 1985, the Company has not presented its own Income Statement. The amount of Company revenue before appropriation dealt with in the accounts of the Group is £574,000 (2006 - £902,000).

17. Net Asset Value per share

The net asset value per Ordinary share is based on a net asset value of £11,283,000 (31 May 2006 - £16,407,000) and on 36,919,225 (31 May 2006 - 36,919,225) ordinary shares, being the number of Ordinary shares in issue at the year end.

18. Contingencies, guarantees and financial commitments

At the year-end the Company had outstanding a guarantee of up to £400,000 in favour of Yorkshire Bank in respect of the provision of additional working capital for Riverdale Publishing Limited. The provision of the guarantee provides a yield of 10% per annum. In addition, a further guarantee of up to £300,000 has been granted in favour of UK Publishing Company in respect of the provision of assistance for Riverdale Publishing Limited to acquire the business.

In March, investee company Norson Group completed the sale of its pipeline services division to US company, BJ Services. Deferred proceeds of £1.04 million will be held in escrow, payable in instalments over the next 15 months. Although it is anticipated that a full recovery of the deferred consideration proceeds will occur, it is subject to warranties and will not be recognised until received.

19. Related party disclosure

The transactions with Aberdeen Asset Managers Limited and the year end balances disclosed in notes 4 and 5 of the financial statements.

20. Financial instruments

The Group's financial instruments comprise:

- Equity and non-equity shares and fixed and floating interest securities that are held in accordance with the Group's investment objectives, which are set out on page 1 of this Report & Accounts;
- Cash and liquid resources that arise directly from the Group's operations

The main risks arising from the Group's financial instruments are market price risk, interest rate risk, credit risk and liquidity risk. The Board regularly reviews and agrees policies for managing each of these risks and these are summarised below. These policies have remained unchanged since the inception of the Group.

Market price risk

Market price risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the Group might suffer through holding market positions in the face of price movements.

To mitigate the risk the Board's investment strategy is to select investments for their fundamental value. Stock selection is therefore based on disciplined accounting, market and sector analysis, with the emphasis on long term investments. The Investment Manager actively monitors market prices throughout the year and reports to the Board, which meets regularly in order to consider investment strategy.

A list of the top twenty investments held by the Group is shown in the 'Investment Portfolio' table on pages 12 to 15.

All investments are stated at fair value.

Interest rate risk

Financial assets

Bond and preference share yields, and as a consequence their prices, are determined by market perception as to the appropriate level of yields given the economic background. Key determinants include economic growth prospects, inflation, the Government's fiscal position, short-term interest rates and international market comparisons. The Investment Manager takes all these factors into account when making any investment decisions as well as considering the financial standing of the potential investee company.

Returns from bonds and preference shares are fixed at the time of purchase, as their coupon payments, as are the final redemption proceeds. Consequently, if a bond is held until its redemption date, the total return achieved is unaltered from its purchase date. However, over the life of a bond the market price at any given time will depend on the market environment at that time. Therefore, a bond sold before its redemption date is likely to have a different price to its purchase level and a profit or loss may be incurred.

The interest rate profile of the Group at 31 May 2007 is as follows:

| Type | Total as Per Balance Sheet £'000 | | Fixed Rate £'000 | | Financial Assets on Which no Interest Is paid | | Weighted Average Interest Rate*% | | Weighted Average Period for Which rate is Fixed (years)** | |
|----------------------------|---|---------------|------------------------|---------------|---|---------------|---|-------------|--|-------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Preference and Convertible | | | | | | | | | | |
| Shares | 1,049 | 5,555 | 1,049 | 5,422 | – | 133 | 2.56 | 6.25 | 1.79 | 1.86 |
| Unsecured loan stock | 4,814 | 9,116 | 4,814 | 9,116 | – | – | 7.99 | 6.91 | 2.52 | 2.24 |
| Equities | 11,878 | 15,660 | 1,776 | 1,776 | 10,102 | 13,884 | 2.07 | 2.07 | – | – |
| Total | 17,741 | 30,331 | 7,639 | 16,314 | 10,102 | 14,017 | 5.86 | 6.16 | 2.23 | 2.09 |

* The 'Weighted average interest rate' is based on the current yield of each asset, weighted by its market value. This excludes all equities and stocks where payments have been suspended.

** The 'Weighted average period for which rate is fixed' refers to Unsecured loan stock.

The Group finances its operation through its Zero dividend preference shares and bank overdrafts. The Board sets borrowing limits to ensure gearing levels are appropriate to market conditions and reviews these on a regular basis. At the year end, the Group's Zero dividend preference shares had a fair value of £17,960,000 (2006 - £18,544,000), details of which are contained in note 14.

Credit risk

In addition to the interest rate risk, the Group's investments in bonds and loan stock are also exposed to credit risk, which reflects the ability of a borrower to meet its obligations. Generally, the higher the quality of the issuer, the lower the interest rate at which they can borrow. Issuers of a lower quality will tend to have to pay more to borrow money to compensate the lender for the extra risk taken. The Investment Manager assesses the risk associated with these investments by prior financial analysis of the issuing companies as part of their normal scrutiny of prospective investments.

Liquidity risk

The Group's assets comprise mainly unlisted securities, which can be sold to meet funding commitments. Short term flexibility is achieved through the use of overdraft facilities.

Notice of Meeting

Notice is hereby given that the twentieth Annual General Meeting of Aberdeen Development Capital PLC will be held at 10 Queen's Terrace, Aberdeen AB10 1QG, on Friday 28 September 2007 at 12 noon for the purpose of considering and, if thought fit, passing the following resolutions, of which resolutions numbers 1 to 6 inclusive will be proposed as ordinary resolutions and resolutions 7 and 8 will be proposed as special resolutions.

1. To receive the report of the Directors and the accounts for the year ended 31 May 2007, together with the Auditors Report thereon.
2. To receive and adopt the Directors' Remuneration Report.
3. To re-elect Mr Gilbert as a Director of the Company.
4. To re-elect Mr Scott as a Director of the Company.
5. To re-appoint Deloitte & Touche LLP as auditors and to authorise the Directors to determine their remuneration.
6. To generally and unconditionally authorise the Directors to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £1,218,334 representing 33% of the present issued share capital, provided that this authority shall expire at the conclusion of the Annual General meeting of the Company after the passing of this Resolution save that the Company may before such expiry and the Directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.
7. That subject to the passing of the previous Resolution, the Directors are hereby empowered to allot equity securities for cash (within the meaning of Section 94 of the Companies Act 1985 ("the Act") pursuant to Section 95 of the Act) pursuant to the authority conferred by the previous Resolution, as if Sub-Section 89(1) of the Act did not apply to any other such allotment;
 - (a) the allotment of equity securities in connection with a rights issue in favour of the holders of equity securities in the Company ("Shares") where the equity securities respectively attributable to the interest of all such shareholders are proportionate (as nearly as may be) to the respective number of Shares held (or deemed or notionally held) by them but subject to such exclusions or other arrangements as the Directors may think fit in relation to fractional entitlements or to deal with problems under the laws, or requirements of any recognised body or Stock Exchange in any territory; and
 - (b) the allotment (other than pursuant to paragraph (a) of this resolution) of equity securities up to an aggregate nominal value of £184,596 (5 per cent of the present issued share capital);

and shall expire on the date of the next Annual General Meeting of the Company after the passing of this Resolution, save that the Company may, before expiry, make any offer or agreement which would or might require equity securities to be allotted after such expiry, and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

10 Queen's Terrace
Aberdeen AB10 1YG
3 August 2007

By order of the Board
Aberdeen Asset Management PLC
Secretaries

Notes

1. To appoint as a proxy a person other than the Chairman of the meeting insert the full name in the space provided. A proxy need not be a member of the Company.
2. Unless otherwise indicated the proxy will vote as he thinks fit or, at his discretion, abstain from voting.
3. The form of proxy below must arrive not later than 48 hours before the time set for the meeting at the Proxy Processing Centre, Telford Road, Bicester OX26 4LD. You may also deliver by hand to The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU during usual business hours.
4. A corporation must execute the Form of Proxy under either its common seal or the hand of a duly authorised officer or attorney.
5. The Form of Proxy is for use in respect of the shareholder account specified above only and should not be amended or submitted in respect of a different account.
6. The 'Vote Withheld' option is to enable you to abstain on any particular resolution. Such a vote is not a vote in law and will not be counted in the votes 'For' and 'Against' a resolution.
7. Shares held in uncertified form (i.e. in CREST) may be voted through the CREST Proxy Voting Service in accordance with the procedures set out in the CREST manual.

Your Company's Capital History

Issued Share Capital as at 3 August 2007

| | |
|------------|--|
| 36,919,225 | Ordinary shares of 10p |
| 30,206,638 | Zero dividend preference shares of 10p |

Capital History

| | |
|-------------------|---|
| 5 September 1986 | Issue of 12,000,000 Ordinary shares of 10p in North of Scotland Investment Company plc (now Aberdeen Development Capital PLC) |
| 8 September 1986 | Dealings commence in Ordinary shares |
| 4 December 1987 | Issue of 4,889,031 Ordinary shares of 10p |
| 3 June 1988 | Issue of 2,676,808 Ordinary shares of 10p |
| 28 November 1988 | Issue of 1,898,620 Ordinary shares of 10p |
| 6 June 1990 | Issue of 7,533,462 Ordinary shares of 10p Change of name to Abtrust Scotland Investment Company PLC |
| 10 April 1991 | Issue of 4,517,543 Ordinary shares of 10p |
| 25 April 1994 | 1 for 5 Rights issue of 6,703,092 units (each unit comprising 5 new Ordinary shares of 10p and 1 warrant) and a 1 for 5 bonus issue of warrants |
| 30 September 1995 | Issue of 1,120 Ordinary shares of 10p resulting from the exercise of 1,120 warrants |
| 30 September 1996 | Issue of 500 Ordinary shares of 10p resulting from the exercise of 500 warrants |
| 30 September 1997 | Issue of 8,528 Ordinary shares of 10p resulting from the exercise of 8,528 warrants |
| 30 September 1998 | Issue of 1,600 Ordinary shares of 10p resulting from the exercise of 1,600 warrants |
| 1 July 1999 | Conversion into a split-capital investment trust with revised capital being 55% Ordinary shares of 10p and 45% Zero dividend preference shares of 10p Purchase for cancellation of entire outstanding warrants Change of name to Aberdeen Development Capital PLC |
| 29 October 1999 | Formation of subsidiaries, ADC Fund Limited Partnership and ADC (Glasgow) Limited |
| 23 August 2004 | Formation of subsidiary, ADC Zeros 2005 PLC, issue of 50,000 Ordinary shares of £1 and 30,206,638 ZDP shares of 0.0001p |
| 22 November 2004 | Dealings commence in ZDP shares of ADC Zeros 2005 PLC |
| 19 May 2005 | Formation of subsidiaries, ADC Zeros 2010 PLC and ADC Zeros 2012 PLC |
| 29 June 2005 | ADC Zeros 2005 PLC placed in voluntary liquidation |
| 30 June 2005 | Dealings commence in the ZDP units of ADC Zeros 2010 PLC and ADC Zeros 2012 PLC |
| 3 August 2007 | Shareholders approve a special resolution to reduce the nominal value of the Ordinary Shares from 10p to 1p, cancel the share premium account and authorise the application of the resulting special capital reserve to return capital to Ordinary shareholders and to fund purchases of Ordinary shares. |

Corporate Information

Directors

John R Milligan, Chairman
Martin J Gilbert (alternate Hugh W M Little)
Willie C H Phillips
Charles M Scott

Manager

Aberdeen Asset Managers Limited
10 Queen's Terrace
Aberdeen AB10 1QG

Secretaries and Registered Office

Aberdeen Asset Management PLC
10 Queen's Terrace
Aberdeen AB10 1QG
Email: company.secretaries@invtrusts.co.uk
Registered Number: 98542

Registrars

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
West Yorkshire HD8 0LA

Audit Committee

Messrs Scott (Chairman), Milligan and Phillips

Management Engagement Committee

Messrs Milligan (Chairman), Phillips and Scott

Nomination Committee

Messrs Milligan (Chairman), Gilbert and Phillips

Stockbrokers

Cazenove & Co
20 Moorgate
London EC2R 6DA

Auditors

Deloitte & Touche LLP
Lomond House
9 George Square
Glasgow G2 1QQ

Bankers

Bank of Scotland
Corporate Banking (Scotland)
3-5 Albyn Place
Aberdeen AB10 1PY

Custodian Bankers

State Street Bank and Trust Company
One Canada Square
London E14 5AF

Solicitors

Dickson Minto
16 Charlotte Square
Edinburgh EH2 4DF

Aberdeen Asset Managers Limited

10 Queen's Terrace

Aberdeen AB10 1YG

Tel 01224 631999 Fax 01224 647010

One Bow Churchyard, Cheapside, London EC4M 9HH

Tel 020 7463 6000 Fax 020 7463 6001

Sutherland House, 149 St. Vincent Street, Glasgow G2 5NW

Tel 0141 306 7400 Fax 0141 306 7401

Authorised and Regulated by The Financial Services Authority
Member of the Aberdeen Asset Management Group of Companies