



Aberdeen

Securing long term asset growth

Welcome to the first 2008 edition of Aberdeen VCT news. With the start of a new year the team at Aberdeen are looking to continue building on the achievements of the last two years, during which our funds have enjoyed strong total return performance and, in the main, paid a healthy level of tax free dividends to our investors. 2006 saw an exceptional level of realisations within the portfolio, whereas in contrast 2007 saw the Aberdeen team working hard to replenish our portfolio of private company assets. Over the course of last year we invested more than £25m of client funds in ten new private company transactions.

Of course, it's not enough just to complete deals; the primary investment objective is to make a profit for shareholders, and it's pleasing to be able to report that our unlisted portfolios have performed well during a period when markets have proved volatile. Many of our new portfolio companies are showing encouraging signs of progress, even at this early stage. For example, we first invested £5m to fund the buy-and-build of Funeral Services Partnership (FSP) in March 2007. Since then FSP has gone on to acquire a number of multi-unit funeral businesses, and now operates from 15 locations in Yorkshire, the Midlands and Southern England, employing around 70 people. As part of their strategy FSP took advantage of the Co-operative Group's need to sell off some of their operations. There are good prospects for further additions in the South of England and we expect the company to be suitable for an AiM listing once the business has completed and integrated further acquisitions.

Also, in March 2007, we invested £3m in a management buy-out of Manchester based ID Support Services, which installs and maintains CCTV security systems, air conditioning and industrial refrigeration systems for the UK leisure and retail sector. In line with its planned expansion into a high-growth market, ID Support Services has already completed several acquisitions and is now taking advantage of various business opportunities in a fragmented industry.

One unique area of strength within our investment team is our strong presence in the North East of Scotland, and our established relationships with corporate finance advisers in the region. In 2007 we completed three transactions in the Oil and Gas Sector (Aberdeen Tool & Rental, Cyclotech and MS Industrial Services) and we are very pleased to see that all of these companies are performing well, helped by the positive macro-economic factors currently prevailing within the sector.

Our continuing deal-doing capability is clearly dependent on the skills, experience and commitment of our investment executives, but it is bolstered by a challenging internal process that rigorously tests each investment proposal to ensure we remain very selective in picking the right assets for our investors. Andrew Craig, our Investment Director responsible for Central Scotland and the North of England, explains our investment process on page 3.

Looking to the future, our pipeline of investment proposals remains healthy, and we have seen a noticeable improvement in the quality of deals recently, partly on the back of changes to the CGT rules which are motivating owners of private companies to sell. We see up to 1,000 potential private company transactions

each year across the UK, and invest in just a handful where we can see a combination of proven management, operating a business in a defensible growth sector, with medium term exit potential through a trade sale or a listing. We remain focused on management buy-outs and management buy-ins, preferring to invest in relatively mature businesses that can generate a yield as well as offering the potential for an eventual capital gain. Our VCT boards have established individual policies for distributing these gains to shareholders free of tax, but at the same time allowing the Investment Manager to reinvest the remainder of the proceeds to deliver a sustainable stream of tax-free dividends alongside growth in the value of the underlying VCT portfolio.

Our team would be delighted to receive feedback on anything we've covered in this issue of the Newsletter; I hope you find it both interesting and useful.



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New Investments

Expansion funding for Adler & Allan

In June 2007 our VCT client funds invested £1.5m in oil and environmental services provider Adler & Allan Holdings Limited. The investment was part of an £8.85m Aberdeen-led package to provide the business with a strong financial platform for the next phase of its development. With a head office in Harrogate, Adler & Allan operates across a nationwide network of 16 offices, providing a full range of oil, water and tank services to a blue chip customer base. The business is particularly noted for its skills in emergency spill response situations, having been heavily involved in the clean-up exercise in the aftermath of the Buncefield explosion in December 2005 and several other high profile emergencies.



Adler & Allan has grown quickly in recent years as legislation and regulation relating to the transport, handling and storage of hazardous liquids has increased significantly. The Buncefield incident itself further heightened awareness of emergency planning issues, leading to yet more demand for the company's services. Revenues in 2006 were £28m and continued growth is expected.

New hybrid bus manufacturing facility established in Lancashire

In September 2007 we led an institutional investor syndicate to provide funding to acquire East Lancashire Coachbuilders, with a view to creating a new and larger business combining traditional manufacturing with low emission technology.



The business is led by Roy Stanley, previously the driving force behind the huge success of electric vehicle manufacturer Tanfield Group. Since its formation Darwen has built a strong order book with customers like Go Ahead Group and Arriva. Darwen has also acquired specialist vehicle design company Leyland Product Developments which specialises in designing commercial vehicle chassis for companies including Volvo and Scania, alongside the production of specialist prototype vehicles.

Secondary buy-out at Transys Projects

In November 2007 we invested £2m in Transys Holdings Limited, a provider of engineering solutions for the upgrade and refurbishment of passenger rail rolling stock. The funding was used to facilitate a secondary buy-out which has enabled our client funds to double their effective equity holding in the business. Transys has the capability to design and install a wide variety of enhancements including automatic sanders, CCTV monitoring equipment, passenger information and entertainment systems, as well as air conditioning and interior furnishings.



Rising UK passenger numbers over the past 10 years have not been matched by increases in the procurement of new rolling stock. This has led to an increased requirement to upgrade, maintain and extend the useful life of the existing fleet of trains. Improvements imposed by new franchise agreements, together with rising passenger expectations, means the demand for the company's specialist engineering capabilities is expected to increase for the foreseeable future. Over the past two months the company has secured more than £14m of orders in relation to the installation of CCTV and passenger information systems for HSBC Rail and the refurbishment of 26 Turbostar diesel trains.

Atlantic Foods management buy-in

In April 2007 Atlantic Foods Group Limited was subject to a £17.5m management buy-in. Following strong early trading in the business, Aberdeen's client funds had an opportunity to acquire a £1.5m stake in the company, which was completed in February 2008. Atlantic is a highly profitable food service business that supplies value-added cooked chicken products, sauces and dressings to customers who are mainly in the casual dining sector. The business is growing very quickly as a supplier of a large range of high quality food products with its niche offering of menu solutions.



Atlantic works closely with its customers to continually develop and refresh their menus through its own development kitchen. Revenues in 2007 were in excess of £20m and the business is well positioned for further growth in a market that recognises the importance of innovation and the risk of 'menu fatigue'.

Our Investment Process

With such a large number of private companies to choose from, selecting the best possible assets for our client funds is the single most important aspect of our role as Investment Managers and custodians of our VCT shareholders' capital. Over the course of a year we will be introduced to a large number of potential investment opportunities. It is our job to assess which of these have the capability of generating sufficient returns for our clients and merit the extensive and sometimes lengthy due diligence that we always carry out before committing funds to any business.

There are certain key areas that we focus on during our initial review of the business in order to ascertain what the key attractions and risks are and, more importantly, whether these risks can be mitigated to our satisfaction. The 5 main areas of focus are: Management, Financial Performance, Market Dynamics, Strategy and Exit Potential.

Management – the ability, honesty and integrity of management is key to a successful transaction and we spend a great deal of time getting to know our management teams to ensure they have the experience, skills and entrepreneurial flair to succeed. We also instruct extensive referencing by professional firms to confirm our own findings. If possible we will also have one of our experienced Non-Executive Directors help assess the management team to identify any skills gap and act as a business mentor.

Financial Performance – we rigorously assess both the historic and projected financial performance of the business in order to confirm that the assumptions underlying the projections are both reasonable and achievable. This will also involve benchmarking performance against competitors and using industry standard key performance indicators. We will always instruct a recognised firm of accountants to undertake financial due diligence on our behalf.

Market Dynamics – understanding what the market drivers are, is also an important part of our analysis as this will impact on the success of the business. For example, is the market in which the company operates being driven by legislative change? What other factors can influence the market? To supplement our own knowledge, research and intuition we also use specialist providers of commercial due diligence to conduct further analysis, which will normally extend to the referencing of key customers and suppliers.

Strategy – the management team will have prepared a business plan which will detail their strategic aims and goals for the business. It is our job to challenge management and to ensure that they have developed a focused strategy based on realistic and deliverable assumptions. For example, if they expect growth to be driven by a new product we need to understand who will buy it, at what price, and how that product or service will be delivered profitably to the customer.

Exit Potential – we also need to understand at an early stage in the investment process how we will be able to achieve a successful exit on behalf of our clients so that we can begin planning for this as soon as possible. To do this we need to understand what merger and acquisition activity is happening in that sector, including whether there is a consolidation opportunity where a competitor would be keen to acquire the business at some point in the future. We also examine and compare recent corporate activity in the sector to establish a benchmark for what the business might fetch in a trade sale, and how this might affect our client fund returns.

Hopefully these comments give a flavour for the level of effort and research which goes into every private company transaction. With one of the largest VCT teams in the country we can afford to look in depth at every opportunity, to ensure that the best deals are secured for our VCT investors, on the best possible terms.



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Portfolio News

EXIT

RMS Europe



RMS Europe Ltd

In July 2007 we successfully exited shipping and cargo handling business RMS Europe Group (RMS) via a secondary buy-out which valued the company at £21m. We originally led the management buy-out of RMS in July 2004 and supported the acquisition of Freshney Cargo Services in February 2006, which doubled the number of berths operated. The sale represented a full exit for Aberdeen's investors and generated a return of 2.3x money and an internal rate of return (IRR) of 32%.

EXIT

Enterprise Foods



In May 2007 we completed a full exit from Enterprise Foods Group. Enterprise is a Glasgow-based business founded in 1994 by David Beattie. It manufactures and supplies bakery products for various retail and food service customers across the UK, and also operates a market leading e-commerce platform to provide food brokerage services between customers and other bakery suppliers. Aberdeen client funds originally invested £1.7m in 2003 and a partial exit was achieved in November 2005 when the manufacturing subsidiaries were sold to AiM listed Finsbury PLC. This allowed management to concentrate on the development of the e-commerce food supply business, growing the annualised turnover from £21m to £27m prior to exit. The sale realised an overall return of 2x money and an IRR of 31%.

EXIT

Synexus Clinical Trials



In December 2007 AiM listed Synexus Clinical Trials PLC completed a public-to-private transaction in an £18.1m deal. This transaction facilitated a final exit for the VCT funds invested in the company. Synexus is one of Europe's leading clinical trials patient recruitment organisations, and Aberdeen's funds originally invested £4m to finance a management buy-out in February 2001. In 2005 the company was admitted to AiM, and over the period in which Aberdeen were invested the company successfully expanded into Eastern Europe, India and South Africa. The investment generated a return of 1.75x money, and an IRR of more than 10% over 7 years.

Industry Recognition

Deal of the Year

Our £2.2m investment in Camwatch won Deal of the Year at the Insider South Yorkshire Dealmakers Awards in June 2007. The awards are voted for



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by local advisers and corporate finance professionals. Camwatch is a business that specialises in providing remote monitoring CCTV systems as part of a comprehensive suite of managed services that actively prevent crime at their clients' facilities. The Company is one of the most innovative CCTV monitoring companies in the UK and has developed a revolutionary rapid deployment CCTV system that is connected via 3G technology to their remote monitoring station in Sheffield. This national hub monitors more than 20,000 cameras, providing continuous surveillance of their clients' premises.

The existing technologies used by competing service providers can take up to 3 weeks to install, whereas the Camwatch system is up and running within two hours of delivery to site. This revolutionary technology is supported by professional specification, installation and maintenance teams, and so is able to provide security solutions to a variety of blue chip customers. Notably this has led to significant demand from the construction industry, particularly from civil engineering businesses such as Balfour Beatty and Taylor Woodrow.

In September 2007 Andrew Ferguson, an Investment Director from our Midlands team, who led the Camwatch transaction, also received some personal recognition from his peers when he was nominated for Venture Capitalist of the Year at the Insider Midlands Dealmakers Awards.

The UK's No. 1

In August 2007 Aberdeen Asset Managers was ranked by respected private equity journal 'Unquote' as the number one firm in the UK for the number of transactions completed in the £5m to £150m deal range during the first half of 2007. In their 'Regional Mid-market barometer' Unquote highlighted a particularly strong showing by Aberdeen in the vibrant Northern region.



North £5m - £150m		
	Transactions	Value (£m)
Aberdeen Asset Managers Private Equity	7	87.8
LDC	2	125.0
Barclays Ventures	2	30.0
Bridgepoint Capital	1	145.5
Kaupthing Singer & Friedlander	1	104.2

United Kingdom £5 - £150m		
	Transactions	Value (£m)
Aberdeen Asset Managers Private Equity	9	102.8
LDC	7	339.0
ISIS Equity Partners (Baronsmead)	5	102.9
Sovereign Capital	5	77.0
Bank of Scotland Corporate	4	145.2
Barclays Ventures	4	47.0
Amadeus Capital Partners	4	26.7
3i	3	111.0
Graphite Capital Management	3	62.0
VCF Partners (Foresight Venture Partners)	3	37.5

Aberdeen Asset Managers Ltd is authorised and approved by the Financial Services Authority. Registered office: Aberdeen Asset Managers Ltd, 10 Queen's Terrace, Aberdeen, AB10 1YG. Potential investors are strongly advised to seek independent professional advice when considering investment in a VCT.



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