



Annual Report and Audited Financial Statements

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2019

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## Better Capital PCC Limited

Better Capital PCC Limited is a company incorporated in and controlled from Guernsey as a Protected Cell Company. There are two cells, being the 2009 Cell and the 2012 Cell. The ordinary shares of each cell are admitted to the Main Market operated by the London Stock Exchange plc.

The principal activity of the Company is to act as a feeder fund, through each cell, and pursue an investment objective which aims to generate attractive total returns by investing in a portfolio of distressed businesses (2009 Cell through Fund I and 2012 Cell through Fund II), such returns being expected to accrue largely through capital growth.

Following the investment by the Cells into the Funds, the Funds invested in distressed businesses, through special purpose vehicles. The Fund GPs are the investment managers to each respective Fund and have overall responsibility for the management and administration of the business and affairs of the Funds, including the management of its investments and as such, the Cells have no control over the investments made by the Funds.

Following two extensions, Fund I will terminate on 17 December 2019. Having received a comprehensive update from the Fund I GP on the short to medium prospects of both m-Hance and Omnico, the Board considers that an extension to the life of Fund I by a further 18 months to be appropriate and in the best interests of the 2009 Shareholders. The Board intends to seek the approval of shareholders for such an extension at the 2019 AGM.

With Fund I being the 2009 Cell's sole investment, following its termination, the Board will begin the orderly wind-up of the 2009 Cell. For this reason, the accounts of the 2009 Cell are therefore not prepared on a going concern basis.

Fund II is scheduled to terminate on 30 June 2021, unless the General Partner of Fund II exercises its discretion to extend Fund II's term for up to two additional one year periods, subject to the consent of the Company. For this reason, the Board continues to adopt the going concern basis in preparing the accounts of the 2012 Cell.

The Company is a limited liability, Closed-ended Investment Company, which was incorporated on 24 November 2009 in Guernsey and which, by special resolution of its members, converted to a protected cell company on 12 January 2012 and on that same day changed its name from Better Capital Limited to Better Capital PCC Limited. The Company has an unlimited life and is registered with the GFSC as a Registered Closed-ended Collective Investment Scheme. The registered office of the Company is PO Box 286, Floor 2, Trafalgar Court, Les Banques, St Peter Port, Guernsey, GY1 4LY.

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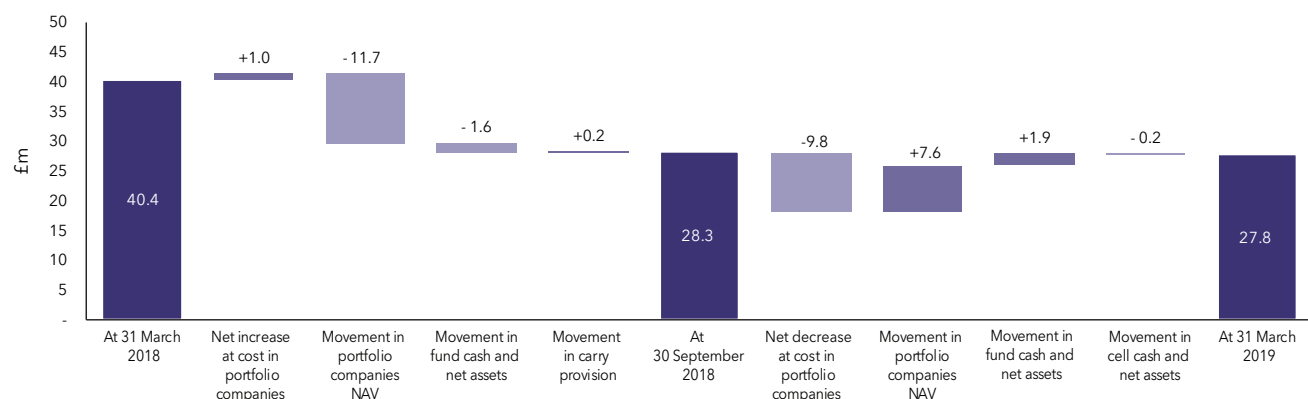
*All capitalised terms are defined within the list of definitions on pages 83 to 86 unless separately defined.*

# Chairman's Statement

Better Capital PCC Limited, together with its two protected cells, the 2009 Cell and 2012 Cell, today issues its Annual Results for the year ended 31 March 2019.

## Better Capital 2009 Cell

The 2009 Cell NAV summary is set out below.



	Value at March 2018 £'m	Movement at cost £'m	Movement in value £'m	Value at Sept 2018 £'m	Movement at cost £'m	Movement in value £'m	Value at March 2019 £'m	Fund cost March 2019 £'m
m-hance	10.5	—	—	10.5	0.3	—	10.8	14.4
Omnico	23.0	1.0	(10.0)	14.0	—	—	14.0	42.5
SPOT	4.2	—	(1.7)	2.5	(10.1)	7.6	—	—
	<b>37.7</b>	<b>1.0</b>	<b>(11.7)</b>	<b>27.0</b>	<b>(9.8)</b>	<b>7.6</b>	<b>24.8</b>	<b>56.9</b>
Fund cash on deposit				1.1			2.9	
Fund & SPV combined other net assets/(liabilities) attributable to 2009 Cell				—			0.1	
Provision for carried interest	—			—			—	
<b>2009 Cell fair value of investment in Fund I</b>				<b>28.1</b>			<b>27.8</b>	
2009 Cell cash on deposit				0.2			0.1	
2009 Cell current assets less liabilities				—			(0.1)	
<b>2009 Cell NAV</b>				<b>28.3</b>			<b>27.8</b>	

**m-Hance** is progressing well under the leadership of Alan Moody who joined the business last summer. The performance in the not-for-profit sector continues to be pleasing and this has resulted in a further strengthening of the business's relationship with Microsoft. The business is tracking ahead of budget for the first quarter of FY19 and is expecting to maintain the lead through into the second quarter and the second half of FY19 with a year-on-year double-digit percentage EBITDA growth. Exit options are under consideration.

Deployment of the V6 product in **Omnico** has now commenced with the development of the final modules expected to complete imminently. This will enable Omnico to address the qualified sales pipeline which includes strategic new opportunities. The business tracked ahead of its EBITDA budget at mid-year (31 March 2019). It is forecasting a significantly stronger year to 30 September 2020 and it seems likely that this means that an exit would be sub-optimal if done in 2019. However advisers have been selected to pursue an exit at an opportune time.

Fund I disposed of its minority interest in **SPOT** during November 2018 as part of a complex balance sheet restructuring exercise instigated to simplify the business's capital structure and to facilitate the design of a new incentive scheme for the management team. Fund I received £2.5 million, the carrying value as reported at 30 September 2018.

## Chairman's Statement continued

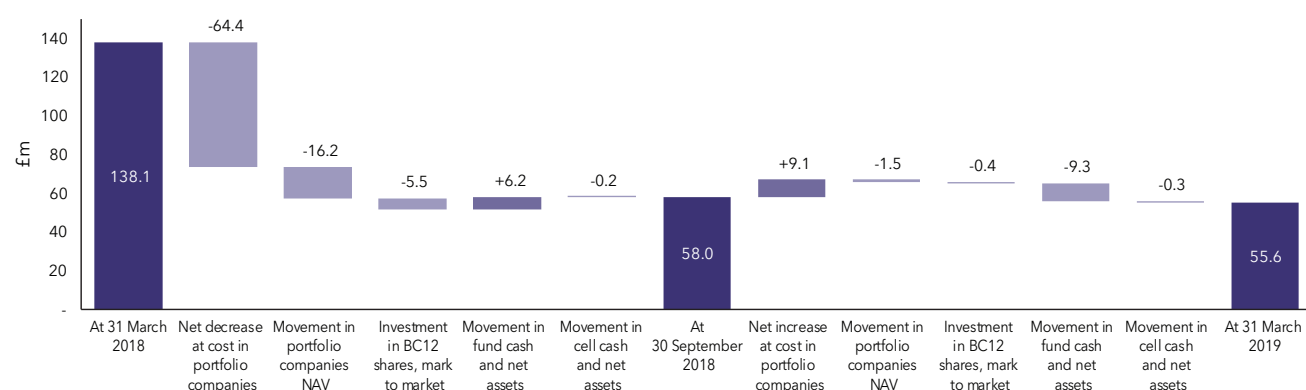
Comprehensive details on Fund I's investment activities, portfolio companies and valuation are set out in the Fund I GP's report on page 41.

### Fund I - Extension to end of life

Fund I was formed with a finite life, which following two extensions ends 17 December 2019. Having received a comprehensive update from the Fund I GP on the short to medium prospects of both m-Hance and Omnico, the Board considers that an extension to the life of Fund I by a further 18 months to be appropriate and in the best interests of the 2009 Shareholders. A proposal will be put to shareholders in due course.

### Better Capital 2012 Cell

The 2012 Cell NAV summary is set out below.



	Value at March 2018 £'m	Movement at cost £'m	Movement in value £'m	Value at Sept 2018 £'m	Movement at cost £'m	Movement in value £'m	Value at March 2019 £'m	Fund cost March 2019 £'m
Everest	20.0	2.5	(7.5)	15.0	6.5	(1.5)	20.0	36.9
SPOT	38.2	—	(15.6)	22.6	2.6 <sup>6</sup>	—	25.2	94.2
Northern Aerospace	60.0	(66.9)	6.9	— <sup>2</sup>	—	—	—	—
2012 shares	6.9	(4.7) <sup>3</sup>	(0.8)	1.4 <sup>4</sup>	—	(0.4)	1.0 <sup>4</sup>	6.4 <sup>5</sup>
	<b>125.1</b>	<b>(69.1)</b>	<b>(17.0)</b>	<b>39.0</b>	<b>9.1</b>	<b>(1.9)</b>	<b>46.2</b>	<b>137.5</b>
Fund II cash on deposit				13.6			4.1	
Fund II & SPV combined other net assets attributable to 2012 Cell				4.8 <sup>1,2</sup>			5.0 <sup>1,2</sup>	
<b>2012 Cell fair value of investment in Fund II</b>				<b>57.4</b>			<b>55.3</b>	
2012 Cell cash on deposit				0.7			0.4	
2012 Cell current assets less liabilities				(0.1)			(0.1)	
<b>2012 Cell NAV</b>				<b>58.0</b>			<b>55.6</b>	

Further details on Fund II's investment activities, portfolio companies and valuation are set out in the Fund II GP's report on page 63.

<sup>1</sup> Includes the remaining estimated net receivable from the City Link administration and iNTERtain proceeds in escrow which will become payable pending the resolution of legacy matters

<sup>2</sup> Northern Aerospace was disposed of in July 2018 with the remainder of the proceeds from the warranty claim of CAV Aerospace Limited recognised as a fund receivable at 30 September 2018. This balance was received in full in October 2018 and held as cash in BECAP12 Northern Aerospace Limited at 31 March 2019

<sup>3</sup> Based on the disposal of 15,870,806 2012 Shares at the volume weighted average price ("VWAP") on 18 June 2018, of 29.69p

<sup>4</sup> 12,677,471 2012 Shares at the closing price of 11.00p per share on 30 September 2018 and 8.25p per share on 31 March 2019

<sup>5</sup> Average cost per remaining share, 54.80p. Includes commission and levy

<sup>6</sup> £2.5 million was paid to Fund I with the remaining £0.1 million to current and previous SPOT employees

## Chairman's Statement continued

We were delighted to conclude the disposal of **Northern Aerospace** to Gardner in July 2018. The process was arduous, not just on account of the cross border nature of the transaction but that the disposal was at risk of being blocked by United Kingdom national agencies. The sale of Northern Aerospace provided for a distribution totalling £48.3 million in August 2018.

In November 2018, **SPOT** completed the complex internal balance sheet restructure which was designed to simplify SPOT's capital structure and enable a new incentive scheme for the management team. The effect of this restructure was to reduce the loan notes in SPOT to £10 million, giving the business a much stronger position from which to improve its performance. At the same time the interest in SPOT held by Fund I was disposed to Fund II.

In March 2019, SPOT disposed its profitable but non-core legal forms business to Advanced Legal Solutions Limited for £22 million. The net proceeds from the sale have been applied to strengthen SPOT's balance sheet significantly which also saw the business repay £3.0 million to Fund II in June 2019.

Progress in **Everest** has been marked in areas such as sales and marketing; however, these improvements have been offset by weaker performance in manufacturing as well as 'cost of failure'. Although still early days, the business's install revenue KPI is showing positive trend in recent weeks.

SPOT is a business of 2 halves. Spicers continues with its footprint restructuring to simplify and improve efficiency. It is currently trading consistent to its FY19 budget. OfficeTeam closed FY18 below budget despite a good start to the first half year. As a result, the management team has accelerated the change programmes within OfficeTeam to reduce costs. Steve Horne, formerly from Euro Car Parts was appointed CEO in March 2019.

### **Better Capital 2012 Shares buyback and cancellation**

On 19 June 2018, Fund II sold 15,870,806 2012 Shares to the 2012 Cell for £4.7 million (29.693 pence per share). The transaction price was based on the terms agreed under the buyback contract entered into in December 2016, being the VWAP of the business day immediately before. The consideration owed by the 2012 Cell to Fund II was offset against the outstanding loan between the parties and had not resulted in any return of capital to the 2012 Shareholders. Immediately following the acquisition, the Company cancelled the newly acquired 2012 Shares, reducing the 2012 Shares in issue from 318,052,242 to 302,181,436, a 4.99 per cent. reduction.

Having considered the medium term liquidity of Fund II, the Fund II GP has informed the Company of its decision to sell the remaining 2012 Shares in Fund II's holding. The transaction will take place on or around 2 July 2019 and as before, on the terms as agreed under the buyback contract entered into in December 2016.

The financial effect of the cancellation will provide a pro-forma uplift to the NAV per remaining 2012 Shares, of approximately 0.44p per 2012 Share or 2.4 per cent. based on the 2012 Cell's NAV per share at 31 March 2019.

	NAV at 31 March 2019 (£m)	NAV per share (p)	NAV uplift
Pre 2012 Shares buyback and cancellation	55.6	18.40 <sup>2</sup>	
2012 Shares buyback and cancellation	(1.0) <sup>1</sup>		
Immediately following 2012 Shares buyback and cancellation (pro forma)	54.6	<b>18.84<sup>3</sup></b>	<b>2.4%</b>

Following the 2012 Shares buyback and cancellation transaction, there remains 289,503,965 2012 Shares in issue.

<sup>1</sup> Based on the disposal of 12,677,471 2012 Shares at the closing price on 31 March 2019, of 8.25pps

<sup>2</sup> Based on 302,181,436 2012 Shares in issue

<sup>3</sup> Based on the new 289,503,965 2012 Shares in issue

## Chairman's Statement continued

### Distributions - 2012 Cell

The sale of Northern Aerospace in July 2018 facilitated the fourth distribution out of the 2012 Cell. On 10 August 2018, the Company distributed £48.3 million or 16.0 pps to the 2012 Shareholders. In line with the previous distributions, this distribution has been treated by the Company as a reduction of share capital paid out of monies attributed to the "share capital account".

Following the sale of the legal forms business in SPOT during March 2019, the Board intends to declare a fifth distribution out of the 2012 Cell of approximately 1.0 pps. Further details will be announced in due course.

### Better Capital PCC expenses

The table below summarises the costs incurred throughout the structure during the year:

	£'000	2009 Cell £'000	2012 Cell £'000
PCC level	802	221	581
Fund Level	435	174	261
General Partner level	874	229	645
	<b>2,111</b>	<b>624</b>	<b>1,487</b>

These include all costs and represent 2.5 per cent. of the NAV at 31 March 2019.

### Conclusion

The actions undertaken by the Fund I GP reflect clear intentions to ensure an orderly wind down of Fund I whilst maximising value creation in the 2009 Cell. The Board is wholly supportive on the matter.

The Fund II portfolio is still in what has been a protracted restructuring. The Board continues to monitor developments closely and not withstanding poor performance remains supportive of the Fund II GP's direction of actions.

**Richard Crowder**  
Chairman

28 June 2019

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# Report of the Directors

The Directors hereby submit the annual report and audited financial statements for each of the Company, the 2009 Cell and the 2012 Cell for the year ended 31 March 2019.

## Principal activities

Further information on the principal activities of the Company can be found on the inside of the front cover.

## Business review

A review of the Company's business and its likely future development is provided in the Chairman's Statement on pages 2 to 5. The underlying investments of the Funds are reviewed in the relevant General Partner's Report for Fund I and Fund II and are on pages 41 to 43 and 63 to 66 respectively.

## Results and distributions

### *The Company*

The results of the Company for the year are shown in the audited statement of comprehensive income on page 25.

### *2009 Cell*

The results of the 2009 Cell for the year are shown in the audited statement of comprehensive income on page 48.

The Net Asset Value of the 2009 Cell as at 31 March 2019 was £27.8 million (2018: £40.4 million).

No distributions were paid during the year ended 31 March 2019 (2018: £222.0 million, the distribution consisted of a payment of 107.35 pence per ordinary share).

The five cumulative distributions (including reductions of share capital) at 31 March 2019 for the 2009 Cell total £288.8 million, being 137.5 per cent. of funds raised.

### *2012 Cell*

The results of the 2012 Cell for the year are shown in the audited statement of comprehensive income on page 71.

The Net Asset Value of the 2012 Cell as at 31 March 2019 was £55.6 million (2018: £138.1 million).

During the year the 2012 Cell made its fourth distribution of £48.3 million (2018: £8.3 million) to shareholders of the 2012 Cell as at the ex-date of 2 August 2018. The distribution consisted of a payment of 16.0 pence per ordinary share payable

in cash from the 2012 Cell's share capital account and has been treated as a reduction of share capital.

The four cumulative distributions (reductions of share capital) at 31 March 2019 for the 2012 Cell total £96.7 million, being 27.2 per cent. of funds raised.

## Annual General Meetings

The Annual General Meetings of the Company and the Cells will be held on 12 September 2019 at Trafalgar Court, Les Banques, St Peter Port, Guernsey. The AGM of the 2009 Cell will be held at 10.00 am. The AGM of the 2012 Cell will be held at 10.15 am or, if later, immediately following the conclusion of the AGM of the 2009 Cell. The AGM of the Company will be held at 10.30 am or, if later, immediately following the conclusion of the AGM of the 2012 Cell. Details of the resolutions to be proposed at the AGMs, together with explanations, appear in the Notices of Meetings which are being sent to Shareholders in due course.

Members of the Board, including the Chairman and the Audit Committee Chairman, will be in attendance at the AGMs and will be available to answer shareholder questions.

## Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report for each financial year which give a true and fair view of the state of affairs of the Company, the 2009 Cell and the 2012 Cell and of the respective results for the year then ended, in accordance with applicable Guernsey law and EU adopted IFRS. In preparing these financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- 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 IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on

## Report of the Directors continued

the Company's financial position and financial performance;

- state that the Company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Company and its Cells and which enable them to ensure that the financial statements comply with the Companies Law. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud, error and non-compliance with law and regulations.

The Directors confirm that, so far as they are aware, there is no information relevant to the audit of which the Company's auditor is unaware. The Directors also confirm that they have taken all steps they ought to have taken as Directors to make themselves aware of any information relevant to the audit and to establish that the Company's auditor is aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website ([www.bettercapital.gg](http://www.bettercapital.gg)); the work carried out by the auditor does not involve considerations of these matters and, accordingly, the auditor accepts no responsibility for any change that may have occurred to the financial statements.

### Responsibility statement of the Directors in respect of the Annual Report

Each of the Directors, whose names are set out on pages 10 to 11 in the Report of the Directors section of the Annual Report, confirms that, to the best of their knowledge and belief:

- the financial statements, prepared in accordance with EU adopted IFRS give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- the Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with

a description of the principal risks and uncertainties faced;

- the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy; and
- the Annual Report includes information required by the UK Listing Authority and that the Company complies with the provisions of the Listing Rules and DTRs of the UK Listing Authority which, with regard to corporate governance, require the Company to disclose how it has applied the principles and complied with the provisions of the corporate governance code applicable to the Company.

### Listing requirements

Throughout the period since being admitted to the Official List maintained by the FCA, the Company has complied with the Listing Rules.

### AIFMD

The Company is a non-EU domiciled alternative investment fund which does not currently intend to market its shares within Europe; therefore, the Directors consider that neither authorisation nor registration is required.

### Corporate governance statement

The Board recognises the value of sound corporate governance and, in particular, has regard to the requirements of the UK Code (available from the FRC's website, [www.frc.org.uk](http://www.frc.org.uk)).

The Board monitors developments in corporate governance to ensure the Board remains aligned with best practice especially with respect to the increased focus on diversity. The Board acknowledges the importance of diversity, including gender, for the effective functioning of the Board and commits to supporting diversity in the boardroom. It is the Board's ongoing aspiration to have a well-diversified representation. The Board also values diversity of business skills and experience because Directors with diverse skill sets, capabilities and experience gained from different geographical backgrounds enhance the Board by bringing a wide range of perspectives to the Company.

The Company's prospectus dated 29 July 2013 stated that the Company was, and intended to continue to be, in compliance with the UK Code.

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## Report of the Directors continued

The Company is a member of the AIC and the Board of the Company has accordingly considered, and resolved to follow, the principles and recommendations of the AIC Code by reference to the AIC Guide (both available from the AIC's website, [www.theaic.co.uk](http://www.theaic.co.uk)).

The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to investment companies such as the Company. The Board considers that reporting against the principles and recommendations of the AIC Code, by reference to the AIC Guide (which incorporates the UK Code), provides better information to shareholders.

The Company has complied with the recommendations of the AIC Code and the relevant provisions of Section 1 of the UK Code, except as set out below.

For the reasons set out in the AIC Guide, and in the preamble to the UK Code, the Board considers certain of these provisions are not relevant to the position of the Company which delegates most day-to-day functions to third parties. The Company does not have a chief executive or any executive directors, employees or internal operations and has therefore not reported further in respect of these provisions. The need for an internal audit function is discussed in the Audit Committee Report.

Except as disclosed in the following paragraphs, the Company has complied throughout the year with the provisions of the AIC Code.

- Principle 1 of the AIC Code states a Board should consider appointing one independent non-executive Director to be the Senior Independent Director. The Board, having taken into account its small size and that the Chairman and two of the other three Directors are each similarly independent and non-executive, considers it unnecessary to appoint such a Senior Independent Director. All members of the Board are available to shareholders if they have unresolved concerns.
- Principle 6 of the AIC Code states Directors should consider the diversity of the Board, including gender. The Board will consider diversity when a vacancy arises.

The Funds themselves are not subject to any code of corporate governance. However, the Funds act through the Fund GPs which in turn act through

Fund GP Companies which are licensed under the POI Law. As POI Licensees, the boards of the Fund GP Companies have regard to the GFSC Code, which sets out the general responsibilities of the boards of the Fund GP Companies and includes proposals to deal with risk management, internal control procedures, the duties of directors, the composition of the boards of the Fund GP Companies and self-assessment. The Fund GP Companies are managed in a manner which complies with the GFSC Code.

### The Board

The Directors of the Company at the date of this report are Richard Crowder (Chairman), Richard Battey, Philip Bowman and Jon Moulton.

The Board meets on at least a quarterly basis. The dates for each scheduled meeting are planned at the beginning of the year and confirmed in writing in accordance with the Company's articles of incorporation. Meetings for urgent issues may be and are convened at short notice if all Directors are informed. In addition to formal Board and/or committee meetings and, to the extent practicable and appropriate, the Directors maintain close contact with each other and the Administrator, by email and conference calls, and with the directors of the Fund I GP Company and Fund II GP Company for the purpose of keeping themselves informed about Fund I's and Fund II's activities. The Board requires information to be supplied in a timely manner by the respective general partner of Fund I and Fund II, the Administrator and other advisors in a form and of a quality appropriate to enable it to discharge its duties.

The Company has adopted a share dealing code for the Board and will seek to ensure compliance by the Board and relevant personnel of the Fund I GP and the Fund II GP with the terms of the share dealing code. The share dealing code is compliant with the EU Market Abuse Regulation.

### Board tenure and re-election

Any director who has held office with the Company, other than employment or executive office, for a continuous period of nine years or more at the date of the meeting, shall retire from office and may offer himself for reappointment by the members. All of the Directors have elected to offer themselves for reappointment by the members annually. In accordance with the AIC Code, when and if any director shall have been in office (or on re-election would at the end of that term of office) for more

## Report of the Directors continued

than nine years the Company will consider further whether there is a risk that such a director might reasonably be deemed to have lost independence through such long service. The Management Engagement, Nomination and Remuneration Committee shall take the lead in any discussions relating to the appointment or re-appointment of directors.

A Director who retires at an Annual General Meeting may, if willing to continue to act, be elected or re-elected at that meeting. If, at a general meeting at which a Director retires, the Company neither re-elects that Director nor appoints another person to the Board in the place of that Director, the retiring Director shall, if willing to act, be deemed to have been re-elected unless at the general meeting it is resolved not to fill the vacancy or unless a resolution for the re-election of the Director is put to the meeting and not passed.

The Chairman, Mr Battey and Mr Bowman have been members of the Board since November 2009

and have therefore served for over nine years. The Board have considered this matter in detail and, at this stage in the Company's life, consider that shareholders are best served by Board continuity and retention of the in-depth knowledge the Directors have of the underlying portfolio businesses. The Board is also of the opinion that the current Directors continue to bring appropriate skills and experience to best serve the Company. Additionally, the Board does not consider that there are any impediments to the independence of Directors who have served for over nine years and therefore recommend that all Directors submit themselves for re-election at the AGM.

Directors do not have service contracts. Directors are appointed under letters of appointment, copies of which are available at the registered office of the Company. The Board considers its composition and succession planning on an on-going basis.

### Directors' remuneration

During the year to 31 March 2019 the Directors' remuneration was paid as follows (of which £59,000 (2018: £59,000) was outstanding at the year end):

31 March 2019					
	Annual (£'000)	Paid (£'000)	Total paid for year (£'000)	2009 Cell paid for the year (£'000)	2012 Cell paid for the year (£'000)
Richard Crowder	70.00	70.00	70.00	15.85	54.15
Richard Battey	62.50	62.50	62.50	14.15	48.35
Philip Bowman	60.00	60.00	60.00	13.59	46.41
Jon Moulton	45.00	45.00	45.00	10.19	34.81
<b>Total</b>	<b>237.50</b>	<b>237.50</b>	<b>237.50</b>	<b>53.78</b>	<b>183.72</b>
31 March 2018					
	Annual (£'000)	Paid (£'000)	Total paid for year (£'000)	2009 Cell paid for the year (£'000)	2012 Cell paid for the year (£'000)
Richard Crowder	70.00	70.00	85.00	27.01	57.99
Richard Battey	62.50	62.50	77.50	25.73	51.77
Philip Bowman	60.00	60.00	75.00	25.30	49.70
Jon Moulton	45.00	45.00	45.00	7.72	37.28
<b>Total</b>	<b>237.50</b>	<b>237.50</b>	<b>282.50</b>	<b>85.76</b>	<b>196.74</b>

All of the Directors are non-executive. The Board considers Messrs Crowder, Battey and Bowman as independent of the Fund I GP and Fund II GP and free from any business or other relationship that could materially interfere with the exercise of their independent judgment. The Board as a whole is independent of the Fund I GP and the Fund II GP. Mr Moulton is a director of the Fund I GP Company and the Fund II GP Company and is therefore not considered to be independent.

## Report of the Directors continued

The Chairman of the Board must be independent and is appointed in accordance with the Company's articles of incorporation. Mr Crowder is considered to be independent because he:

- has no direct or indirect current or historical employment with the GP Companies; and he
- has no current directorships in any other entities for which the GP Companies provide services.

### Duties and responsibilities

The Board has overall responsibility for maximising the Company's success by directing and supervising the affairs of the business and meeting the appropriate interests of shareholders and relevant stakeholders, while enhancing the value of the Company and also ensuring the protection of investors. A summary of the Board's responsibilities is as follows:

- statutory obligations and public disclosure;
- strategic matters and financial reporting;
- risk assessment and management including reporting, compliance, governance, monitoring and control; and
- other matters having a material effect on the Company.

The Board is responsible to shareholders for the overall management of the Company. The Board has adopted a Schedule of Matters Reserved for the Board which sets out the particular duties of the Board, which demonstrates the seriousness with which it takes its fiduciary responsibilities. Such reserved powers include decisions relating to the determination of investment policy and approval of changes in strategy, capital structure, statutory obligations and public disclosure, and entering into any material contracts by the Company.

The Directors have access to the advice and services of the Administrator, who is responsible to the Board for ensuring that Board procedures are followed and that it complies with Companies Law and applicable rules and regulations of the GFSC and the LSE. Where necessary, in carrying out their duties, the Directors may seek independent legal or other professional advice and services at the expense of the Company. As a result of the use of professional service providers and the nature of the

Company's operations, the Company does not have any employees.

The Company maintains appropriate Directors' and Officers' liability insurance in respect of legal action against its Directors. Suitable insurance is in place, having been renewed on 12 January 2019.

The Board's responsibilities for the Annual Report are set out in the Directors' Responsibilities Statement on page 6. The Board is also responsible for issuing appropriate half-yearly financial reports and other price-sensitive public reports.

The primary focus at Board meetings is to review investment performance and associated matters such as share price discount/premium management, investor relations, peer group information, gearing and industry issues.

The attendance record of the Directors for the year is set out below:

Director	Scheduled Board Meetings (max 6)	Audit Committee Meetings (max 3)	Management Engagement, Nomination and Remuneration Committee (max 1)
Richard Crowder	6	3	1
Richard Battey	6	3	1
Philip Bowman	6	3	1
Jon Moulton*	6	n/a	n/a

\* Mr Moulton is not a member of the Audit Committee or the Management, Engagement, Nomination and Remuneration Committee, however from time to time he is invited to attend and did so during the year.

The Board meets at least four times a year. During the year, a further ten ad hoc Board and Board Committee meetings were held to deal with other matters, principally of an administrative nature, and these were attended by those Directors available. Between meetings, there is regular contact with the GPs, the Secretary and the Company's Broker, as necessary.

### Directors

**Richard Crowder** – Chairman – Guernsey resident (aged 69)

Richard Crowder holds a range of non-executive directorships and advisory appointments. He works with a wide range of investment styles and portfolios as well as being a director of two groups

## Report of the Directors continued

of family companies where he acts as an offshore investment director/investment adviser. He has extensive experience of: Chairmanships and Directorships of quoted and unquoted companies, including chairing a FTSE 250 company; structuring businesses; managing and growing securities, banking, investment and advisory businesses; as well as being well versed in offshore governance. In his early career, he worked as an investment manager with Ivory & Sime in Edinburgh and as a head of investment research with W.I. Carr in Singapore, Hong Kong and Japan. He undertook a wide range of responsibilities for Schroders in London and the Far East, culminating in the role of Managing Director for Schroders' Singapore associate and Director of J Henry Schroder Wagg & Co. Limited. Having then worked as Chairman of Smith New Court International Agency and Director of Smith New Court Plc, Richard Crowder was the founding Managing Director of Schroders' Channel Islands subsidiary from 1991 until he became a full time non-executive director and consultant in 2000. He is a member of the Chartered Institute for Securities and Investments. Mr Crowder was appointed as a Director on 24 November 2009.

**Richard Battey** – Non-executive Director – Guernsey resident (aged 67)

Since 2007 Richard Battey has been a non-executive director of a number of listed and unlisted investment companies. Current directorships of listed companies are NB Global Floating Rate Income Fund Limited (UK listed), Pershing Square Holdings Limited (UK and Euronext listed) and Princess Private Equity Holding Limited (UK listed). He is a Fellow of the Institute of Chartered Accountants in England and Wales having qualified with Baker Sutton & Co. in London in 1977. He joined the Schroder Group in December 1977 and worked first in London with J. Henry Schroder Wagg & Co. Limited and Schroder Investment Management in financial and management accounting roles and then in Guernsey helping to build Schroders' offshore private banking business. Richard was a director of Schroders (C.I.) Limited in Guernsey from April 1994 to December 2004 where he served as Finance Director and Chief Operating Officer. He was a director of a number of the Schroder Group's Guernsey companies covering banking, investment management, trusts, insurance and private equity administration retiring from his last Schroder

directorship in December 2008. He was formerly Chief Financial Officer of CanArgo Energy Corporation (May 2005 to July 2006), which was engaged in oil and gas exploration and production in Georgia and Kazakhstan. Mr Battey was appointed as a Director on 24 November 2009.

**Philip Bowman** – Non-executive Director – Non-UK resident (aged 66)

Philip Bowman is the chairman of MAF Properties LLC, Tegel Group Holdings Ltd., and Potrero Distilling Holdings LLC, and a director of Ferrovial S.A., MAF Holding LLC and Kathmandu Holdings Ltd. He previously held the positions of Chief Executive of three FTSE100 companies – Smiths Group plc from December 2007 to September 2015, Scottish Power plc from early 2006 until mid-2007 and Allied Domecq plc between 1999 and 2005. In 1977 Mr Bowman qualified as a Chartered Accountant with the Institute of Chartered Accountants in England and Wales whilst working at Price Waterhouse & Co. Past board appointments include British Sky Broadcasting Group plc, Scottish & Newcastle Group plc, Burberry Group plc, Berry Bros. & Rudd Limited and Coles Myer Limited as well as Chairman of Liberty plc, Coral Eurobet plc and Miller Group plc. His earlier career includes five years as a director of Bass plc (now Mitchells & Butler plc and Intercontinental Hotel Group plc), where he held the roles of Chief Financial Officer and subsequently Chief Executive of Bass Taverns. Mr Bowman is an Australian national and was appointed as a Director on 24 November 2009.

**Jon Moulton** – Non-executive Director – Guernsey resident (aged 68)

Jon Moulton is Chairman and founder of the Better Capital fund vehicles. He is a Chartered Accountant with the Institute of Chartered Accountants in England and Wales, a Corporate Financier and a Fellow of the Society of Turnaround Professionals. Formerly Managing Partner of Alchemy Partners, Jon also previously worked with Citicorp Venture Capital in New York and London, Permira and Apax. Jon is the Non-Executive Chairman of FinnCap, the stockbroker, Anti-Microbial Research and The International Stock Exchange. He is a member of the ICAEW Technical Strategy Board and of the ICAEW corporate finance faculty.

## Report of the Directors continued

### Shareholdings of the Directors

Directors of the Company and their beneficial interests in the 2009 Shares and the 2012 Shares as at 31 March 2019 are detailed below:

#### 2009 Cell

Director	2009 Shares		Per cent. Holding*	
	31 March 2019	31 March 2018	31 March 2019	31 March 2018
<b>Richard Crowder</b>	18,759	18,759	0.05	0.05
<b>Richard Battey</b>	10,232	10,232	0.03	0.03
<b>Philip Bowman</b>	42,633	42,633	0.12	0.12
<b>Jon Moulton</b>	6,789,994	4,164,994	19.26	11.81

\* Per cent. holding is given on one for one share holding basis rather than on voting rights.

#### 2012 Cell

Director	2012 Shares		Per cent. Holding*	
	31 March 2019	31 March 2018	31 March 2019	31 March 2018
<b>Richard Crowder</b>	100,000	100,000	0.03	0.03
<b>Richard Battey</b>	60,000	60,000	0.02	0.02
<b>Philip Bowman</b>	595,238	595,238	0.20	0.19
<b>Jon Moulton</b>	69,815,582	48,415,582	23.10	15.22

\* Per cent. holding is given on one for one share holding basis rather than on voting rights.

Jon Moulton has acquired an additional 4,000,000 2012 Shares since 31 March 2019.

### Committees of the Board

#### Audit Committee

The Company has an Audit Committee with formally delegated duties and responsibilities within written terms of reference. Further information on the Audit Committee is included in the Report of the Audit Committee on pages 16 to 18.

#### Management Engagement, Nomination and Remuneration Committee ("MNR Committee")

The MNR Committee is chaired by Philip Bowman. The MNR Committee currently consists of Philip Bowman, Richard Battey and Richard Crowder. Any non-executive Directors who are not considered independent do not take part in the MNR Committee's deliberations regarding remuneration levels. The MNR Committee meets at least once a year pursuant to its terms of reference which are available on the Company's website ([www.bettercapital.gg](http://www.bettercapital.gg)).

Regarding management engagement, the MNR Committee provides a formal mechanism for the review of the performance of the Company's advisors. It carries out this review through consideration of a number of objective and subjective criteria and through a review of the terms and conditions of the advisors' appointments with the aim of evaluating performance, identifying any weaknesses and ensuring value for money for the Company's shareholders.

Regarding nomination, the MNR Committee's remit is to review regularly the structure, size and composition of the Board, to give full consideration to succession planning for Directors, to keep under review the leadership needs of the Company and be responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise. The Board believes that, as a whole, it comprises an appropriate balance of skills, experience and knowledge. The Board also believes that diversity of experience and approach, including gender diversity, amongst Board members is of great importance and it is the Company's policy to give careful consideration to issues of Board balance and diversity when making new appointments.

Regarding remuneration, the MNR Committee determines and agrees with the Board the remuneration of the Company's Chairman and non-executive Directors and in determining such remuneration, takes into account all factors which it deems necessary including any relevant legal requirements, the provisions and recommendations in the AIC Code, the Listing Rules and associated guidance.

#### Board performance and evaluation

In accordance with Principle 7 of the AIC Code, the Board is required to undertake a formal and rigorous evaluation of its performance on an annual basis. Such an evaluation of the performance of the Board as a whole and the Chairman was carried out under the mandate of the MNR Committee and in the form of self-appraisal questionnaires and a detailed discussion of the outcomes. The Directors believe that the current mix of skills, experience, ages and length of service of the Directors is appropriate to the requirements of the Company. With any new director appointment to the Board, induction training will be provided.

## Report of the Directors continued

### Internal control and financial reporting

The Directors acknowledge that they are responsible for establishing and maintaining the Company's system of internal control and reviewing its effectiveness. Internal control systems are designed to manage rather than eliminate the failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatements or loss. The Directors review all controls including operations, compliance and risk management. The key procedures which have been established to provide internal control are:

- The Board monitors the actions of the Fund I GP, the Fund II GP and undertakings of any external consultant as appointed by the GPs at regular Board meetings and is given frequent updates on developments arising from the operations and strategic direction of the underlying investee companies. The Board has also delegated administration and company secretarial services to the Administrator; however, it retains accountability for all functions it delegates.
- The Board clearly defines the duties and responsibilities of the Company's agents and advisors and appointments are made by the Board after due and careful consideration. The Board monitors the ongoing performance of such agents and advisors and will continue to do so primarily through the MNR committee.
- The Fund I GP, Fund II GP and Administrator together maintain a system of internal control on which they report to the Board. The Board has reviewed the need for an internal audit function and has decided that the systems and procedures employed by the Fund I GP, Fund II GP and Administrator, including the Administrator's own internal controls and procedures, provide sufficient assurance that a sound system of risk management and internal control, which safeguards shareholders' investment and the Company's assets, is maintained. An internal audit function specific to the Company is therefore considered unnecessary.

The systems of control referred to above are designed to ensure effectiveness and efficient operation, internal control and compliance with laws and regulations. In establishing the systems of internal control, regard is paid to the materiality of relevant risks, the likelihood of costs being incurred and costs of control.

### Relations with Shareholders

The Board welcomes Shareholders' views and places great importance on communication with its Shareholders. The Company's Annual General Meeting provides a forum for shareholders to meet and discuss issues with the Directors of the Company. The Chairman and other Directors are also available to meet with shareholders at other times, if required. In addition, the Company maintains a website which contains comprehensive information ([www.bettercapital.gg](http://www.bettercapital.gg)), including company notifications, share information, financial reports, company newsletter, investment objectives and policy, investor contacts and information on the Board and corporate governance.

### Major Shareholders

As at 30 May 2019, insofar as is known to the Company, the following persons were interested, directly or indirectly, in 5 per cent. or more of the 2009 Shares and 2012 Shares in issue:

#### 2009 Cell

Shareholder	Shareholding (Ordinary Shares)	Per cent. Holding	Nature of Holding
<b>Jon Moulton</b>	6,789,994	19.26	Indirect
<b>Asset Value Investors</b>	6,402,024	18.16	Indirect
<b>Overseas Asset Management</b>	3,838,536	10.89	Indirect
<b>Lind Invest</b>	3,344,543	9.48	Indirect
<b>Blackrock Investment Management</b>	3,195,678	9.06	Indirect
<b>CG Asset Management</b>	2,617,646	7.42	Indirect

#### 2012 Cell

Shareholder	Shareholding (Ordinary Shares)	Per cent. Holding	Nature of Holding
<b>Jon Moulton</b>	73,815,582	24.43	Indirect
<b>John Caudwell</b>	50,000,000	16.55	Direct
<b>Progressive Capital Partners</b>	31,064,355	10.28	Indirect
<b>Overseas Asset Management</b>	28,908,000	9.57	Indirect

Other than the 100 Core Shares issued to the Better Capital Purpose Trust as part of the Conversion, the Directors confirm that there are no securities in issue that carry special rights with regards to the control of the Company. The Core Shares have no voting rights for so long as Cell Shares are in issue.

Details of the voting rights can be found on page 35.

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## Report of the Directors continued

### Directors' authority to issue shares

#### 2009 Cell

The Directors do not have the power to issue shares in the 2009 Cell.

#### 2012 Cell

The Directors do not have the power to issue shares in the 2012 Cell.

### Directors' authority to buy back shares

The current authority of the Company to make market purchases of up to a maximum of 14.99 per cent. of the issued 2009 Share Capital and/or 2012 Share Capital is renewable annually and was last authorised at the AGM held on 13 September 2018. At the AGM to take place on 12 September 2019 the Board will seek to renew such authority in respect of the 2009 Shares and the 2012 Shares. Any buy back of 2009 Shares and/or 2012 Shares will be made subject to Companies Law and within any guidelines established from time to time by the Board and the making and timing of any buy backs will be at the absolute discretion of the Board and not at the option of the Shareholders. Purchases of 2009 Shares and/or 2012 Shares will only be made through the market for cash at prices below the prevailing Net Asset Value of the 2009 Shares and/or 2012 Shares (as last calculated) where the Directors believe such purchases will enhance shareholder value. Such purchases will also only be made in accordance with the Listing Rules of the UK Listing Authority which provide that the price to be paid must not be more than 5 per cent. above the average of the middle market quotations for the 2009 Shares and/or 2012 Shares for the five business days before the shares are purchased unless previously advised to shareholders.

In accordance with the Company's Articles and Companies Law up to 10 per cent. of the Company's shares may be held as treasury shares. The Company has not held any shares in treasury at any time.

### Articles of Incorporation

The Company's Articles may only be amended by special resolution of the shareholders and if the amendment affects the rights of the holders of shares of a particular cell, by a separate resolution of such holders only.

### Change of control

There are no agreements that the Company considers significant and to which the Company is party that would take effect, alter or terminate upon

change of control of the Company following a takeover bid.

### Principal risks and uncertainties

The Company's assets consist of investments, through Funds I and II, in portfolios of businesses which have significant operating issues and may have associated financial distress, with a primary focus on businesses which have significant activities within the United Kingdom and Ireland. Its principal risks are therefore related to market conditions in general, but also the particular circumstance of the businesses in which it is invested. The GP Companies seek to mitigate these risks through active asset management initiatives and carrying out due diligence work on potential targets before entering into any investments.

Each Director is aware of the risks inherent in the Company's business and understands the importance of identifying, evaluating and monitoring these risks. The Board has adopted procedures and controls that enable it to manage these risks within acceptable limits and to meet all of its legal and regulatory obligations.

The Board considers the process for identifying, evaluating and managing any significant risks faced by the Company and by each of the 2009 Cell and 2012 Cell on an on-going basis and these risks are reported and discussed at Board Meetings. It ensures that effective controls are in place to mitigate these risks and that a satisfactory compliance regime exists to ensure all applicable local and international laws and regulations are upheld. Particular attention has been given to the effectiveness of controls to monitor liquidity risk, asset values and counterparty exposure.

The financial risks of the Company, the 2009 Cell and 2012 Cell are discussed in Note 9 to the financial statements.

The Company's other risk factors are fully discussed in the Company's prospectuses, available on the Company's website ([www.bettercapital.gg](http://www.bettercapital.gg)) and should be reviewed by Shareholders.

### Going concern

After making enquiries and given the nature of the Company, Fund I and its investments and Fund II and its investments, the Directors are satisfied that it is appropriate to continue to adopt the going concern basis in preparing the financial statements, and, after due consideration, the Directors consider that the Company is able to continue for the foreseeable future.

## Report of the Directors continued

### Long-term Viability Statement

As required by the AIC Code, the Directors have assessed the viability of the Company over a period longer than 12 months. The Board has concluded that this period shall be the remaining life of the Funds plus the discretionary two one year extensions. In the case of the 2009 Cell, the viability has been assessed up to 30 June 2021, being the expected extension timing that will be proposed to maximise shareholder value. In the case of the 2012 Cell this has been assessed up to 30 June 2023. Once the final Cell has closed, the Company will come to the end of its life.

The Directors have made a robust assessment of the Cells' principal risks and associated mitigations that are outlined in Note 9 to the financial statements and the Company's prospectus along with a review of the nature of the Company's business, reserves of cash, the potential of its portfolio of investments to generate future income and capital proceeds, and the ability of the Directors to minimise the level of cash outflows, should this be necessary. Of the identified principal risks, the most relevant risks identified that could potentially impact the viability of both Cells, and therefore the Company, were considered to be:

- the risk of a substantial litigation resulting in both the Cells and the Funds being unable to continue in existence;
- the inability to recover investments at their carrying value; and
- the key executive in the Fund GP Companies, principally Jon Moulton, being unable or unwilling to devote such time to the business affairs of the Fund GP Companies as is reasonably necessary to enable the proper performance of their general partner duties.

The Board considers the process of evaluation and mitigation of these principal risks on an on-going basis and have concluded that there is a reasonable expectation that the Company and, in turn, the Cells will be able to continue in operation and meet their future liabilities as they fall due over the periods identified.

By order of the Board

**Richard Crowder**  
Chairman

28 June 2019

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## Report of the Audit Committee

The Audit Committee has been in operation throughout the year. The Audit Committee, chaired by Richard Battey, operates within clearly defined terms of reference (which are available from the Company's website, [www.bettercapital.gg](http://www.bettercapital.gg)), which include all matters indicated by DTR 7.1 and the AIC Code. Its other members are Richard Crowder and Philip Bowman. Only independent directors can serve on the Audit Committee and members of the Audit Committee must have no links with the Company's external auditor and must be independent of the Fund I GP and the Fund II GP. The identity of the chairman of the Audit Committee is reviewed on an annual basis and the membership of the Audit Committee and its terms of reference are kept under review. The Audit Committee meets no less than twice a year in Guernsey, and meets the external auditor at least once a year in Guernsey. The Audit Committee met three times in the year to 31 March 2019.

The Board has taken note of the requirement that at least one member of the Committee should have recent and relevant financial experience and is satisfied that the Committee is properly constituted in that respect, with all members being highly experienced and, in particular two members having backgrounds as chartered accountants.

The duties of the Audit Committee in discharging its responsibilities include reviewing the Interim Report, Annual Report, the valuation of the Company's investment portfolio, the system of internal controls, and the terms of appointment of the external auditor together with their remuneration. It is also the formal forum through which the external auditor reports to the Board of Directors and shall meet not less than twice a year and at such other times as the Audit Committee chairman shall require. The objectivity of the external auditor is reviewed by the Audit Committee which also reviews the terms under which the external auditor is appointed to perform non-audit services and the fees paid to the external auditor or their affiliated firms overseas.

The Audit Committee also reviews, considers and, if thought appropriate, recommends for the purposes of the Company's financial statements, 2009 Cell's financial statements and 2012 Cell's financial statements, valuations prepared by the Fund I GP and Fund II GP in respect of the investments of Fund I and Fund II. It also receives and reviews reports from the Fund I GP and the Fund II GP.

The main duties of the Audit Committee are:

- giving full consideration and recommending to the Board for approval of the contents of the Interim Report and Annual Report and reviewing the external auditor's report thereon;
- reviewing the scope, results, cost effectiveness, independence and objectivity of the external auditor;
- reviewing the draft valuation of the Company's investments in the Funds prepared by the Fund GPs, and making a recommendation to the Board on the valuation of the Company's investments;
- reviewing and recommending to the Board for approval of the audit, audit related and non-audit fees payable to the external auditor and the terms of their engagement;
- reviewing and approving the external auditor's plan for the following financial year;
- reviewing the appropriateness of the Company's accounting policies;
- ensuring the standards and adequacy of the internal control systems;
- reviewing and considering the UK Code, the AIC Code and the FRC Guidance on Audit Committees; and
- reviewing the risks facing the Company and monitoring the risk matrix.

The Audit Committee is required to report its findings to the Board, identifying any matters on which it considers that action or improvement is needed, and make recommendations on the steps to be taken.

The external auditor is invited to attend the Audit Committee meetings at which the Interim Reports and Annual Reports are considered and at which they have the opportunity to meet with the Committee without representatives of any external consultant as appointed by the GPs being present at least once a year.

### Financial reporting

The primary role of the Audit Committee in relation to the financial reporting is to review with the Administrator, any external consultant as appointed

## Report of the Audit Committee continued

by the GPs and the external auditor the appropriateness of the Interim Reports and Annual Reports, concentrating on, amongst other matters:

- the quality and acceptability of accounting policies and practices;
- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements;
- material areas in which significant judgements have been applied or there has been discussion with both any external consultant as appointed by the GPs and the external auditor;
- whether the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy; and
- any correspondence from regulators in relation to the Company's financial reporting.

To aid its review, the Audit Committee considers reports from GPs and any external consultant as appointed by the GPs of the underlying Funds and also reports from the external auditor on the outcomes of their half-year review and annual audit.

### Meetings

The Committee has met on three occasions during the year. The matters discussed at those meetings were:

- review of the terms of reference of the Audit Committee to confirm that they remain appropriate to the business of the committee and the current regulatory environment in which the Company operates;
- review of the accounting policies and format of the financial statements;
- the draft valuation of the Company's investments in the Funds prepared by the Fund GPs, and the recommendation to the Board on the valuation of the Company's investments;
- review and approval of the audit plan of the external auditor;
- discussion and approval of the fee for the external audit;

- detailed review of the Annual Report and recommendation for approval by the Board;
- detailed review of the Interim Report and recommendation for approval by the Board;
- assessment of the effectiveness of the external audit process as described below; and
- review of the Company's key risks and internal controls.

### Primary area of judgement

The Audit Committee determined that the key risk of misstatement of the Company's and Cells' financial statements related to the valuation of investments at fair value through profit or loss, in the context of the judgements necessary to evaluate current fair values.

As outlined in Note 4 to the financial statements of the Company, the total carrying value of financial assets of the Company at fair value at 31 March 2019 was £83.1 million (2018: £177.4 million). Market quotations are not available for these financial assets such that the value of the Company's investments in the Funds is based on the value of the Company's limited partner capital and loan accounts within each Fund, which are themselves based on the value of the relevant underlying investee companies as determined by the General Partner of each Fund.

The valuation process and methodology were discussed with the Fund GPs and with the external auditor at a Board meeting held on 11 June 2019. The external consultants, as appointed by the GPs, carry out a valuation semi-annually for the GP Companies. In turn the Fund GPs provide valuations of each Cell's investment in the relevant Fund.

The Audit Committee has reviewed the work of the GPs. The external consultants, as appointed by the GPs, confirmed to the Audit Committee that the valuation methodology had been applied consistently during the year. After reviewing the work of the external auditor the Audit Committee concluded that they had not identified any errors or inconsistencies that were material in the context of the financial statements of the Company and Cells as a whole.

The external auditor explained the results of their review of the valuations, including their challenge of management's underlying projections, the economic assumptions and multiples used. On the

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## Report of the Audit Committee continued

basis of their audit work, there were no adjustments proposed to those valuations approved by the Audit Committee that were material in the context of the financial statements of the Company and Cells as a whole.

### Internal audit

The Audit Committee shall consider at least once a year whether there is a need for an internal audit function. Currently, the Audit Committee does not consider there to be a need for an internal audit function, given that there are no employees in the Company and all outsourced functions are with parties who have their own internal controls and procedures.

### Appointment of the external auditor

BDO Limited has been the Company's external auditor since the Company's inception. The lead audit director, Richard Searle, has remained in office during the year. Mr Searle will be replaced in the year ended 31 March 2021 in accordance with normal audit director rotation arrangements.

The objectivity of the external auditor is reviewed by the Audit Committee which also reviews the terms under which the external auditor may be appointed to perform non-audit services. The Audit Committee reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the external auditor, with particular regard to any non-audit work that the external auditor may undertake and the level of fees associated to this non-audit work. In order to safeguard external auditor independence and objectivity, the Audit Committee ensures that any other advisory and/or consulting services provided by the external auditor does not conflict with its statutory audit responsibilities. Advisory and/or consulting services will generally only cover reviews of interim financial statements, tax compliance and capital raising work. Any non-audit services conducted by the external auditor outside of these areas require the consent of the Audit Committee before being initiated.

The external auditor may not undertake any work for the Company in respect of the following matters – preparation of the financial statements, preparation of valuations used in financial statements, provision of investment advice, taking

management decisions or advocacy work in adversarial situations. The Audit Committee considers BDO Limited to be independent of the Company.

To fulfil its responsibility regarding the independence of the external auditor, the Audit Committee considered:

- changes in audit personnel in the audit plan for the current year;
- a report from the external auditor describing its arrangements to identify, report and manage any conflicts of interest; and
- the extent of non-audit services provided by the external auditor.

To assess the effectiveness of the external auditor, the committee reviewed:

- the external auditor's fulfilment of the agreed audit plan and variations from it;
- reports highlighting the major issues that arose during the course of the audit; and
- feedback from the Fund I GP, Fund II GP and any external consultant as appointed by the GPs evaluating the performance of the audit team.

The Audit Committee is satisfied with BDO Limited's effectiveness and independence as external auditor having considered the degree of diligence and professional scepticism demonstrated by them. As such, the Audit Committee has not considered it necessary this year to conduct a tender process for the appointment of its external auditor. Having carried out the review described above and having satisfied itself that the external auditor remains independent and effective, the Audit Committee has recommended to the Board that BDO Limited be reappointed as external auditor for the year ending 31 March 2020.

On behalf of the Audit Committee,

**Richard Battey**  
**Chairman of the Audit Committee**

28 June 2019

# Independent Auditor's Report to the Members of Better Capital PCC Limited

## Opinion

We have audited the financial statements of Better Capital PCC Limited (the 'Company') for the year ended 31 March 2019 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union;
- have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on page 14 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 14 in the annual report that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement on page 14 in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 15 in the annual report as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

# Independent Auditor's Report to the Members of Better Capital PCC Limited continued

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	Audit Response
<p><b>Valuation of investments including unrealised gains/(losses)</b></p> <p>Refer to the accounting policies on page 33 and Note 2 to the Financial Statements.</p> <p>All of the underlying investee companies are unquoted entities, which are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines by using the following measurements of</p> <ul style="list-style-type: none"> <li>• earnings multiples;</li> <li>• net assets.</li> </ul> <p>There is a significant risk over the valuations of these investments due to the inherent subjectivity and estimation involved in the valuation of such assets. Incorrect valuation could have a significant impact on the net asset value of the Company and therefore the return generated for shareholders. Accordingly this is the key judgemental area on which our audit focussed.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• Challenging the Consultant on key judgements affecting investee company valuations in the context of observed industry best practice and the provisions of the International Private Equity and Venture Capital Valuation Guidelines.</li> <li>• In particular, we focussed on the appropriateness of the valuation basis selected for each investment as well as the underlying assumptions, such as discount factors, and the choice of benchmark for earnings multiples.</li> <li>• We compared key underlying financial data inputs to external sources, investee company audited accounts and management information, as applicable. We challenged the assumptions around sustainability of earnings based on the plans of the investee companies and whether these are achievable.</li> <li>• Our work included consideration of events which occurred subsequent to the year end until the date of this audit report and attending the year end board meeting where we assessed the effectiveness of the Board's challenge and approval of unlisted investment valuations.</li> </ul> <p>Based on our work we did not identify to suggest that the valuation method or assumptions used were inappropriate.</p>

# Independent Auditor's Report to the Members of Better Capital PCC Limited continued

## Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgment, we determined materiality for the financial statements as a whole to be £1,200,000 (2018: £2,700,000), which is based on a level of 1.5% (2018: 1.5%) of total assets. We considered total assets to be the most appropriate benchmark due to the Company being an investment fund with the objective of long term capital growth.

We considered the application of materiality at the individual account or balance level and set an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality. This performance materiality has been set at £780,000 (2018: £2,025,000 which is 65% (2018: 75%) of materiality. This has been set based upon the control environment in place.

International Standards on Auditing (UK) also allow the auditor to set a lower materiality for particular classes of transaction, balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. In this context, we set a lower level of materiality to apply certain trading activities, such as sensitive overhead expenses. Specific materiality has been determined on the basis of 5% (2018: 5%) of materiality being £60,000 (2018: £135,000).

We agreed with the Board of Directors that we would report all audit differences in excess of £25,200 (2018: £54,000). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

## An overview of the scope of our audit

We carried out a full scope audit of the company. Our audit approach is risk based and we tailored the scope of our audit taking into account the nature of the company's investments, the accounting and reporting environment and the industry in which the company operates.

In designing our overall audit approach, we determined materiality and assessed the risk of material misstatement in the financial statements.

This assessment took into account the likelihood, nature and potential magnitude of any misstatement. As part of this risk assessment we considered the Company's interaction with the Consultant and the Company Administrator. We assessed the control environment in place at the Consultant and the Company Administrator to the extent that it was relevant to our audit. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements.

We also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

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# Independent Auditor's Report to the Members of Better Capital PCC Limited continued

## Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Audited Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to address specifically the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 7** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on page 16** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 7** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

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## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

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## Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on pages 10-11 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

# Independent Auditor's Report to the Members of Better Capital PCC Limited continued

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Use of our report

This report is made solely to the Company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Richard Michael Searle FCA

### For and on behalf of BDO Limited

*Chartered Accountants and Recognised Auditor*

Place du Pré

Rue du Pré

St Peter Port

Guernsey

Date: 28 June 2019

# Statement of Financial Position

As at 31 March 2019

	Notes	2019 £'000	2018 £'000
<b>ASSETS:</b>			
<b>Non-current assets</b>			
Investment in limited partnerships	4	83,072	177,352
<b>Total non-current assets</b>		<b>83,072</b>	<b>177,352</b>
<b>Current assets</b>			
Trade and other receivables	5	7	818
Cash and cash equivalents		512	502
<b>Total current assets</b>		<b>519</b>	<b>1,320</b>
<b>TOTAL ASSETS</b>		<b>83,591</b>	<b>178,672</b>
<b>LIABILITIES:</b>			
<b>Current liabilities</b>			
Trade and other payables		(185)	(197)
<b>Total current liabilities</b>		<b>(185)</b>	<b>(197)</b>
<b>TOTAL LIABILITIES</b>		<b>(185)</b>	<b>(197)</b>
<b>NET ASSETS</b>		<b>83,406</b>	<b>178,475</b>
<b>EQUITY</b>			
Share capital	7	235,889	288,950
Retained earnings		(152,483)	(110,475)
<b>TOTAL EQUITY</b>		<b>83,406</b>	<b>178,475</b>
<b>Number of 2009 Shares in issue at year end</b>	7	<b>35,262,505</b>	<b>35,262,505</b>
<b>Number of 2012 Shares in issue at year end</b>	7	<b>302,181,436</b>	<b>318,052,242</b>
<b>NAV per 2009 Share (pence)</b>	10	<b>78.85</b>	<b>114.62</b>
<b>NAV per 2012 Share (pence)</b>	10	<b>18.40</b>	<b>43.41</b>

The audited financial statements of the Company were approved and authorised for issue by the Board of Directors on 28 June 2019 and signed on its behalf by:

**Richard Crowder**  
Chairman

**Richard Battey**  
Director

The notes on pages 28 to 38 form an integral part of the Company's financial statements.

# Statement of Comprehensive Income

For the year ended 31 March 2019

	Notes	2019 £'000	2018 £'000
<b>Income</b>			
Change in fair value of investments in limited partnerships	4	(41,206)	(108,307)
Income distributions		—	85,365
<b>Total (expense)</b>		<b>(41,206)</b>	<b>(22,942)</b>
<b>Expenses</b>			
Administration fees		202	259
Directors' fees and expenses	8	238	283
Legal and professional fees		161	147
Other fees and expenses		53	70
Audit fees		67	63
Insurance premiums		27	27
Registrar fees		54	42
<b>Total expenses</b>		<b>802</b>	<b>891</b>
<b>Loss and total comprehensive expense for the financial year</b>		<b>(42,008)</b>	<b>(23,833)</b>
<b>Basic and diluted earnings per 2009 Share (pence)</b>	10	<b>(35.77)</b>	<b>2.76</b>
<b>Basic and diluted earnings per 2012 Share (pence)</b>	10	<b>(9.62)</b>	<b>(8.17)</b>

The notes on pages 28 to 38 form an integral part of the Company's financial statements.

The Company

2009 Cell

2012 Cell

# Statement of Changes in Equity

For the year ended 31 March 2019

	Notes	Share capital £'000	Retained earnings £'000	Total Equity £'000
<b>As at 1 April 2018</b>		<b>288,950</b>	<b>(110,475)</b>	<b>178,475</b>
Loss and total comprehensive expense for the financial year		–	(42,008)	(42,008)
<b>Total comprehensive expense for the year</b>		<b>–</b>	<b>(42,008)</b>	<b>(42,008)</b>
<b>Transactions with owners</b>				
Distributions	7	(48,348)	–	(48,348)
Share buyback and cancellation	7	(4,713)	–	(4,713)
<b>Total transactions with owners</b>		<b>(53,061)</b>	<b>–</b>	<b>(53,061)</b>
<b>As at 31 March 2019</b>		<b>235,889</b>	<b>(152,483)</b>	<b>83,406</b>

	Notes	Share capital £'000	Retained earnings £'000	Total Equity £'000
<b>As at 1 April 2017</b>		<b>435,436</b>	<b>(2,879)</b>	<b>432,557</b>
Loss and total comprehensive expense for the financial year		–	(23,833)	(23,833)
<b>Total comprehensive expense for the year</b>		<b>–</b>	<b>(23,833)</b>	<b>(23,833)</b>
<b>Transactions with owners</b>				
Distributions	7	(146,486)	(83,763)	(230,249)
<b>Total transactions with owners</b>		<b>(146,486)</b>	<b>(83,763)</b>	<b>(230,249)</b>
<b>As at 31 March 2018</b>		<b>288,950</b>	<b>(110,475)</b>	<b>178,475</b>

Any surplus/deficit arising from the profit/loss for a period is taken to retained earnings which may be utilised for payment of dividends or distributions.

The notes on pages 28 to 38 form an integral part of the Company's financial statements.

# Statement of Cash Flows

For the year ended 31 March 2019

	2019 £'000	2018 £'000
<b>Cash flows from operating activities</b>		
Loss for the financial year	(42,008)	(23,833)
Adjustments for:		
Change in fair value of investments in limited partnerships	41,206	108,307
Movement in debtors and prepayments	811	793
Movement in creditors and accruals	(12)	(10)
Repayment of loan investment in limited partnerships	48,361	144,681
<b>Net cash generated from operating activities</b>	<b>48,358</b>	<b>229,938</b>
<b>Cash flow from financing activities</b>		
Distributions	(48,348)	(230,249)
<b>Net cash used in financing activities</b>	<b>(48,348)</b>	<b>(230,249)</b>
Net movement in cash and cash equivalents during the year	10	(311)
Cash and cash equivalents at the beginning of the year	502	813
<b>Cash and cash equivalents at the end of the year</b>	<b>512</b>	<b>502</b>

The notes on pages 28 to 38 form an integral part of the Company's financial statements

# Notes to the Audited Financial Statements

For the year ended 31 March 2019

## 1. General information

Better Capital PCC Limited is a Closed-ended Investment company, incorporated in, and controlled from Guernsey as a Protected Cell Company. It has an unlimited life and is registered with the GFSC as a Registered Closed-ended Collective Investment Scheme pursuant to the POI Law.

The Company maintains a separate cell account for each class of shares, to which the capital proceeds of issue and the income arising from the investment of these proceeds in the respective Fund are credited, and against which the expenses allocated are charged. In any redemption, shareholders are only entitled to their proportion of the net assets held in the cell relating to the particular shares.

The Company has two cells: 2009 Cell and 2012 Cell. The financial results for each cell can be found on pages 47 to 60 and on pages 70 to 82 respectively.

## 2. Accounting policies

### Basis of preparation

The financial statements for the year ended 31 March 2019 have been prepared in accordance with EU Adopted IFRS and with the provisions of the Companies Law.

The principal accounting policies adopted are set out below.

### Standards, interpretations and amendments to published standards adopted in the period

There were two new standards applied during the year ended 31 March 2019.

IFRS 9: Financial Instruments, replaces IAS 39 Financial Instruments: Recognition and Measurement. The Company adopted IFRS 9 for the accounting period beginning on 1 April 2018.

IFRS 9 specifies how an entity should classify and measure financial assets and liabilities, including some hybrid contracts. The standard changes the approach for classification and measurement of financial assets compared with the requirements of IAS 39. Although the application of IFRS 9 has resulted in changes to the classification of financial assets and liabilities, there has been no impact on the carrying values of such financial instruments. The following table summarises the financial assets and liabilities held by the Company, the treatment under IAS 39, the new treatment under IFRS 9 and the impact on the financial statements at 1 April 2018. The Company's equity and debt instruments continue to be measured at fair value through profit or loss as the investments are monitored, measured and evaluated on a fair value basis. This had no effect on the carrying value of the Company's financial assets and financial liabilities.

	Original classification under IAS 39	New classification under IFRS 9
<b>Financial assets</b>		
Investments	Fair value through profit or loss	Fair value through profit or loss
Cash and cash equivalents	Loans and receivables	Amortised cost
Receivables	Loans and receivables	Amortised cost
<b>Financial liabilities</b>		
Payables	Amortised cost	Amortised cost

IFRS 15: Revenue from Contracts with Customers was adopted for the accounting period beginning on 1 April 2018. IFRS 15 replaces IAS 18: Revenue, and prescribes a model for accounting for revenue arising from contracts with customers. As the Company's income is interest and distributions received which are part of net fair value under IFRS 9, there was no impact from the adoption of IFRS 15.

# Notes to the Audited Financial Statements continued

## For the year ended 31 March 2019

### 2. Accounting policies (continued)

#### New and revised standards

At the date of approval of these financial statements, the following standard and interpretation, which have not been applied in these financial statements, were issued but not yet effective and are not relevant to the financial statements of the Company and Cells:

IFRS 16: Leases comes into effect for accounting periods beginning on or after 1 January 2019. As the Company has no leases, there will be no impact from the adoption of IFRS 16.

The Company has not adopted early any standards, amendments or interpretations to existing standards that have been published and will be mandatory for the Company's accounting periods beginning after 1 April 2019 or later periods.

#### Foreign currencies

The functional currency of the Company is Pound Sterling reflecting the primary economic environment in which the Company operates. The Company does not have any transactions in currencies other than Pounds Sterling.

#### Classification and measurement of financial assets and financial liabilities

Financial assets and financial liabilities are recognised in the Company's Statement of Financial Position when the Company becomes a party to the contractual provisions of the instrument.

The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at:

- Amortised cost;
- Fair value through other comprehensive income – debt investment;
- Fair value through other comprehensive income – equity investment; or
- Fair value through profit or loss.

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The Company only has financial assets that are classified at fair value through profit or loss. The Company's investments are measured at fair value through profit or loss as they fail the SPPI and business model test.

#### *Impairment of financial assets*

IFRS 9 has introduced the expected credit loss model which brings forward the timing of impairments. Under IFRS 9 for trade receivables the Company applies the simplified model. Under the simplified approach the requirement is to always recognise lifetime expected credit losses. Under the simplified approach practical expedients are available to measure lifetime expected credit losses but forward looking information must still be incorporated. Under the simplified approach there is no need to monitor significant increases in credit risk and entities will be required to measure lifetime expected credit losses at all times.

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# Notes to the Audited Financial Statements continued

## For the year ended 31 March 2019

### 2. Accounting policies (continued)

#### *Investments at fair value through profit or loss*

##### *i. Classification*

The Company's investments in Fund I and Fund II are accounted for as financial assets rather than consolidated as the Company has no substantive removal rights over the GPs, with the latter having wide ranging discretion in respect of the investments made by the Funds. The investments in Fund I and Fund II were designated as financial assets at fair value through profit or loss on initial recognition as this is the way in which the Company manages and evaluates the performance of those assets. As described further on page 32 the Company has invested its funds into Funds I and II with the principal objective of benefiting from capital gains arising from the Funds' activities in investing in and turning round distressed businesses.

##### *ii. Recognition and de-recognition*

Purchases and sales of investments are recognised on the trade date – the date on which the Company commits to purchase or sell the investment.

A financial asset is de-recognised either when the Company has transferred all the risks and rewards of ownership; it has neither transferred nor retained substantially all the risks and rewards and when it no longer has control over the assets or a portion of the asset; or the contractual right to receive cash flow has expired.

##### *iii. Measurement*

The investments in Fund I and Fund II are initially recognised at fair value, being the fair value of consideration given.

Investments treated as "investments at fair value through profit or loss" are subsequently measured at fair value. Fair value is defined as the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction.

##### *iv. Fair value estimation*

The IFRS 13 and IPEV valuation techniques used are detailed in Note 6 of the Company's and the Cells' financial statements.

#### *Financial liabilities*

The classification of financial liabilities at initial recognition depends on the purpose for which the financial liability was issued and its characteristics.

All financial liabilities are initially recognised at fair value net of transaction costs incurred. All purchases of financial liabilities are recorded on the date on which the Company becomes party to the contractual requirements of the financial liability.

#### *Capital*

Financial instruments issued by the Company are treated as equity if the holder has only a residual interest in the assets of the Company after the deduction of all liabilities. The Company's shares are classified as equity instruments.

#### **Interest Income**

Interest income is recognised on a time apportioned basis using the effective interest method.

# Notes to the Audited Financial Statements continued

## For the year ended 31 March 2019

### 2. Accounting policies (continued)

#### Income distributions

Income distributions are distributions from the Funds which have been allocated as income based on the discretionary allocation powers of the GP of each fund as set out in each fund's limited partnership agreement and are recognised when the Company becomes entitled to those receipts.

#### Other expenses

Other expenses are accounted for on an accruals basis.

#### Going concern

After making appropriate enquiries, the Directors have a reasonable expectation that the Company, and in turn Funds I and II, have adequate resources to continue in operational existence for the foreseeable future. As noted on page 51, following two extensions, Fund I is due to terminate on 17 December 2019 and with Fund I being the 2009 Cell's sole investment, following its termination, the Board will begin the orderly wind-up of the 2009 Cell. Having received a comprehensive update from the Fund I GP on the short to medium prospects of both m-Hance and Omnico, the Board considers that an extension to the life of Fund I by a further 18 months to be appropriate and in the best interests of the 2009 Shareholders. A proposal will be put to shareholders in due course. For this reason, the accounts of the 2009 Cell are therefore not prepared on a going concern basis, however there is no material difference in reporting between adopting a going concern basis or a non-going concern basis. As this affects only Fund I and the 2009 Cell, the accounts of the 2012 Cell and of the Company continue to be prepared on a going concern basis.

#### Critical accounting judgment and estimation uncertainty

##### *Use of estimates and judgements*

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

The critical accounting judgments and estimation uncertainties for the 2009 Cell and 2012 Cell are stated on pages 51 to 52 and page 74 respectively.

#### Taxation

The Company and Cells are exempt from taxation in Guernsey.

### 3. Segmental reporting

For management purposes, the Company is organised into two main operating segments, being the 2009 Cell and the 2012 Cell. Full details of the 2009 Cell's and 2012 Cell's results are shown on pages 39 to 60 and 61 to 82 respectively.

# Notes to the Audited Financial Statements continued

## For the year ended 31 March 2019

### 4. Investment in limited partnerships

#### Total Investment:

	Loans £'000	Capital £'000	Total £'000
<b>Cost</b>			
Brought forward at 1 April 2018	290,053	37	290,090
Repayment of loan investment in limited partnerships	(53,074)	–	(53,074)
Carried forward	<b>236,979</b>	<b>37</b>	<b>237,016</b>
<b>Fair value adjustment through profit or loss</b>			
Brought forward	(112,738)	–	(112,738)
Unrealised fair value movement during the year	(41,206)	–	(41,206)
Carried forward	(153,944)	–	(153,944)
<b>Fair value as at 31 March 2019</b>	<b>83,035</b>	<b>37</b>	<b>83,072</b>

	Loans £'000	Capital £'000	Total £'000
<b>Cost</b>			
Brought forward at 1 April 2017	434,734	37	434,771
Repayment in loan investment in limited partnerships	(144,681)	–	(144,681)
Carried forward	290,053	37	290,090
<b>Fair value adjustment through profit or loss</b>			
Brought forward	(4,431)	–	(4,431)
Unrealised fair value movement during the year	(108,307)	–	(108,307)
Carried forward	(112,738)	–	(112,738)
<b>Fair value as at 31 March 2018</b>	<b>177,315</b>	<b>37</b>	<b>177,352</b>

The movement in fair value is derived from the fair value movements in the underlying investments held by Fund I and Fund II, net of income and expenses of Fund I and Fund II and their related special purpose vehicles.

The outstanding loans do not incur interest. The fair value of the loans is expected to be repaid by way of distributions from the Funds. The Company is not entitled to demand repayment of the outstanding loans, however, the General Partner may, upon request by the Company, repay to the Company any amount of the outstanding loan. During the year £nil was repaid to the Company by Fund I (2018: £137.0 million) and £53.1 million by Fund II (2018: £7.7 million).

Income distributions receivable from the Funds in the year amounted to £nil (2018: £nil). At 31 March 2019 an aggregate £nil (2018: £0.8 million) remained outstanding. Income distributions received from the Funds in the year amounts to £nil (2018: £85.0 million).

In the financial statements of the Company, the fair value of the investments in limited partnerships is adjusted to reflect the fair value of the Cells' attributable valuation of net assets within Fund I and Fund II, as seen in more detail in Note 6 of the Company's and Cells' financial statements.

### 5. Trade and other receivables

Full details of the 2009 Cell's and 2012 Cell's trade and other receivables are shown on pages 53 and 75 respectively.

# Notes to the Audited Financial Statements continued

## For the year ended 31 March 2019

### 6. Fair value

The level in the fair value hierarchy within which the financial assets or financial liabilities are categorised is determined on the basis of the lowest level input that is significant to the fair value measurement.

Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

The fair value hierarchy has the following levels:

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

The only financial instruments carried at fair value are the investments which are fair valued at each reporting date.

The Company's investments in Fund I and Fund II have always been classified within Level 3 as they have unobservable inputs and are not traded. Amounts classified under Level 3 for the year are £27.8 million for Fund I (2018: £40.1 million) and £55.3 million for Fund II (2018: £137.2 million).

#### **Valuation techniques**

The value of the Cells' investments in the Funds is based on the value of each Cell's limited partner capital and loan accounts within each Fund. This is based on the components within the Funds, principally the value of the underlying investee companies. Any fluctuation in the value of the underlying investee companies will directly impact on the value of the Company's investment in the Funds.

When valuing the underlying investee companies, the GPs of each Fund reviews information provided by the underlying investee companies and other business partners and applies IPEV methodologies, to estimate a fair value that is in adherence with the requirements of IFRS 13 as at the date of the statement of financial position.

Once maintainable earnings can be identified or reasonably estimated the preferred method of valuation is the earnings multiple valuation technique, where a multiple that is an appropriate and reasonable indicator of value (given the size, risk profile and earnings growth prospects of the underlying company) is applied to the maintainable earnings of the company. Occasionally other methods, as deemed suitable by the GPs, may be used, such as revenue multiple, net assets, or break-up value. The techniques used in determining the fair value of the Cells' investments are selected on an investment by investment basis so as to maximise the use of market based observable inputs.

The Board reviews and carefully considers the fair value arrived at by the GPs before incorporating into the fair value of the investment adopted by the Company. The variety of valuation bases adopted, quality of management information provided by the underlying investee companies and the lack of liquid markets for the investments mean that there are inherent difficulties in determining the fair value of these investments that cannot be eliminated. Therefore the amounts realised on the disposal of investments may differ from the fair values reflected in these financial statements and the differences may be significant.

The significant unobservable inputs in the 2009 Cell and in the 2012 Cell are shown on pages 54 to 55 and 76 to 77 respectively.

# Notes to the Audited Financial Statements continued

For the year ended 31 March 2019

## 7. Share capital

### Core Shares

#### Authorised:

The Company is authorised to issue an unlimited amount of ordinary shares at £1 par value.

#### Issued and fully paid:

##### Year ended 31 March 2019

	£
Core shares as at 1 April 2018 and as at 31 March 2019	100

##### Year ended 31 March 2018

	£
Core shares as at 1 April 2017 and as at 31 March 2018	100

### Cell Shares

#### Authorised:

The Cells are each authorised to issue an unlimited amount of ordinary shares at £1 par value.

##### Year ended 31 March 2019

	2009 Cell	2012 Cell	Total
<b>Issued and fully paid:</b>			
	No.	No.	No.
<b>Unlimited shares of £1 par value</b>			
Shares as at 1 April 2018	35,262,505	318,052,242	353,314,747
Movements for the year	–	(15,870,806)	(15,870,806)
<b>Shares as at 31 March 2019</b>	<b>35,262,505</b>	<b>302,181,436</b>	<b>337,443,941</b>
	£'000	£'000	£'000
<b>Share capital</b>			
Share capital as at 1 April 2018	–	288,950	288,950
Movements for the year:			
Distributions	–	(48,348)	(48,348)
Buyback and cancellation	–	(4,713)	(4,713)
<b>Share capital as at 31 March 2019</b>	<b>–</b>	<b>235,889</b>	<b>235,889</b>

# Notes to the Audited Financial Statements continued

## For the year ended 31 March 2019

### 7. Share capital (continued)

#### Year ended 31 March 2018

	2009 Cell	2012 Cell	Total
<b>Issued and fully paid:</b>			
	No.	No.	No.
<b>Unlimited shares of £1 par value</b>			
Shares as at 1 April 2017	206,780,952	318,052,242	524,833,194
Movements for the year	(171,518,447)	–	(171,518,447)
<b>Shares as at 31 March 2018</b>	<b>35,262,505</b>	<b>318,052,242</b>	<b>353,314,747</b>
	£'000	£'000	£'000
<b>Share capital</b>			
Share capital as at 1 April 2017	138,216	297,220	435,436
Movements for the year:			
Distributions	(138,216)	(8,270)	(146,486)
<b>Share capital as at 31 March 2018</b>	<b>–</b>	<b>288,950</b>	<b>288,950</b>

No distributions were paid during the year for the 2009 Cell (2018: £222.0 million).

The five cumulative distributions (reductions of share capital) at 31 March 2019 for the 2009 Cell total £288.8 million, being 137.5 per cent. of funds raised.

During the year the 2012 Cell made its fourth distribution of £48.3 million to shareholders of the 2012 Cell as at the ex-date of 2 August 2018. The distribution consisted of a payment of 16.0 pence per ordinary share payable in cash from the 2012 Cell's share capital account and has been treated as a reduction of share capital and partial distribution from retained earnings.

The four cumulative distributions (reduction of share capital) at 31 March 2019 for the 2012 Cell total £96.7 million, being 27.2 per cent. of funds raised.

The Core Shares have no voting rights for so long as Cell Shares are in issue.

As at 31 March 2019 the Company's issued share capital consisted of 35,262,505 shares in the 2009 Cell and 302,181,436 shares in the 2012 Cell. Under the Company's articles of incorporation, at any general meeting of the Company:

- each holder of 2009 Shares who is present in person shall have one vote and on a poll the vote shall be weighted where a vote cast in relation to each 2009 Share shall count as 1.1096 towards the total number of votes cast; and
- each holder of 2012 Shares who is present in person shall have one vote and on a poll the vote shall be weighted where a vote cast in relation to each 2012 Share shall count as 0.9770 towards the total number of votes cast.

The figure which may be used by the Shareholders as the denominator for the calculations by which they will determine if they are required to notify their interest in, or a change to their interest in, Better Capital PCC Limited under the FCA's Disclosure and Transparency Rules, is the aggregate of the number of votes capable of being cast on a poll, namely 334,358,539. This is calculated as the sum of the 2009 Shares (35,262,505) multiplied by 1.1096 plus the 2012 Shares remaining after the Shares Buyback on 19 June 2018 (302,181,436) multiplied by 0.9770.

Similarly, to calculate the numerator, Shareholders should multiply their holding of 2009 Shares by 1.1096 and multiply their holding of 2012 Shares by 0.9770. The sum of those calculations will result in the relevant number of voting rights for the numerator.

# Notes to the Audited Financial Statements continued

## For the year ended 31 March 2019

### 8. Related party transactions

The Company has four non-executive Directors. Mr Jon Moulton is a director and the sole shareholder of BECAP GP Limited, the general partner of the Fund I GP and BECAP12 GP Limited, the general partner of the Fund II GP. Mr Moulton, as a limited partner of Better Capital SLP LP, would be due to participate in any accrued carried interest from Fund I. Transactions with the Funds are detailed in Note 4.

Annual remuneration terms for each Director are as follows: the Chairman receives £70,000 (2018: £70,000), the chairman of the audit committee receives £62,500 (2018: £62,500), the chairman of MNR committee receives £60,000 (2018: £60,000) and the other non-executive director receives £45,000 (2018: £45,000).

Directors' fees and expenses for the year to 31 March 2018 amounted to £238,000 (2018: £283,000), of which £59,000 (2018: £59,000) was outstanding at the year end.

The Directors received a distribution of capital from the 2012 Cell of 16.0 pence per ordinary share (2018: 2009 Cell - 107.35 pence, 2012 Cell - 2.6 pence). The Directors' shareholdings can be seen on page 12 of the Report of the Directors.

### 9. Financial risk management

#### Financial risk management objectives

The Company's investing activities, through Fund I and Fund II and their special purpose vehicles, intentionally expose it to various types of risk that are associated with the investee companies in which it invests in order to generate returns in accordance with its investment policy and objectives. The financial risks to which the Company is exposed are market risk, liquidity risk and credit risk. The Board of Directors has overall responsibility for the determination of the Company's risk management and sets policy to manage that risk at an acceptable level to achieve those objectives. The policy and process for measuring and mitigating each of the main risks are described below.

The Corporate Broker and the Administrator provide information to the Company which allows it to monitor and manage financial risks relating to its operations through internal risk reports which analyse exposures by degree and magnitude of risks. The Corporate Broker and the Administrator report to the Board on a quarterly basis.

Due to the nature of the loan investments, being non recourse, the loans have the same characteristics as the capital invested into the Funds. As a result for the purposes of the following disclosure both the capital and loan investments have been considered as one combined investment which is fair valued. Any default/credit risk is taken into account when fair valuing the investments.

#### Categories of financial instruments

	2019 £'000	2018 £'000
<b>Financial assets</b>		
<i>Investments at fair value through profit or loss:</i>		
Investments in limited partnerships	83,072	177,352
<i>Amortised cost loans and receivables:</i>		
Debtors (excluding prepayments)	–	800
Cash and cash equivalents	512	502
<b>Financial liabilities</b>		
<i>Financial liabilities measured at amortised cost:</i>		
Creditors and accruals	185	197

The Directors consider that the carrying values of cash and cash equivalents, creditors and accruals and debtors approximate their fair value.

# Notes to the Audited Financial Statements continued

## For the year ended 31 March 2019

### 9. Financial risk management (continued)

#### Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an effective capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may: return capital to shareholders, adjust the amount of distributions paid to shareholders, issue new shares or sell assets to reduce debt.

The Company considers its capital to comprise the 2009 Shares, 2012 Shares, Core Shares, and retained earnings. There has been no change in what the Company considers to be capital since incorporation other than as part of the Conversion to a PCC. The Company is not subject to any externally imposed capital requirements.

#### Market risk

Market risk includes price risk, foreign currency risk and interest rate risk.

##### (a) Price risk

Price risk arises from uncertainty about future prices of financial investments held. The Company invests through Fund I and Fund II. The underlying investments held by Fund I and Fund II present a potential risk of loss of capital to the Funds and hence to the Company.

The Funds are exposed to a variety of risks which may have an impact on the carrying value of the Company's investment in the Funds. The Funds' risk factors are addressed in the 2009 Cell and 2012 Cell financial statements on pages 57 to 60 and 78 to 81 respectively.

##### (b) Foreign currency risk

The Company has no direct foreign currency risk since all assets and transactions to date have been denominated in Pound Sterling, the Company's functional and presentation currency.

The Funds' indirect foreign currency risk, primarily with the US Dollar, arises from the overseas operations of the underlying portfolio investments. The investee companies' management monitor options for hedging against adverse exchange rate movements.

##### (c) Interest rate risk

The Company's direct exposure to interest rate risk relates to the Company's cash and cash equivalents. At current interest rate levels this risk is immaterial.

#### Liquidity risk

Ultimate responsibility for liquidity risk management of the Company rests with the Board of Directors.

Liquidity risk is defined as the risk that the Company may not be able to settle or meet its obligations on time or at a reasonable price.

The Company adopts a prudent approach to liquidity management and through the preparation of budgets and cash flow forecasts maintains sufficient cash reserves to meet its obligations.

During the year ended 31 March 2019, the Company had no liabilities other than creditors and accruals (2018: £nil). The Company had sufficient cash and cash equivalents to pay these as they fell due.

All creditors and accruals are due within six months.

#### Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Company.

The Company's principal financial assets are the investments in Fund I and Fund II and as a consequence the Company has a significant credit risk if the Funds fail.

# Notes to the Audited Financial Statements continued

## For the year ended 31 March 2019

### 9. Financial risk management (continued)

The carrying value of the investment in Fund I as at 31 March 2019 was £27.8 million (2018: £40.1 million).

The carrying value of the investment in Fund II as at 31 March 2019 was £55.3 million (2018: £137.2 million).

Other financial assets mainly consist of cash and cash equivalents and investments at fair value through profit or loss. The Company's risk on liquid funds is minimised because the Funds have a strict cash management policy. The Company mitigates its credit risk exposure on investments at fair value through profit or loss by the exercise of due diligence on the counterparties of Funds and their GPs. The investment risk is managed by an investment strategy that diversifies the investments in terms of financing stage, industry or geography. The aggregate amount in term deposits or invested with any single such bank or other counterparty (including their associates) or in government and public securities of any single issue, shall not exceed £35.0 million for Fund I and £50.0 million for Fund II.

The investment objectives, policy and restrictions of the Funds are set out in their respective partnership agreements and cannot be varied without an amendment to the relevant partnership agreement, which would require the consent of all the partners including the Company.

The table below shows the Company's material cash balances and the short-term issuer credit rating for the counterparties used at the year end date:

Counterparty	Location	Standard & Poor's Rating	31 March 2019 £'000	31 March 2018 £'000
Royal Bank of Scotland International Limited	Guernsey	A-2	107	212
Barclays Bank PLC	Guernsey	A-1	405	290

The Company's maximum exposure to loss of capital at the year end is shown below:

31 March 2019	Carrying Value and Maximum exposure £'000
Investment at fair value through profit or loss:	
– Fund I	27,754
– Fund II	55,318
Amortised cost loans and receivables (including cash and cash equivalents but excluding prepayments)	512
	<b>83,584</b>
31 March 2018	Carrying Value and Maximum exposure £'000
Investment at fair value through profit or loss:	
– Fund I	40,146
– Fund II	137,206
Amortised cost loans and receivables (including cash and cash equivalents but excluding prepayments)	1,302
	<b>178,654</b>

There are no past due or impaired receivable balances outstanding at the year end.

### 10. Earnings per share and Net Asset Value per share

The earnings per share and Net Asset Value per share for the 2009 Cell and 2012 Cell are shown on pages 60 and 82 respectively.

### 11. Subsequent events

Subsequent events for 2009 Cell and 2012 Cell are detailed on pages 60 and 82 respectively.

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## Better Capital 2009 Cell

### Summary of Investment policy

Better Capital 2009 Cell has invested in a portfolio of businesses which, when acquired, had significant operating issues and associated financial distress and which have significant activities within the United Kingdom.

The 2009 Cell Investment policy is set out in the Company's Prospectus.

## Key Points - 2009 Cell

£210.0 MILLION	total capital raised
£203.8 MILLION	net proceeds invested in Fund I
£288.8 MILLION / 137.5 PER CENT.	cumulative distributions and redemption to date
54.4 PER CENT.	return from NAV growth and distributions since inception <sup>1</sup>
6.5 PER CENT.	annualised NAV total return including distributions <sup>2</sup>

Key Financials	
NAV	£27.8 m
NAV per share at 31 March 2019	78.85 pence
NAV total return (including distributions) <sup>1</sup>	54.4 per cent.
Annualised NAV total return (including distributions) <sup>2</sup>	6.5 per cent.
Share price at 31 March 2019	48.50 pence
Market capitalisation at 31 March 2019	£17.1 m

9	total platform investments
10	follow-on investments
7	realisations - Gardner, Santia, ATH Coal, Reader's Digest, Fairline, Calyx Managed Services, SPOT <sup>3</sup>
2	remaining assets - m-hance, Omnico
8.2 YEARS	average holding period of remaining portfolio companies
£0.6 MILLION	net cash across Fund I portfolio companies

<sup>1</sup> Cumulative return over the period of the life of the 2009 Cell since inception based on the weighted average issue price of ordinary shares and net of share issue costs.

<sup>2</sup> Internal rate of return since inception, based on the net proceeds of share issues, valuations and distributions to shareholders.

<sup>3</sup> SPOT minority holding in Fund I sold to Fund II on 14 November 2018.

## General Partner's Report

Following the disposal of Fund I's minority interest in SPOT to Fund II in November 2018, there remain only m-Hance and Omnico.

Both companies have made reasonable progress since my last report, in particular m-Hance which has responded well to new leadership and market opportunities. To facilitate maximum value creation, the Board will be putting proposals to the members to extend the life of Fund I and in turn this cell by 18 months to maximise shareholder value.

### Portfolio update

**m-hance** closed its FY18 financial year ending 31 December 2018 with an unaudited EBITDA of £0.8 million (FY17 audited EBITDA £0.6 million), marginally below the trading budget due to customer driven implementation delays and the decision to exit the NetSuite reseller market.

The appointment of Alan Moody in the capacity of CEO in June 2018 gave rise to a comprehensive strategic re-assessment of the business. Following a re-direction to focus on the business's key areas of growth, m-hance has seen significant and further improvements in the Not-for-Profit ("NfP") sector whilst simultaneously managing existing customers. The NfP sector has grown consistently over the past two decades and has shown itself to be resistant to economic downturns. Already selling into a number of high profile NfP clients (e.g. Christian Aid, MIND, Motor Neurone Association and Crohn's and Colitis), m-hance is now developing a range of products and services built on Microsoft's core Customer Relationship Management ("CRM") and Enterprise Resource Planning ("ERP") cloud technologies resulting in an acceleration of the number of wins as well as an increasing sales pipeline across all product lines. Since my last report, the business has closed contracts with among others, Medecins Sans Frontieres, SANDS, Tenovus Cancer Care, Marie Stopes International and Concern WorldWide. The business has also increased its market presence through its dedicated website for NfP ([www.nfp365.com](http://www.nfp365.com)).

As a direct consequence of prioritising the NfP market, the relationship with Microsoft continues to strengthen. Microsoft has selected m-hance to be the sole European-based global launch partner for its Technology for Social Impact initiative with several joint initiatives now underway including a NfP event to be hosted by Microsoft this summer. m-hance has retained its Microsoft Gold partner

status in core technologies such as CRM, ERP and Hosting, and has now attained the top-level partner status in Cloud Service Provision thereby maximising margin potential from reselling Microsoft products.

In addition to the on-going investment in leading technologies and the development of market specific products and services, Making Tax Digital for VAT represents a further opportunity in 2019 and beyond for m-hance to sell and deliver into its existing ERP base. The business has now developed and secured HMRC Compliance for both its GP and i365 products which have facilitated improved customer engagement. This initiative is also allowing for customers to upgrade to newer versions of GP and i365 products driving greater revenues.

At the operational level, there are several initiatives delivering on increasing efficiency and effectiveness. These include the development and management of Key Performance Indicators within the support function to improve case and backlog management as well as initiatives to improve employee engagement including regular surveys, cross-departmental initiatives and targeted training. With a relatively high proportion of employees working remotely, attention has been given to increasing the frequency and consistency of communications at all levels within the organisation. These communications are designed to increase awareness as well as to encourage an improved level of collaboration and sense of loyalty to teams and the wider organisation. Cost control, cash management and strong financial processes remain major strengths at m-hance.

The business is tracking ahead of budget for the first quarter of FY19 and is expecting to maintain the lead through Q2 and into H2 FY19 with a year-on-year double-digit percentage growth in EBITDA.

As at 31 March 2019, the business has net debt of £0.1 million. Fund I injected £0.3 million into the business during March 2019 to fund working capital - the need was caused by the timing of cash flows from operations and was repaid in full in May 2019.

The valuation for m-hance has been retained at £10.5 million. This has been derived using an earnings based approach (EV/EBITDA: 9.0 times) on the business's FY19 forecast EBITDA.

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## General Partner's Report continued

**Omnico's** year-to-date EBITDA for its FY19 financial year ending 30 September is ahead of budget representing 53 per cent. of the FY19 EBITDA budget at the half year point (FY18 audited EBITDA: £0.9 million). Total YTD order intake of £12.2 million has contributed to order book growth of 10 per cent. since the end of FY18. Billable utilisation has continued to increase during the period, resulting in continued professional services revenue growth.

Omnico has continued to invest in research and development and is now finalising the development of its V6 product. The completion of V6 will allow Omnico to accelerate focus on its digital strategy. The V6 product provides the platform which enables Omnico's clients to maximise customer engagement through the creation of multi-channel journeys.

The focus for Omnico over the coming twelve months is to further grow its recurring revenues through the transition to a Software as a Service model. Omnico's new hosted solution has now been successfully deployed to 5 clients in both the UK and US, 3 of which are new name accounts. A further 3 projects are due for completion during the second half of FY19. Speed of deployment has been significantly enhanced, enabling Omnico to deliver solutions to a greater number of customers simultaneously.

Omnico's sales prospect pipeline remains strong and stands at £129 million. Omnico's target markets of theme parks, contract catering, casino resorts and retail are well represented in the pipeline and its geographical reach remains broad. Further deployment of the Omnico platform in existing accounts as well as closure of a small number of key opportunities will significantly enhance Omnico's Software as a Service and recurring revenues as the market moves towards hosted solutions.

Further streamlining of the business has also progressed with the previously separate leisure division moving into core operations as the focus continues on the core V6 platform and digital products.

The business has now started to repay the short term loan of £0.8 million injected by Fund I in September 2018 and cash flow from operations continues to increase. At 31 March 2019, Omnico had net cash of £0.7 million, the highest level since January 2015.

Although there has been satisfactory progress in the first six months of FY19, the valuation for the business has remained unchanged at £14.0 million until visibility is proven over the latter part of the year. This valuation is supported using an earnings based approach (EV/ EBITDA: 8.7 times) to valuation and applied against its EBITDA budget for FY19.

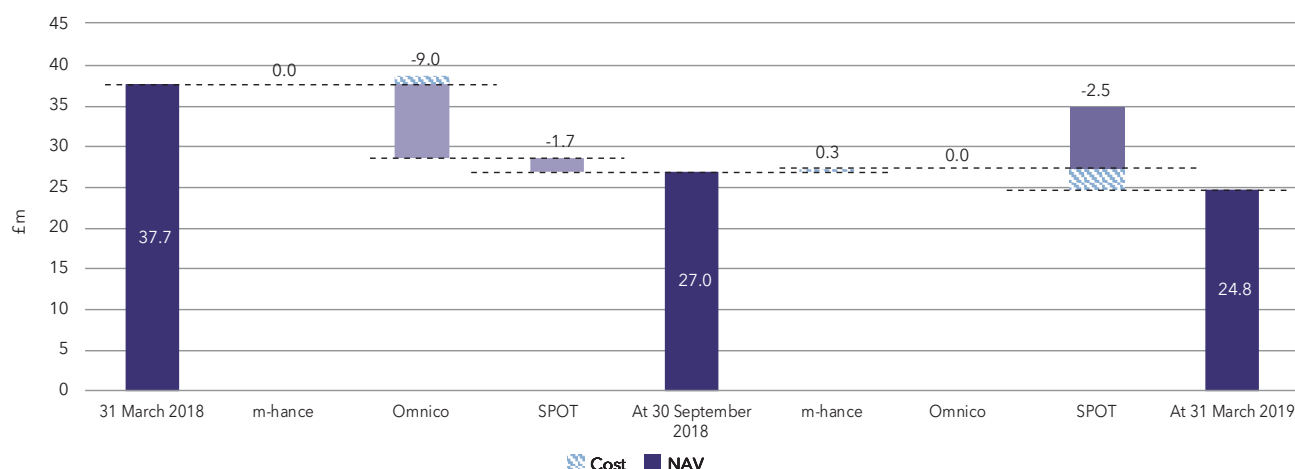
### Investment activities

On 14 November 2018, SPOT completed a complex balance sheet restructure. The objective of the exercise was to simplify SPOT's capital structure and to facilitate the design of a new incentive scheme for the management team. The restructure saw the Fund II GP on behalf of Fund II making an offer for the loan note and equity interests held by Fund I as well as to current and former members of the SPOT management. The Fund I GP on behalf of Fund I accepted the cash offer of £2.5 million.

In August and September 2018, Fund I injected a total of £1.0 million into Omnico to fund working capital - the need caused by repayment of an external debt facility and lack of cash flow from operations. This short term loan is being repaid in tranches from April 2019.

# General Partner's Report continued

## Valuation



The overall portfolio carrying value declined by £12.9 million between 1 April 2018 and 31 March 2019 due to the write downs in Omnico of £9.0 million (of which £9.0 million occurred in the six months to 30 September 2018) and SPOT, of £1.7 million (of which £1.7 million occurred in the six months to 30 September 2018) and the write up in m-hance of £0.3 million (of which £nil occurred in the six months to 30 September 2018). The remainder of the movement in portfolio value attributed to the sale of Fund I's minority stake in SPOT to Fund II in November 2018, of £2.5 million.

## Cash and closing remarks

Cash from the sale of Fund I's interest in SPOT has been retained for the foreseeable future. The cash balance at 27 June 2019 stood at £3.3 million which is adequate for the effective functioning of Fund I.

Plans are in place to support an orderly winding down of Fund I. Having reviewed the short to medium term prospects of both m-hance and Omnico, the Fund I GP considers that an extension to the life of Fund I by a further 18 months to be appropriate and in the best interests of the 2009 Shareholders.

**Jon Moulton**  
Chairman

BECAP GP Limited

28 June 2019

The Company

2009 Cell

2012 Cell

# Investment Report of Fund I

## m-hance

### Business description

- Implements, deploys and manages enterprise wide business management software solutions ([www.m-hance.com](http://www.m-hance.com)) ([www.highcloudsolutions.co.uk](http://www.highcloudsolutions.co.uk))

### Fund I Investment details

£'m	31 March 2019	30 September 2018	31 March 2018
<b>Total invested</b>	<b>14.4</b>	<b>14.1</b>	<b>14.1</b>
<b>Total committed</b>	<b>14.4</b>	<b>14.1</b>	<b>14.1</b>
<b>Fund I fair value (earnings based)</b>	<b>10.8</b>	<b>10.5</b>	<b>10.5</b>

## Omnicogroup

### Business description

- Provider of omni-channel software solutions and services to the retail, entertainment, hospitality and leisure sectors ([www.omnicogroup.com](http://www.omnicogroup.com))

### Fund I Investment details

£'m	31 March 2019	30 September 2018	31 March 2018
<b>Total invested</b>	<b>42.5</b>	<b>42.5</b>	<b>41.5</b>
<b>Total committed</b>	<b>42.5</b>	<b>42.5</b>	<b>41.5</b>
<b>Fund I fair value (earnings based)</b>	<b>14.0</b>	<b>14.0</b>	<b>23.0</b>

## Investment Report of Fund I continued

### Portfolio summary and reconciliation

31 March 2019	Sector	Fund Project cost <sup>1</sup> £m	Fund fair value investment in SPVs <sup>2</sup> £m	Valuation percentage of NAV	Valuation methodology
m-hance	Information Systems	14.4	10.8	38.8%	Earnings
Omnico Group	Information Systems	42.5	14.0	50.4%	Earnings
		<b>56.9</b>	<b>24.8</b>	<b>89.2%</b>	
Fund cash on deposit			2.9	10.4%	
Fund & SPV combined other net assets			0.1	0.4%	
Provision for carried interest			–	–%	
<b>2009 Cell fair value of investment in Fund I</b>			<b>27.8</b>	<b>100.0 %</b>	
2009 Cell cash on deposit			0.1	0.4%	
2009 Cell current assets less liabilities			(0.1)	(0.4%)	
<b>2009 Cell NAV</b>			<b>27.8</b>	<b>100.0%</b>	

### Summary income statement for Fund I

	2019 £'000	2018 £'000
Total income	30	231,214
Loss on Fund I investment portfolio	(11,707)	(227,510)
Fund I GP's Share	(691)	(859)
Other operating expenses	(175)	(274)
Carried Interest movement	151	(151)
Distributions	–	(85,365)
Fund I's operating loss for the year	(12,392)	(82,945)
<b>Portion of the operating loss for the year for 2009 Cell's investment in the limited partnership (Note 4)</b>	<b>(12,392)</b>	<b>(82,945)</b>

### Cash management

As at 31 March 2019, Fund I had placed a total of £2.9 million (2018: £2.7 million) of cash on instant access deposit with one bank. Fund I has in place a strict cash management policy that limits counterparty risks whilst simultaneously seeking to maximise returns.

Counterparty	Location	Standard & Poor's Rating	Term	31 March 2019 £'000	31 March 2018 £'000
<b>Barclays Bank Plc</b>	Guernsey	A-1	Instant access	2,921	2,666

<sup>1</sup> Fund I holds its investments at cost less impairment in accordance with the terms of the limited partnership agreement.

<sup>2</sup> The Company fair values its investment in Fund I in accordance with the methodologies as set out in Note 6.

# Independent Auditor's Report to the Directors of Better Capital PCC Limited in respect of the 2009 Cell

## Opinion

We have audited the non-statutory financial statements of the 2009 Cell (the "Cell"), a cell of Better Capital PCC Limited (the "Company") for the year ended 31 March 2019 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 11. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs).

In our opinion, the financial statements:

- give a true and fair view of the state of the Cell's affairs as at 31 March 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Emphasis of matter - Going concern

In forming our conclusion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the Cell's going concern. As disclosed in note 2 the Cell's investment, Fund I, will cease operations on 17 December 2019 due to its limited life. It is the Fund's intention to seek shareholder approval for an extension to the life of Fund I and consequently Cell 2009 for a period of at least eighteen months to enable the maximisation of shareholder value. As approval is yet to be obtained the Board have concluded that the Cell is not a going concern. This has not had any impact on the carrying value in the assets and liabilities of the Cell and no adjustments have been made to these financial statements as a result of preparing on a basis other than that of going concern.

## Responsibilities of the directors

As explained more fully in the Directors' responsibilities statement within the Report of the Directors, the directors of the Company are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and for such internal control as the directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Use of our report

This report is made solely to the directors of the Company, as a body, in accordance with the terms of engagement dated 4 March 2019. Our audit work has been undertaken so that we might state to the directors of the Company those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the directors of the Company as a body, for our audit work, for this report, or for the opinions we have formed.

## BDO Limited

*Chartered Accountants*  
Place du Pré  
Rue du Pré  
St Peter Port  
Guernsey

28 June 2019

# Statement of Financial Position

As at 31 March 2019

	Notes	2019 £'000	2018 £'000
<b>ASSETS:</b>			
<b>Non-current assets</b>			
Investment in limited partnership	4	27,754	40,146
<b>Total non-current assets</b>		<b>27,754</b>	<b>40,146</b>
<b>Current assets</b>			
Trade and other receivables	5	2	2
Cash and cash equivalents		102	331
<b>Total current assets</b>		<b>104</b>	<b>333</b>
<b>TOTAL ASSETS</b>		<b>27,858</b>	<b>40,479</b>
<b>LIABILITIES:</b>			
<b>Current liabilities</b>			
Trade and other payables		(54)	(62)
<b>Total current liabilities</b>		<b>(54)</b>	<b>(62)</b>
<b>TOTAL LIABILITIES</b>		<b>(54)</b>	<b>(62)</b>
<b>NET ASSETS</b>		<b>27,804</b>	<b>40,417</b>
<b>EQUITY</b>			
Share capital	7	—	—
Retained earnings		27,804	40,417
<b>TOTAL EQUITY</b>		<b>27,804</b>	<b>40,417</b>
<b>Number of 2009 Shares in issue at year end</b>	7	<b>35,262,505</b>	<b>35,262,505</b>
<b>NAV per 2009 Share (pence)</b>	10	<b>78.85</b>	<b>114.62</b>

The audited financial statements of the 2009 Cell were approved and authorised for issue by the Board of Directors on 28 June 2019 and signed on its behalf by:

**Richard Crowder**  
Chairman

**Richard Battey**  
Director

The notes on pages 51 to 60 form an integral part of the 2009 Cell's financial statements.

# Statement of Comprehensive Income

For the year ended 31 March 2019

	Notes	2019 £'000	2018 £'000
<b>Income</b>			
Change in fair value of investment in limited partnership	4	(12,392)	(82,945)
Income distributions		–	85,365
<b>Total (expense)/income</b>		<b>(12,392)</b>	<b>2,420</b>
<b>Expenses</b>			
Administration fees		82	87
Directors' fees and expenses	8	54	86
Legal and professional fees		34	52
Other fees and expenses		9	19
Audit fees		15	10
Insurance premiums		6	5
Registrar fees		21	17
<b>Total expenses</b>		<b>221</b>	<b>276</b>
<b>(Loss)/profit and total comprehensive (expense)/income for the financial year</b>		<b>(12,613)</b>	<b>2,144</b>
<b>Basic and diluted earnings per 2009 Share (pence)</b>	10	<b>(35.77)</b>	<b>2.76</b>

The notes on pages 51 to 60 form an integral part of the 2009 Cell's financial statements.

## Statement of Changes in Equity

For the year ended 31 March 2019

	Notes	Share capital £'000	Retained earnings £'000	Total Equity £'000
<b>As at 1 April 2018</b>		–	<b>40,417</b>	<b>40,417</b>
Loss and total comprehensive expense for the financial year		–	(12,613)	(12,613)
<b>Total comprehensive expense for the year</b>		–	<b>(12,613)</b>	<b>(12,613)</b>
<b>As at 31 March 2019</b>		–	<b>27,804</b>	<b>27,804</b>

		Share capital £'000	Retained earnings £'000	Total Equity £'000
<b>As at 1 April 2017</b>		<b>138,216</b>	<b>122,036</b>	<b>260,252</b>
Profit and total comprehensive income for the financial year		–	2,144	2,144
<b>Total comprehensive income for the year</b>		–	<b>2,144</b>	<b>2,144</b>
<b>Transactions with owners</b>				
Distributions	7	(138,216)	(83,763)	(221,979)
<b>Total transactions with owners</b>		<b>(138,216)</b>	<b>(83,763)</b>	<b>(221,979)</b>
<b>As at 31 March 2018</b>		–	<b>40,417</b>	<b>40,417</b>

Any surplus/deficit arising from the profit/loss for a period is taken to retained earnings which may be utilised for payment of dividends or distributions.

The notes on pages 51 to 60 form an integral part of the 2009 Cell's financial statements.

## Statement of Cash Flows

For the year ended 31 March 2019

	2019 £'000	2018 £'000
<b>Cash flows from operating activities</b>		
(Loss)/profit for the financial year	(12,613)	2,144
Adjustments for:		
Change in fair value of investment in limited partnership	12,392	82,945
Movement in debtors and prepayments	–	3
Movement in creditors and accruals	(8)	(11)
Repayment of loan investment in limited partnership	–	137,006
<b>Net cash (used in)/generated from operating activities</b>	<b>(229)</b>	<b>222,087</b>
<b>Cash flow used in financing activities</b>		
Distributions	–	(221,979)
<b>Net cash used in financing activities</b>	<b>–</b>	<b>(221,979)</b>
Net movement in cash and cash equivalents during the year	(229)	108
Cash and cash equivalents at the beginning of the year	331	223
<b>Cash and cash equivalents at the end of the year</b>	<b>102</b>	<b>331</b>

The notes on pages 51 to 60 form an integral part of the 2009 Cell's financial statements.

# Notes to the Audited Financial Statements of the 2009 Cell

## For the year ended 31 March 2019

### 1. General information

The 2009 Cell is a cell of Better Capital PCC Limited and has the investment objective of generating attractive total returns from investing (through Fund I) in a portfolio of businesses which have significant operating issues and may have associated financial distress, with a primary focus on businesses which have significant activities within the United Kingdom and Ireland. Such returns are expected to be largely derived from capital growth.

Fund I is managed by its general partner, BECAP GP LP, which is in turn managed by its general partner BECAP GP Limited. Such arrangements are governed under the respective Limited Partnership Agreement, as amended.

The 2009 Cell is listed on the LSE Main Market.

### 2. Accounting policies

#### Basis of preparation

The 2009 Cell financial statements for the year ended 31 March 2019 have been prepared in accordance with EU Adopted IFRS.

The principal accounting policies adopted are set out in the Company's accounting policies on pages 28 to 31.

#### Going concern

During the year, the Board has made further progress towards the realisation of the residual assets in the portfolio. Following two extensions, Fund I is due to terminate on 17 December 2019. Having received a comprehensive update from the Fund I GP on the short to medium prospects of both m-Hance and Omnico, the Board considers that an extension to the life of Fund I by a further 18 months to be appropriate and in the best interests of the 2009 Shareholders. A proposal will be put to shareholders at the AGM. For this reason, the accounts are therefore not prepared on a going concern basis.

#### Critical accounting judgment and estimation uncertainty

##### *Use of estimates and judgements*

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The areas involving a high degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed below. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

#### *Investment in Fund I*

The value of the 2009 Cell's investment in Fund I is based on the value of the 2009 Cell's limited partner capital and loan accounts within Fund I. This is based principally on the value of the underlying investee companies. Any fluctuation in the value of the underlying investee companies will directly impact on the value of the 2009 Cell's investment in Fund I.

# Notes to the Audited Financial Statements of the 2009 Cell

For the year ended 31 March 2019 continued

## 2. Accounting policies (continued)

When valuing the underlying investee companies, the General Partner of Fund I reviews information provided by the underlying investee companies and other business partners and applies IPEV methodologies, as noted on page 33, to estimate a fair value as at the date of the Statement of Financial Position. The variety of valuation bases adopted, quality of management information provided by the underlying investee companies and the lack of liquid markets for the investments mean that there are inherent difficulties in determining the fair value of these investments that cannot be eliminated. Therefore the amounts realised on the disposal of investments may differ from the fair values reflected in these financial statements and the differences may be significant.

Further information in relation to the valuation of the investment in Fund I is disclosed in Notes 4 and 6.

## 3. Segmental reporting

For management purposes, the 2009 Cell is organised into one operating segment, which invests in one limited partnership.

## 4. Investment in limited partnership

	Loans £'000	Capital £'000	Total £'000
<b>Cost</b>			
Brought forward at 1 April 2018	–	20	20
<b>Carried forward</b>	<b>–</b>	<b>20</b>	<b>20</b>
<b>Fair value adjustment through profit or loss</b>			
Brought forward	40,126	–	40,126
Unrealised fair value movement during the year	(12,392)	–	(12,392)
Carried forward	27,734	–	27,734
<b>Fair value as at 31 March 2019</b>	<b>27,734</b>	<b>20</b>	<b>27,754</b>

	Loans £'000	Capital £'000	Total £'000
<b>Cost</b>			
Brought forward at 1 April 2017	137,006	20	137,026
Repayment of loan investment in limited partnership	(137,006)	–	(137,006)
<b>Carried forward</b>	<b>–</b>	<b>20</b>	<b>20</b>
<b>Fair value adjustment through profit or loss</b>			
Brought forward	123,071	–	123,071
Unrealised fair value movement during the year	(82,945)	–	(82,945)
Carried forward	40,126	–	40,126
<b>Fair value as at 31 March 2018</b>	<b>40,126</b>	<b>20</b>	<b>40,146</b>

# Notes to the Audited Financial Statements of the 2009 Cell

For the year ended 31 March 2019 continued

## 4. Investment in limited partnership (continued)

The movement in fair value of the 2009 Cell is derived from the fair value increase in m-hance, decrease in Omnico and the sale of SPOT, net of expenses in Fund I and its related special purpose vehicles.

The outstanding loans do not incur interest. The loans are expected to be repaid by way of distributions from Fund I. The 2009 Cell is not entitled to demand repayment of the outstanding loans, however, the General Partner may, upon request by the Company, repay to the 2009 Cell any amount of the Cell's outstanding loan. During the year £nil was repaid to the 2009 Cell by Fund I (2018: £137.0 million).

In the financial statements of the 2009 Cell the fair value of the investment in limited partnership is adjusted to reflect the fair value of the 2009 Cell's attributable valuation of net assets within Fund I, as seen in more detail in Note 6.

## 5. Trade and other receivables

	2019 £'000	2018 £'000
Prepayments	2	2
	<b>2</b>	<b>2</b>

There are no past due or impaired receivable balances outstanding at the year end. The Directors consider that the carrying value of debtors and prepayments approximates their fair value.

## 6. Fair value

The level in the fair value hierarchy within which the financial assets or financial liabilities are categorised is determined on the basis of the lowest level input that is significant to the fair value measurement. The fair value hierarchy and further information on valuation techniques can be found in Note 6 in the Company financial statements.

# Notes to the Audited Financial Statements of the 2009 Cell

For the year ended 31 March 2019 continued

## 6. Fair value (continued)

The following table summarises the valuation methodologies and inputs used for the 2009 Cell's Level 3 investments as at year end:

Valuation methodology	Description	Input
<b>Multiple</b> <b>31 March 2019</b> <ul style="list-style-type: none"> <li>• m-hance</li> <li>• Omnico</li> </ul> <b>31 March 2018</b> <ul style="list-style-type: none"> <li>• m-hance</li> <li>• Omnico</li> </ul>	<p>Most commonly used Private Equity valuation methodology. Used for investments which are profitable and for which a set of listed companies and precedent transactions with similar characteristics can be determined</p> <p>Discounts to the valuation generated by applying multiples to reflect the time and costs of reaching sustainable profitability and the inevitable accompanying uncertainties</p>	<p>Multiples are applied to the earnings of the investee company to determine the enterprise value. Where there is evidence that a division of an investee could be sold as an independent business, the multiple applied to that division's earnings may be different to that applied to the earnings of the rest of the group.</p> <p><b>Earnings</b>  Reported earnings adjusted for non-recurring items, such as restructuring expenses, for significant corporate actions and, in exceptional cases, run-rate adjustments to arrive at maintainable earnings. Most common measure is EBITDA (m-hance, Omnico). Further information in relation to the application of earnings can be found in the Fund I GP report above.</p> <p><b>Multiples</b>  The earnings multiple is derived from market transaction multiples (Omnico) or recent offers for the investee (m-hance). Where market transactions are used, the Fund I GP typically selects businesses in the same industry and, where possible, with a similar business model and profile in terms of size, products, services and customers, growth rates and geographic focus and adjust for changes in the relative performance in the set of comparables.</p>
<b>Other</b> <b>31 March 2019</b> None <b>31 March 2018</b> <ul style="list-style-type: none"> <li>• SPOT</li> </ul>	<p>Values of separate elements prepared under other methods, as deemed suitable by the Fund I GP, such as net realisable value and earnings and assets basis</p>	<p>Earnings and assets.</p>

# Notes to the Audited Financial Statements of the 2009 Cell

For the year ended 31 March 2019 continued

Adjustments	Discount rate applied to multiples	Discounted multiples	Value of portfolio valued on this basis (£'m)	
			31 March 2019	31 March 2018
Relevant provisions may be deducted from the multiple valuation	A discount is applied to earnings multiples derived from market transaction multiples at 20 per cent. (31 March 2018: 48 per cent.) No discount is applied to earnings multiples derived from recent offers for the investee.	EBITDA multiples ranging from 8.9 times to 9.4 times at the investee level (31 March 2018: 9.5 times to 9.7 times).	24.8	33.5
As determined on a case by case basis	There were no elements valued using earnings multiples derived from market transactions (31 March 2018: a discount of 20 per cent. was applied).	There were no elements valued based on their earnings (31 March 2018: EBITDA multiples ranged from 6.6 to 8.0 times).	-	4.2
		Level 3 Portfolio valuation	24.8	37.7
		Other net assets	3.0	2.6
		Provision for Better Capital SLP interest in Fund I	-	(0.2)
		2009 Cell fair value of investments in Fund I	27.8	40.1

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# Notes to the Audited Financial Statements of the 2009 Cell

For the year ended 31 March 2019 continued

## 6. Fair value (continued)

This approach requires the use of assumptions about certain unobservable inputs. Significant unobservable inputs as at 31 March 2019 are:

- Multiples used to derive enterprise value; and
- Discount factors.

A reasonably possible change in the multiples used of +/- 10 per cent. would result in:

- An increase in carrying value of £2.3 million or 9.4 per cent. (+10 per cent.)
- A decrease in the carrying value of £2.3 million or 9.4 per cent. (-10 per cent.)

A reasonably possible change in the discount factors used would be to completely remove the discount factor or to double the discount factor. This would result in:

- An increase in the carrying value of £3.3 million or 13.4 per cent. (remove discount)
- A decrease in carrying value of £3.3 million or 13.4 per cent. (double discount)

The Fund I GP approves the valuations performed with input from any external consultant as appointed by the GPs and monitors the range of reasonably possible changes in significant observable inputs on a regular basis.

## 7. Share capital

Share capital for the 2009 Cell is detailed in the relevant column in Note 7 of the Company's financial statements.

The five cumulative distributions (capital redemption and reductions of share capital) to date for the 2009 Cell total £288.8 million, being 137.5 per cent. of funds raised.

## 8. Related party transactions

Further information on related parties can be found in Note 8 of the Company's financial statements.

Directors' fees and expenses, incurred by the 2009 Cell, for the year to 31 March 2019 amounted to £54,000 (2018: £86,000). The Directors' fees and expenses were apportioned equally between the Cells up to 30 September 2013, thereafter fees were split on a NAV basis. £13,000 (2018: £10,000) remained outstanding at the year end.

# Notes to the Audited Financial Statements of the 2009 Cell

For the year ended 31 March 2019 continued

## 9. Financial risk management

### Financial risk management objectives

The 2009 Cell's investing activities, through Fund I and its special purpose vehicles, intentionally expose it to various types of risk that are associated with the investee companies in which Fund I invests in order to generate returns in accordance with its investment policy and objectives. The financial risks to which the 2009 Cell is exposed are market risk, liquidity risk and credit risk. The Board of Directors has overall responsibility for the determination of the 2009 Cell's risk management and sets policy to manage that risk at an acceptable level to achieve those objectives. The policy and process for measuring and mitigating each of the main risks are described below.

The Corporate Broker and the Administrator provide information to the 2009 Cell which allows it to monitor and manage financial risks relating to its operations through internal risk reports which analyse exposures by degree and magnitude of risks. The Corporate Broker and the Administrator report to the Board on a quarterly basis.

Due to the nature of the loan investments, being non-recourse, the loans have the same characteristics as the capital invested into Fund I. As a result for the purposes of the following disclosure both the capital and loan investments have been considered as one combined investment which is fair valued. Any default/credit risk is taken into account when fair valuing the investments.

### Categories of financial instruments

	2019 £'000	2018 £'000
<b>Financial assets</b>		
<i>Investment at fair value through profit or loss:</i>		
Investment in limited partnership	27,754	40,146
<i>Amortised cost loans and receivables:</i>		
Debtors (excluding prepayments)	–	–
Cash and cash equivalents	102	331
<b>Financial liabilities</b>		
<i>Financial liabilities measured at amortised cost:</i>		
Creditors and accruals	54	62

Directors consider that the carrying values of cash and cash equivalents, creditors and accruals and debtors approximate their fair value.

### Capital risk management

The 2009 Cell's objectives when managing capital are to provide returns for Shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the 2009 Cell may; return capital to Shareholders, adjust the amount of distributions paid to Shareholders or sell assets to reduce debt.

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# Notes to the Audited Financial Statements of the 2009 Cell

For the year ended 31 March 2019 continued

## 9. Financial risk management (continued)

### Market risk

Market risk includes price risk, foreign currency risk and interest rate risk.

#### (a) Price risk

Price risk arises from uncertainty about future prices of financial investments held. The 2009 Cell invests through Fund I. The underlying investments held by Fund I present a potential risk of loss of capital to Fund I and hence to the 2009 Cell.

Fund I is exposed to a variety of risks which may have an impact on the carrying value of the 2009 Cell's investment in Fund I. Fund I's risk factors are addressed below.

- Fund I's investments are not traded in an active market but are still exposed to market price risk arising from uncertainties about future values of the investments held. The underlying investments of Fund I have inherent volatility in valuation.

In accordance with the 2009 Cell's accounting policies the investments in Fund I, and indirectly the investments in investee companies through special purpose vehicles, have been valued at fair value.

Sensitivity analysis has been undertaken. See Note 6.

- Concentration leads to an exposure to price risk through the fair value movement in the underlying investments.

With two remaining investments clearly the potential volatility of valuation is high. This risk cannot be mitigated.

The level of analytical sophistication, both financial and legal, necessary for successful investment in businesses experiencing significant operating issues and associated financial distress is unusually high. Fund I has a low number of investments and thus a high concentration risk.

#### (b) Foreign currency risk

The 2009 Cell has no direct foreign currency risk since all assets and transactions to date have been denominated in Pound Sterling, the 2009 Cell's functional and presentation currency.

Fund I has indirect foreign currency risk, primarily with US Dollar, arising from the overseas operations of Omnico. The investee companies' management monitor options for hedging against adverse exchange rate movements. The remaining investments made by Fund I have been denominated in Pound Sterling and accordingly the Fund I GP does not consider foreign exchange risk to be significant at this stage.

#### (c) Interest rate risk

The 2009 Cell's exposure to interest rate risk relates to the 2009 Cell's cash and cash equivalents. The 2009 Cell is subject to risk due to fluctuations in the prevailing levels of market interest rates. Given the size of these deposits and current interest rate levels this risk is immaterial.

# Notes to the Audited Financial Statements of the 2009 Cell

For the year ended 31 March 2019 continued

## 9. Financial risk management (continued)

### Liquidity risk

Ultimate responsibility for liquidity risk management of the 2009 Cell rests with the Board of Directors.

Liquidity risk is defined as the risk that the 2009 Cell may not be able to settle or meet its obligations on time or at a reasonable price.

The 2009 Cell adopts a prudent approach to liquidity management and through the preparation of budgets and cash flow forecasts maintains sufficient cash reserves to meet its obligations.

During the year ended 31 March 2019, the 2009 Cell had no liabilities other than creditors and accruals (2018: £nil). The 2009 Cell had sufficient cash and cash equivalents to pay these as they fall due.

All creditors and accruals are due within six months.

### Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the 2009 Cell.

The 2009 Cell's principal financial asset is the investment in Fund I and as a consequence the 2009 Cell has a significant credit risk if Fund I fails.

The carrying value of the investment in Fund I as at 31 March 2019 was £27.8 million (2018: £40.1 million).

Financial assets mainly consist of cash and cash equivalents and investments at fair value through profit or loss. Fund I's underlying investments are dynamic in nature and Fund I aims to maintain flexibility in funding by keeping sufficient liquidity in cash and cash equivalents which may be invested on a temporary basis in:

- cash or cash equivalents, money market instruments, bonds, commercial paper or other debt obligations with banks or other counterparties having a "single A" or higher credit rating as determined by any reputable rating agency selected by the Fund I GP; and
- any "government and public securities" as defined for the purposes of the FCA Rules.

As at 31 March 2019, £2.9 million (2018: £2.7 million) or 10.5 per cent. (2018: 5.4 per cent.) of Fund I's financial assets were cash balances held on deposit.

The 2009 Cell mitigates its credit risk exposure on investments at fair value through profit or loss by the exercise of due diligence on the counterparties of Fund I and its General Partner. The aggregate amount deposited or invested with any single such bank or other counterparty (including their associates) or in government and public securities of any single issue, shall not exceed £35.0 million for Fund I.

The investment objectives, policy and restrictions of Fund I are set out in its limited partnership agreement and cannot be varied without an amendment to the limited partnership agreement, which would require the consent of all the partners including the 2009 Cell.

The table below shows the 2009 Cell's material cash balances and the credit rating for the counterparties used at the year end date:

Counterparty	Location	Standard & Poor's Rating	31 March 2019 £'000	31 March 2018 £'000
Royal Bank of Scotland International Limited	Guernsey	A-2	32	46
Barclays Bank PLC	Guernsey	A-1	70	285

# Notes to the Audited Financial Statements of the 2009 Cell

For the year ended 31 March 2019 continued

## 9. Financial risk management (continued)

The 2009 Cell's maximum exposure to loss of capital at the year end is shown below:

31 March 2019	Carrying Value and Maximum exposure £'000
Investment at fair value through profit or loss	27,754
Amortised cost loans and receivables (including cash and cash equivalents but excluding prepayments)	102
	<b>27,856</b>
31 March 2018	Carrying Value and Maximum exposure £'000
Investment at fair value through profit or loss	40,146
Amortised cost loans and receivables (including cash and cash equivalents but excluding prepayments)	331
	<b>40,477</b>

There are no past due or impaired receivable balances outstanding at the year end.

## 10. Earnings per share and Net Asset Value per share

### Earnings per share

	2019	2018
(Loss)/profit for the year	£(12,613,334)	£2,143,085
Weighted average number of 2009 Shares in issue	35,262,505	77,554,725
<b>EPS (pence)</b>	<b>(35.77)</b>	<b>2.76</b>

The earnings per share is based on the (loss)/profit for the year and on the weighted average number of shares in issue for the year.

The 2009 Cell does not have any instruments which could dilute basic earnings per share.

### Net Asset Value per share

	2019	2018
Net assets attributable to 2009 Share Shareholders	£27,802,855	£40,416,189
2009 Shares in issue	35,262,505	35,262,505
<b>NAV per share (IFRS) (pence)</b>	<b>78.85</b>	<b>114.62</b>

The Net Asset Value per share for the 2009 Cell is arrived at by dividing the total net assets of the 2009 Cell at the year end by the number of shares in issue at the year end.

## 11. Subsequent events

Since the year end, Fund I has received repayments of short term loans of £275,000 from m-hance and £225,000 from Omnico Group.

Other than the above, there have been no significant events occurring after 31 March 2019.

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## Better Capital 2012 Cell

### Investment policy

Better Capital 2012 Cell has invested in a portfolio of businesses which, when acquired, had significant operating issues and associated financial distress and which have significant activities within the United Kingdom.

The 2012 Cell Investment policy is set out in the Company's Prospectus.

## Key Points - 2012 Cell

£355.5 MILLION	total capital raised
£347.4 MILLION	net proceeds invested into Fund II
£96.7 MILLION/27.2 PER CENT.	cumulative distributions to 31 March 2019
4.2 PER CENT.	Better Capital 2012 Shares held by Fund II
51.8 PER CENT.	value decline combined NAV and distributions since inception <sup>1</sup>

Key Financials	
NAV	£55.6 m
NAV per share at 31 March 2019	18.40 pence
NAV total decline (including distributions) <sup>1</sup>	51.8 per cent.
Annualised NAV total decline (including distributions) <sup>2</sup>	12.7 per cent.
Share price at 31 March 2019	8.25 pence
Market capitalisation at 31 March 2019	£24.9 m

6	total platform investments
1	follow-on investment
4	realisations – iNTERtain, City Link, Jaeger, Northern Aerospace
2	remaining assets – Everest, SPOT
5.8 YEARS	average holding period of portfolio companies
£18.1 MILLION	net debt across Fund II portfolio companies

<sup>1</sup> Cumulative return over the period of the life of the 2012 Cell since inception based on the weighted average issue price of ordinary shares and net of share issue costs.

<sup>2</sup> Internal rate of return since inception, based on the net proceeds of share issues, valuations and distributions to shareholders.

# General Partner's Report

The sale of Northern Aerospace in July 2018 has further reduced Fund II to two portfolio companies, namely Everest and SPOT.

## Portfolio update

**Everest** has continued to face many of the same issues set out in the Interim Report. Success has been achieved in increasing the installer headcount and reducing the over large total order book from £47 million in September 2018 to £35 million at March 2019, resulting in both installed revenue and EBITDA finishing the financial year FY18 ending in 31 December 2018 ahead of the forecast produced at the time of the Interim Report (albeit still reporting a smaller negative EBITDA). In Q1 FY19, revenue was ahead of forecast and broadly in line with prior year, however cost of quality-related issues has remained high which together with some poor cost control resulted in a depressed gross margin and EBITDA falling behind forecast. This has been partly mitigated by cost savings, most notably in marketing.

Installer manpower stood at 371 at the end of March 2019, broadly in line with the business's internal target and ahead of the 360 targeted in the Interim Report. This is largely a result of an improved and simplified installer pay deal. As the business now has a reduced order book, there is a challenge in ensuring install resource is located in the local areas where the backlog remains high. Q1 FY19 installer productivity was lower than prior year – this is due to glass supply issues restricting manufacturing output and the level of time spent on rectification work. Significant management time and resource has been dedicated to resolve supply chain issues, maximising factory output and ensuring that customer appointments to install product are maximised against the availability of installers. Recent weeks have shown better installation and manufacturing output.

The poor quality of glass supply and closure of Everest's major glass supplier in Q1 FY19 significantly impacted the 'cost of failure' measure which had reached £8 million in FY18. Costs associated with replacement of poor quality product and associated rectification fees have significantly impacted gross margin and remained a focus of attention in FY18 whilst the search for a high quality and reliable glass supplier continued. The glass supply chain issues are now under control following a move to a new supplier. Total 'cost of failure' is still unacceptably high but declining and a new senior operations team is currently rolling out granular cost and quality control action plans across

each of the 17 install centres with specific targets to be measured as part of new monthly installation centre profit and loss reporting. Raising standards across supply chain, manufacture and install operations remains a priority.

The conservatories business has benefited considerably from an improvement in management, most clearly demonstrated in the level of cost control exercised on a job-by-job basis, meaning that the division is now usefully profitable at an EBITDA level. Conservatories represented £11 million of the order book at Q1 FY19 – this should represent a meaningful net contribution to FY19 EBITDA. Installation volumes are rising.

Marketing spend has been significantly reduced during the last six months, providing a cash saving and allowing for a reduction in the high order book. Despite this, sales performance has remained strong with Q1 FY19 showing good marketing efficiency (a reduction in cost per company generated lead of 47 per cent. compared to prior year) and excellent self-generated business performance. This underlines the strength of the Everest brand, the commitment from the sales force and a strong performance from the marketing team.

The business has needed significant cultural change, with Joanne Holland as CEO leading a programme focussed on providing better customer service and greater ownership of customers at middle management levels. The senior management team has been further changed during Q1 FY19 with new appointments in Director of Performance, Head of Manufacturing, Business Centre Operations Manager, Head of Supply Chain and a restructuring in senior install operations management.

Everest's most substantial challenges remain increasing weekly installed revenue in the short term and fixing quality over the months ahead in order to significantly improve upon FY18's EBITDA performance and build a solid platform for growth beyond FY19. These are operational issues within the company's own control and progress is being made – but not at the pace expected.

It remains that the company has no external debt and had cash of £3.3 million at 31 March 2019. A return to regular profitability is within reach.

Everest was valued at £20.0 million at 31 March 2019, based on the last reported valuation in September 2018 as augmented by the additional

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## General Partner's Report continued

funding received since then. The current valuation is also supported using an earnings based approach.

Spicers OfficeTeam (SPOT) reported a FY18 financial year ended 31 December with audited sales of £281.2 million (FY17: £269.8 million) and audited EBITDA of £1.3 million (FY17: £8.2 million). The outcome for the financial year reflects the challenging market conditions which affected both Spicers and OfficeTeam with increasing cost pressures – these were not mitigated until Q4 FY18. In addition, in FY18, SPOT incurred a number of non-recurring expenses in reducing costs both across the distribution network and in central overheads, including an onerous lease provision totalling £3.1 million. As a consequence, SPOT's pre-exceptional EBITDA for FY18 was £4.4 million (FY17: £10.5 million).

In November 2018, SPOT completed the complex internal balance sheet restructure which was designed to simplify SPOT's capital structure and enable a new incentive scheme for the management team. The effect of this restructure was to reduce the loan notes in SPOT to £10 million, giving the business a much stronger position from which to accelerate its growth. At the same time the interest in SPOT held by Fund I was disposed to Fund II.

In Q1 FY19, SPOT reported an EBITDA performance on budget. Whilst the market remains both difficult and uncertain, particularly into the second quarter, SPOT has implemented rigorous cost control to offset some sales weakness, primarily in OfficeTeam. In January, the long-standing CEO of SPOT retired. After an external search for his replacement, Steve Horne joined in March 2019 from Euro Car Parts where he was previously COO. Steve brings an extensive track record in growing and transforming businesses, and he has had an immediately positive impact on the SPOT group.

On 31 March 2019, SPOT completed the disposal of two subsidiaries, Waterlow Business Supplies and Oyez Professional Services ("OPS") for an enterprise value of £22.0 million. As previously highlighted, OPS has a strong niche position in its market of legal subscription services. This market position and the recent digital development within OPS has been recognised in its acquisition by Advanced Legal Solutions Limited, a leading UK software company. The net proceeds achieved by SPOT were a significant premium to the value

attributed to these operations in the previous financial statements of the Company and represent a substantial proportion of the Company's carrying value in SPOT. Of the total net proceeds, £3.0 million has been returned to Fund II with the balance applied to strengthen the business's balance sheet.

The core businesses within SPOT are therefore now Spicers and OfficeTeam. For Spicers, the continuing decline in the core office products market in FY18 was offset by contract wins, driving sales growth of 12 per cent. These new contracts have been key to underpin the Spicers partnership approach where it can add significant value to proactive and dynamic customers by reducing costs throughout the supply chain – this is a strategic focus for the business in future. However, these contracts are at a lower margin, and there were operational implications of the assimilation of these contracts adding short-term cost and service complexity, particularly in H1 FY18. This affected productivity across the operation, compounded by inflation in labour costs and a scarcity of experienced labour in some locations. The resulting cost to maintain service levels to customers remained over budget for the majority of the year until improved disciplines and increased stability restored operational effectiveness. As a result Spicers reported a loss in the financial year.

In FY19, Spicers is focused on a significant reshaping of the delivery network which is underway with the expected closure of two sites in Bristol and Glasgow at the end of their leases during 2019, and a substantial reduction in the freehold Birmingham facility, which will primarily be dedicated to OfficeTeam. Spicers will service customers from two main distribution centres in Manchester and Greenwich, supported by cross-dock operations as required. This simplified, efficient infrastructure will deliver a sustainably low cost platform through improved cost effectiveness and reduced working capital requirements whilst improving availability and maintaining high service standards.

Spicers' performance in the first quarter is slightly ahead of budget driven by better than expected sales, despite the market conditions. It continues to focus both on attracting new customers and increasing spend with existing customers through competitive pricing, improving the customer journey and strong range availability. The

management team and all involved are currently delivering a high quality of service to their customers despite the operational transformation.

OfficeTeam, which had a comparatively strong start to FY18, did not maintain that momentum into the second half, and ended the year with sales growth of 2 per cent., including the integration of ZenOffice Limited from its acquisition in April 2018. Market conditions have deteriorated, and OfficeTeam experienced both slower core product sales in its major customers, and delays in larger projects in the new product areas which have previously driven growth. New business acquisition, however, remained strong reflecting the relevance of the proposition to key customers given the width of available product, strong sales support and the personalised delivery service.

In Q1 FY19, management has accelerated the pace of change within OfficeTeam as a response to these subdued conditions. Core customer spend remains depressed with continuing political uncertainty affecting discretionary expenditure. The business has continued to generate an improving pipeline of new business wins, and increased resource has been allocated to increase conversion of these prospects. Initiatives to improve the efficacy and the incentivisation of the sales force supported by the competitiveness of the OfficeTeam pricing proposition have been implemented, with effect from the second quarter onwards. These changes should improve spend within existing customers and encourage penetration into adjacent markets (print, facilities supplies, interiors and work wear). The acquisition of ZenOffice Limited also added expertise in managed print services to the group, and this added a high quality service offering with sufficient scale and infrastructure to appeal to OfficeTeam customers in an expanding market which should deliver sales growth in FY19.

Management priorities also include increasing utilisation of the new Smartpad technology platform. This product is critical in delivering a leading customer offer, but has been extremely slow to implement at a sustainably consistent performance. It will enable both efficiency and sales opportunities for the future, and further investment in development resources and internal capability has been undertaken and will continue.

In FY18 SPOT net cash flow was an inflow of £0.7 million, after the funding of the initial consideration for ZenOffice. Progress was made in more efficient management of stock and an improvement in OfficeTeam debtors. This was however offset by an increase in trade creditors where our trading terms with key partners have come under pressure through the year both directly and through the credit insurance market. There is further opportunity for stock reduction through the network change programme in FY19.

The business has been evaluated using an earnings basis approach, providing a carrying value of £25.2 million at 31 March 2019. Net debt at that date was £21.4 million.

### Investment activities

In July 2018, Northern Aerospace was disposed to Gardner Aerospace with £60 million realised in Fund II. This included the warranty claim on CAV Aerospace. £48.9 million was returned to the 2012 Cell for onward distribution.

Fund II extended loans totalling £9.0 million to Everest during the course of 2018 to fund losses. The total invested in Everest now stands at £36.9 million.

On 14 November 2018, SPOT completed a complex balance sheet restructure. The objective of the exercise was to simplify SPOT's capital structure and to facilitate the design of a new incentive scheme for the management team. The restructure saw the Fund II GP on behalf of Fund II making an offer for the loan note and equity interests held by Fund I as well as to current and former members of the SPOT management for £2.6 million.

On 31 March 2019, SPOT completed the disposal of its two subsidiaries, Waterlow Business Supplies and OPS to Advanced Legal Solutions Limited. £3.0 million of the net proceeds were repaid to Fund II in June 2019.

As a secured creditor to City Link (in administration), Fund II received total distributions of £0.2 million during the year ended 31 March 2019. £34,000 remains receivable with £22.8 million already received to date. There is some prospect of further realisation from City Link.

## General Partner's Report continued

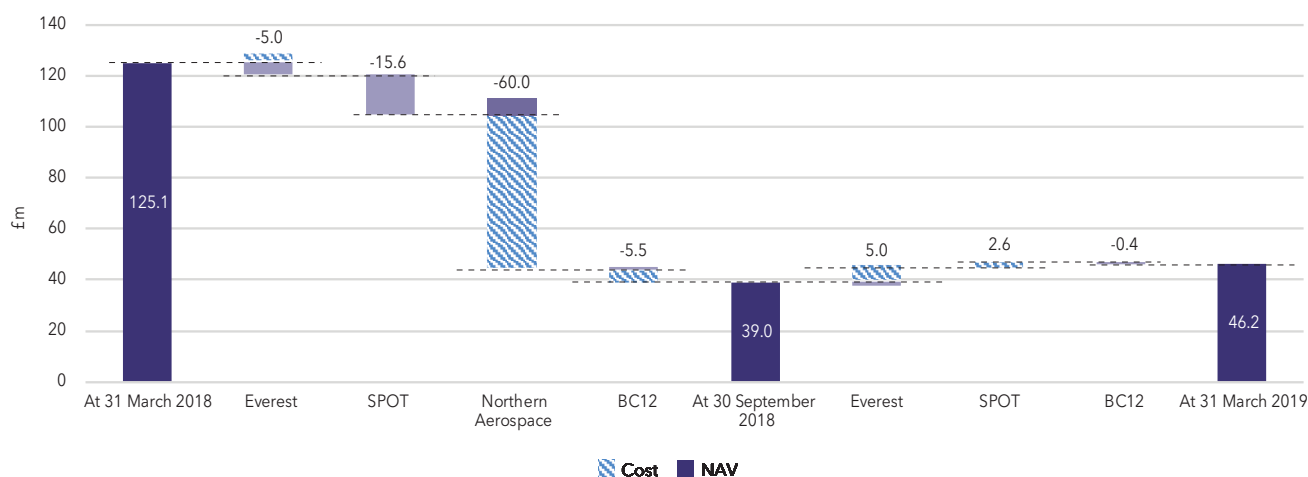
On 19 June 2018, Fund II disposed of 15,870,806 2012 Shares under the terms of the Buyback Contract entered into in December 2016 to the Company. The shares were transacted at a consideration of 29.693 pence per share (totalling £4.7 million) reflecting the VWAP of the 2012 Shares on the preceding business day. The newly acquired shares were immediately cancelled by the Company, reducing the 2012 Shares in issue from 318,052,242 to 302,181,436. Following the Shares Buyback, Fund II held as an investment 12,677,471 2012 Shares, some 4.2 per cent. of the remaining 2012 Shares in issue.

As previously disclosed, the iNTERTAIN escrow arose due to legacy matters prior to Fund II's ownership of the business. Some of the matters have now past the time-barred period and escrow releases are being reviewed with the remaining matters having a long stop date of 6 December 2019.

### Valuation

The movement in the investment portfolio value is summarised as follows:

	£m
Portfolio value at 1 April 2018	125.1
Northern Aerospace disposal	(60.0)
<b>Portfolio value at 1 April 2019 on a like-for-like basis</b>	<b>65.1</b>
Additions at cost - follow on investments	11.6
NAV movement - portfolio companies	(24.6)
	52.1
Share sale to the Company - 2012 Shares	(4.7)
NAV movement - 2012 Shares	(1.2)
<b>Portfolio value at 31 March 2019</b>	<b>46.2</b>



The decrease in the portfolio value during the year was largely due to the sale in Northern Aerospace. There were also write downs in Everest (£9.0 million, of which £7.5 million occurred in the six months to 30 September 2018) and SPOT (£15.6 million), offset by further new investments into Everest (£9.0 million, of which £2.5 million occurred in the six months to 30 September 2018) and SPOT (£2.6 million).

### 2012 Shares - proposed sale and cancellation

The proposed disposal of the remaining 2012 Shares held by Fund II to the Company and the subsequent cancellation is expected to provide a pro-forma uplift to the NAV per remaining 2012 Share of approximately 0.44p per 2012 Share or 2.4 per cent. based on the 2012 Cell's NAV per share at 31 March 2019.

### Cash and closing remarks

Plans are in progress to target a return of £2.9 million or 1.0 pps to the 2012 Cell to facilitate a fifth 2012 Cell distribution. Further details will be announced in due course.

On 27 June 2019, Fund II had cash of £6.8 million. Remaining cash will be deployed on an as required basis to support the two remaining portfolio companies and to support Fund II's operations.

**Jon Moulton**  
Chairman

BECAP12 GP Limited

28 June 2019

# Investment Report of Fund II

## Everest

### Business description

- A leading consumer brand in the manufacture, installation and supply of uPVC and aluminium windows and doors, conservatories, garage doors, security systems, driveways and other home improvement products ([www.everest.co.uk](http://www.everest.co.uk))

### Fund II Investment details

£'m	31 March 2019	30 September 2018	31 March 2018
<b>Total invested</b>	<b>36.9</b>	<b>30.4</b>	<b>27.9</b>
<b>Total committed</b>	<b>36.9</b>	<b>30.4</b>	<b>27.9</b>
<b>Fund II fair value (earnings based)</b>	<b>20.0</b>	<b>15.0</b>	<b>20.0</b>

## SPOT

### Business description

- Spicers is a leading office products and stationery wholesaler ([www.spicers.co.uk](http://www.spicers.co.uk))
- OfficeTeam is a leading office products and services supplier ([www.officeteam.co.uk](http://www.officeteam.co.uk))

### Fund II Investment details

£'m	31 March 2019	30 September 2018	31 March 2018
<b>Total invested</b>	<b>94.2</b>	<b>91.6</b>	<b>91.6</b>
<b>Total committed</b>	<b>94.2</b>	<b>91.6</b>	<b>91.6</b>
<b>Fund II fair value (earnings based)</b>	<b>25.2</b>	<b>22.6</b>	<b>38.2</b>

## Investment Report of Fund II continued

### Portfolio summary and reconciliation

31 March 2019	Sector	Fund Project cost <sup>1</sup> £m	Fund fair value investment in SPVs <sup>2</sup> £m	Valuation percentage of NAV	Valuation methodology
Everest	Home Improvement Products	36.9	20.0	35.9%	Earnings
SPOT	Office Products	94.2	25.2	45.2%	Earnings
Better Capital 2012 Cell	Private Equity Investment Vehicle	6.4	1.0	1.8%	Market Value
		<b>137.5</b>	<b>46.2</b>	<b>82.9%</b>	
Fund II cash on deposit			4.1	7.4%	
Fund II & SPV combined other net assets attributable to 2012 Cell			5.0	9.2%	
<b>2012 Cell fair value of investment in Fund II</b>			<b>55.3</b>	<b>99.5%</b>	
2012 Cell cash on deposit			0.4	0.7%	
2012 Cell current assets less liabilities			(0.1)	(0.2%)	
<b>2012 Cell NAV</b>			<b>55.6</b>	<b>100.0%</b>	

### Summary income statement for Fund II

	2019 £'000	2018 £'000
Total income	63	95
Loss on Fund II investment portfolio	(26,340)	(24,279)
Fund II GP's Share	(1,468)	(951)
Other operating expenses	(1,069)	(227)
Fund II's operating loss for the year	(28,814)	(25,362)
<b>Portion of the operating loss for the year for 2012 Cell's investment in the limited partnership (Note 4)</b>	<b>(28,814)</b>	<b>(25,362)</b>

### Cash management

As at 31 March 2019, Fund II had placed a total of £4.1 million (2018: £6.8 million) of cash on deposit with one bank (2018: one bank). Fund II has in place a strict cash management policy that limits counterparty risks whilst simultaneously seeking to maximise returns.

Counterparty	Location	Standard & Poor's Rating	Term	31 March 2019 £'000	31 March 2018 £'000
<b>Barclays Bank Plc</b>	Guernsey	A-1	Instant access	4,066	6,794

<sup>1</sup> Fund II holds its investments at cost less impairment in accordance with the terms of the limited partnership agreement.

<sup>2</sup> The 2012 Cell fair values its investments in Fund II in accordance with the methodologies as set out in Note 6.

# Independent Auditor's Report to the Directors of Better Capital PCC Limited in respect of the 2012 Cell

## Opinion

We have audited the non-statutory financial statements of the 2012 Cell (the "Cell"), a cell of Better Capital PCC Limited (the "Company") for the year ended 31 March 2019 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 11. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs).

In our opinion, the financial statements:

- give a true and fair view of the state of the Cell's affairs as at 31 March 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## Responsibilities of the directors

As explained more fully in the Directors' responsibilities statement within the Report of the Directors, the directors of the Company are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and for such internal control as the directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Use of our report

This report is made solely to the directors of the Company, as a body, in accordance with the terms of engagement dated 4 March 2019. Our audit work has been undertaken so that we might state to the directors of the Company those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the directors of the Company as a body, for our audit work, for this report, or for the opinions we have formed.

## BDO Limited

*Chartered Accountants*  
Place du Pré  
Rue du Pré  
St Peter Port  
Guernsey

28 June 2019

# Statement of Financial Position

As at 31 March 2019

	Notes	2019 £'000	2018 £'000
<b>ASSETS:</b>			
<b>Non-current assets</b>			
Investment in limited partnership	4	55,318	137,206
<b>Total non-current assets</b>		<b>55,318</b>	<b>137,206</b>
<b>Current assets</b>			
Trade and other receivables	5	5	853
Cash and cash equivalents		410	112
<b>Total current assets</b>		<b>415</b>	<b>965</b>
<b>TOTAL ASSETS</b>		<b>55,733</b>	<b>138,171</b>
<b>LIABILITIES:</b>			
<b>Current liabilities</b>			
Trade and other payables		(131)	(113)
<b>Total current liabilities</b>		<b>(131)</b>	<b>(113)</b>
<b>TOTAL LIABILITIES</b>		<b>(131)</b>	<b>(113)</b>
<b>NET ASSETS</b>		<b>55,602</b>	<b>138,058</b>
<b>EQUITY</b>			
Share capital	7	235,889	288,950
Retained earnings		(180,287)	(150,892)
<b>TOTAL EQUITY</b>		<b>55,602</b>	<b>138,058</b>
<b>Number of 2012 Shares in issue at year end</b>	7	<b>302,181,436</b>	<b>318,052,242</b>
<b>NAV per 2012 Share (pence)</b>	10	<b>18.40</b>	<b>43.41</b>

The audited financial statements of the 2012 Cell were approved and authorised for issue by the Board of Directors on 28 June 2019 and signed on its behalf by:

**Richard Crowder**  
Chairman

**Richard Battey**  
Director

The notes on pages 74 to 82 form an integral part of the 2012 Cell's financial statements.

# Statement of Comprehensive Income

For the year ended 31 March 2019

	Notes	2019 £'000	2018 £'000
<b>Income</b>			
Change in fair value of investments in limited partnership	4	(28,814)	(25,362)
<b>Total (expense)</b>		<b>(28,814)</b>	<b>(25,362)</b>
<b>Expenses</b>			
Administration fees		120	172
Directors' fees and expenses	8	184	197
Legal and professional fees		127	95
Other fees and expenses		44	51
Audit fees		52	53
Insurance premiums		21	22
Registrar fees		33	25
<b>Total expense</b>		<b>581</b>	<b>615</b>
<b>Loss and total comprehensive expense for the year</b>		<b>(29,395)</b>	<b>(25,977)</b>
<b>Basic and diluted earnings per 2012 Share (pence)</b>	10	<b>(9.62)</b>	<b>(8.17)</b>

The notes on pages 74 to 82 form an integral part of the 2012 Cell's financial statements.

# Statement of Changes in Equity

For the year ended 31 March 2019

	Notes	Share capital £'000	Retained earnings £'000	Total Equity £'000
<b>As at 1 April 2018</b>		<b>288,950</b>	<b>(150,892)</b>	<b>138,058</b>
Loss and total comprehensive expense for the financial year		–	(29,395)	(29,395)
<b>Total comprehensive expense for the year</b>		<b>–</b>	<b>(29,395)</b>	<b>(29,395)</b>
<b>Transactions with owners</b>				
Distributions	7	(48,348)	–	(48,348)
Share buyback and cancellation	7	(4,713)	–	(4,713)
<b>Total transactions with owners</b>		<b>(53,061)</b>	<b>–</b>	<b>(53,061)</b>
<b>As at 31 March 2019</b>		<b>235,889</b>	<b>(180,287)</b>	<b>55,602</b>

	Notes	Share capital £'000	Retained earnings £'000	Total Equity £'000
<b>As at 1 April 2017</b>		<b>297,220</b>	<b>(124,915)</b>	<b>172,305</b>
Loss and total comprehensive expense for the financial year		–	(25,977)	(25,977)
<b>Total comprehensive expense for the year</b>		<b>–</b>	<b>(25,977)</b>	<b>(25,977)</b>
<b>Transactions with owners</b>				
Distributions	7	(8,270)	–	(8,270)
<b>Total transactions with owners</b>		<b>(8,270)</b>	<b>–</b>	<b>(8,270)</b>
<b>As at 31 March 2018</b>		<b>288,950</b>	<b>(150,892)</b>	<b>138,058</b>

Any surplus/deficit arising from the profit/loss for a period is taken to retained earnings which may be utilised for payment of dividends or distributions.

The notes on pages 74 to 82 form an integral part of the 2012 Cell's financial statements.

# Statement of Cash Flows

For the year ended 31 March 2019

	2019 £'000	2018 £'000
<b>Cash flows from operating activities</b>		
Loss for the financial year	(29,395)	(25,977)
Adjustments for:		
Change in fair value of investments in limited partnership	28,814	25,362
Movement in debtors and prepayments	848	753
Movement in creditors and accruals	18	38
Repayment of loan investment in limited partnership	48,361	7,675
<b>Net cash generated from operating activities</b>	<b>48,646</b>	<b>7,851</b>
<b>Cash flow generated from financing activities</b>		
Distributions	(48,348)	(8,270)
<b>Net cash used in financing activities</b>	<b>(48,348)</b>	<b>(8,270)</b>
Net movement in cash and cash equivalents during the year	298	(419)
Cash and cash equivalents at the beginning of the year	112	531
<b>Cash and cash equivalents at the end of the year</b>	<b>410</b>	<b>112</b>

The notes on pages 74 to 82 form an integral part of the 2012 Cell's financial statements.

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# Notes to the Audited Financial Statements of the 2012 Cell

## For the year ended 31 March 2019

### 1. General information

The 2012 Cell is a cell of Better Capital PCC Limited and has the investment objective of generating attractive total returns from investing (through Fund II) in a portfolio of businesses which have significant operating issues and may have associated financial distress, with a primary focus on businesses which have significant activities within the United Kingdom and Ireland. Such returns are expected to be largely derived from capital growth.

Fund II is managed by its general partner, BECAP12 GP LP, which is in turn managed by its general partner BECAP12 GP Limited. Such arrangements are governed under the respective Limited Partnership Agreement, as amended.

The 2012 Cell is listed on the LSE Main Market.

### 2. Accounting policies

#### Basis of preparation

The 2012 Cell financial statements for the year ended 31 March 2019 have been prepared in accordance with EU Adopted IFRS.

The principal accounting policies adopted are set out in the Company's accounting policies on pages 28 to 31.

#### Going concern

After making appropriate enquiries, the Directors have a reasonable expectation that the 2012 Cell, and in turn Fund II, have adequate resources to continue in operational existence for the foreseeable future and do not consider there to be any threat to the going concern status of the 2012 Cell. For this reason, they continue to adopt the going concern basis in preparing these financial statements.

#### Critical accounting judgment and estimation uncertainty

##### *Use of estimates and judgements*

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The areas involving a high degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed below. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The resulting accounting estimates will, by definition, seldom equate to the related actual results.

#### **Investment in Fund II**

The value of the 2012 Cell's investment in Fund II is based on the value of the 2012 Cell's limited partner capital and loan accounts within Fund II. This is based on the components within Fund II, principally the value of the underlying investee companies. Any fluctuation in the value of the underlying investee companies will directly impact on the value of the 2012 Cell's investment in Fund II.

When valuing the underlying investee companies, the General Partner of Fund II reviews information provided by the underlying investee companies and other business partners and applies IPEV methodologies, as noted on page 33, to estimate a fair value as at the date of the Statement of Financial Position. The variety of valuation bases adopted, quality of management information provided by the underlying investee companies and the lack of liquid markets for the investments mean that there are inherent difficulties in determining the fair value of these investments that cannot be eliminated. Therefore the amounts realised on the disposal of investments may differ from the fair values reflected in these financial statements and the differences may be significant.

Further information in relation to the valuation of the investment in Fund II is disclosed in Notes 4 and 6.

# Notes to the Audited Financial Statements of the 2012 Cell

For the year ended 31 March 2019 continued

## 3. Segmental reporting

For management purposes, the 2012 Cell is organised into one operating segment, which invests in one limited partnership.

## 4. Investment in limited partnership

	Loans £'000	Capital £'000	Total £'000
<b>Cost</b>			
Brought forward at 1 April 2018	290,053	17	290,070
Repayment of loan investment in limited partnership	(53,074)	–	(53,074)
Carried forward	236,979	17	236,996
<b>Fair value adjustment through profit or loss</b>			
Brought forward	(152,864)	–	(152,864)
Unrealised fair value movement during the year	(28,814)	–	(28,814)
Carried forward	(181,678)	–	(181,678)
<b>Fair value as at 31 March 2019</b>	<b>55,301</b>	<b>17</b>	<b>55,318</b>

	Loans £'000	Capital £'000	Total £'000
<b>Cost</b>			
Brought forward at 1 April 2017	297,728	17	297,745
Repayment of loan investment in limited partnership	(7,675)	–	(7,675)
Carried forward	290,053	17	290,070
<b>Fair value adjustment through profit or loss</b>			
Brought forward	(127,502)	–	(127,502)
Unrealised fair value movement during the year	(25,362)	–	(25,362)
Carried forward	(152,864)	–	(152,864)
<b>Fair value as at 31 March 2018</b>	<b>137,189</b>	<b>17</b>	<b>137,206</b>

The movement in fair value of the Fund II investment is derived from the fair value decrease in SPOT and the 2012 Cell Shares and the sale of Northern Aerospace net of income and expenses of Fund II and its related special purpose vehicles.

The outstanding loans do not incur interest. The loans are expected to be repaid by way of distributions from Fund II. The 2012 Cell is not entitled to demand repayment of the outstanding loans, however, the General Partner may, upon request by the Company, repay to the 2012 Cell any amount of the Cell's outstanding loan. During the year £53.1 million (2018: £7.7 million) was repaid to the 2012 Cell by Fund II, £4.7 million of this relates to the disposal of 15,870,806 2012 Shares at the volume weighted average price on 18 June 2018, of 29.69p. The consideration owed by the 2012 Cell to Fund II was offset against the outstanding loan between the parties.

Income distributions receivable from Fund II in the year amounted to £nil (2018: £nil). At 31 March 2019 an aggregate £nil (2018: £0.8 million) remained outstanding.

In the financial statements of the 2012 Cell the fair value of the investment in limited partnership is adjusted to reflect the fair value of the 2012 Cell's attributable valuation of net assets within Fund II, as seen in more detail in Note 6.

## 5. Trade and other receivables

	2019 £'000	2018 £'000
Debtors	–	837
Prepayments	5	16
	5	853

There are no past due or impaired receivable balances outstanding at the year end. The Directors consider that the carrying value of debtors and prepayments approximates their fair value.

In outstanding debtors at the year end £nil (2018: £0.8 million) relates to income distributions receivable from Fund II.

# Notes to the Audited Financial Statements of the 2012 Cell

For the year ended 31 March 2019 continued

## 6. Fair value

The level in the fair value hierarchy within which the financial assets or financial liabilities are categorised is determined on the basis of the lowest level input that is significant to the fair value measurement. The fair value hierarchy and further information on valuation techniques can be found in Note 6 in the Company financial statements.

Fund II's Level 1 investment consists of 12.7 million shares in the 2012 Cell, which are valued at £1.0 million based on their 31 March 2019 quoted closing price.

The following table summarises the valuation methodologies and inputs used for the 2012 Cell's Level 3 investments as at year end:

Valuation methodology	Description	Input
<b>Multiple</b> <b>31 March 2019</b> <ul style="list-style-type: none"> <li>• Everest</li> <li>• SPOT</li> </ul> <b>31 March 2018</b> <ul style="list-style-type: none"> <li>• Everest</li> <li>• Northern Aerospace</li> </ul>	<p>Most commonly used Private Equity valuation methodology. Used for investments which are profitable and for which a set of listed companies and precedent transactions with similar characteristics can be determined.</p> <p>Discounts to the valuation generated by applying multiples to reflect the time and costs of reaching sustainable profitability and the inevitable accompanying uncertainties</p>	<p>Multiples are applied to the earnings of the investee company to determine the enterprise value</p> <p><b>Earnings</b>  Reported earnings adjusted for non-recurring items, such as restructuring expenses, for significant corporate actions and, in exceptional cases, run-rate adjustments to arrive at maintainable earnings. Most common measure is EBITDA (Everest, SPOT). Other earnings such as revenue may also be used where relevant. Further information in relation to the application of earnings can be found in the Fund II GP report above</p> <p><b>Multiples</b>  The earnings multiple is derived from comparable listed companies (Everest, SPOT). The Fund II GP typically selects businesses in the same industry and, where possible, with a similar business model and profile in terms of size, products, services and customers, growth rates and geographic focus and adjust for changes in the relative performance in the set of comparables</p>
<b>Other</b> <b>31 March 2019</b> None <b>31 March 2018</b> <ul style="list-style-type: none"> <li>• SPOT</li> </ul>	<p>Values of separate elements prepared under other methods, as deemed suitable by the Fund II GP, such as net realisable value and earnings and assets basis</p>	<p>Earnings and assets</p>

# Notes to the Audited Financial Statements of the 2012 Cell

For the year ended 31 March 2019 continued

The Company

2009 Cell

2012 Cell

Adjustments	Discount Rate applied to multiples	Discounted multiples	Value of portfolio valued on this basis (£'m)	
			31 March 2019	31 March 2018
Relevant provisions may be deducted from the multiple valuation	A discount is applied to earnings multiples at 20 per cent. (31 March 2018: 20 per cent. to 36 per cent.)	EBITDA Multiples 3.8 times to 7.9 times EBITDA (31 March 2018: 6.3 times to 6.5 times EBITDA).	45.2	80.0
As determined on a case by case basis	There were no elements valued using earnings multiples derived from market transactions (31 March 2018: a discount of 20 per cent. was applied).	There were no elements valued based on their earnings (31 March 2018: EBITDA multiples ranged from 6.6 to 8.0 times).	0.0	38.2
Level 3 Portfolio valuation			45.2	118.2
Level 1 Portfolio valuation			1.0	6.9
Other net assets			9.1	12.1
2012 Cell fair value of investments in Fund II			55.3	137.2

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# Notes to the Audited Financial Statements of the 2012 Cell

For the year ended 31 March 2019 continued

## 6. Fair value (continued)

This approach requires the use of assumptions about certain unobservable inputs. Significant unobservable inputs as at 31 March 2019 are:

- Multiples used to derive enterprise value; and
- Discount factors.

A reasonably possible change in the multiples used of +/- 10 per cent. would result in:

- An increase in carrying value of £6.2 million or 13.3 per cent. (+10 per cent.)
- A decrease in the carrying value of £6.2 million or 13.3 per cent. (-10 per cent.)

A reasonably possible change in the discount factors used would be to completely remove the discount factor or to double the discount factor. This would result in:

- An increase in the carrying value of £15.4 million or 33.2 per cent. (remove discount)
- A decrease in carrying value of £15.4 million or 33.2 per cent. (double discount)

The Fund II GP approves the valuations performed with input from any external consultant as appointed by the GPs and monitors the range of reasonably possible changes in significant observable inputs on a regular basis.

## 7. Share capital

Share capital for the 2012 Cell is detailed in the relevant column in Note 7 of the Company's financial statements.

The four cumulative distributions (reductions of share capital) announced to date for the 2012 Cell totalled £96.7 million, being 27.2 per cent. of funds raised.

## 8. Related party transactions

Further information on related party transactions can be found in Note 8 in the Company financial statements.

Directors' fees and expenses, incurred by the 2012 Cell, for the year to 31 March 2019 amounted to £184,000 (2018: £197,000). The Directors' fees and expenses were apportioned equally between the Cells up to 30 September 2013, thereafter fees were split on a NAV basis. £46,000 (2018: £49,000) remained outstanding at the year end.

## 9. Financial risk management

### Financial risk management objectives

The 2012 Cell's investing activities, through Fund II and its special purpose vehicles, intentionally expose it to various types of risk that are associated with the investee companies in which Fund II invests in order to generate returns in accordance with its investment policy and objectives. The financial risks to which the 2012 Cell is exposed are market risk, liquidity risk and credit risk. The Board of Directors has overall responsibility for the determination of the 2012 Cell's risk management and sets policy to manage that risk at an acceptable level to achieve those objectives. The policy and process for measuring and mitigating each of the main risks are described below.

The Corporate Broker and the Administrator provide information to the 2012 Cell which allows it to monitor and manage financial risks relating to its operations through internal risk reports which analyse exposures by degree and magnitude of risks. The Corporate Broker and the Administrator report to the Board on a quarterly basis.

# Notes to the Audited Financial Statements of the 2012 Cell

For the year ended 31 March 2019 continued

## 9. Financial risk management (continued)

Due to the nature of the loan investments, being non-recourse, the loans have the same characteristics as the capital invested into Fund II. As a result for the purposes of the following disclosure both the capital and loan investments have been considered as one combined investment which is fair valued. Any default/credit risk is taken into account when fair valuing the investments.

### Categories of financial instruments

	2019 £'000	2018 £'000
<b>Financial assets</b>		
<i>Investment at fair value through profit or loss:</i>		
Investment in limited partnership	55,318	137,206
<i>Amortised cost loans and receivables:</i>		
Debtors (excluding prepayments)	–	837
Cash and cash equivalents	410	112
<b>Financial liabilities</b>		
<i>Financial liabilities measured at amortised cost:</i>		
Creditors and accruals	131	113

The Directors consider that the carrying values of cash and cash equivalents, creditors and accruals and debtors approximate their fair value.

### Capital risk management

The 2012 Cell's objectives when managing capital are to safeguard the 2012 Cell's ability to continue as a going concern in order to provide returns for Shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the 2012 Cell may: return capital to Shareholders, adjust the amount of distributions paid to Shareholders or sell assets to reduce debt.

### Market risk

Market risk includes price risk, foreign currency risk and interest rate risk.

#### (a) Price risk

Price risk arises from uncertainty about future prices of financial investments held. The 2012 Cell invests through Fund II. The underlying investments held by Fund II present a potential risk of loss of capital to Fund II and hence to the 2012 Cell.

Fund II is exposed to a variety of risks which may have an impact on the carrying value of the 2012 Cell's investment in Fund II. Fund II's risk factors are addressed below.

- Other than the investment in the 2012 Cell's shares, Fund II's investments are not traded in an active market but are still exposed to market price risk arising from uncertainties about future values of the investments held. The underlying investments of Fund II have inherent volatility in valuation.

Volatility is unavoidable given the significance of holding two principal investments.

In accordance with the 2012 Cell's accounting policies the investments in Fund II, and indirectly the investments in investee companies through special purpose vehicles, have been valued at fair value.

Sensitivity analysis has been undertaken in respect of those investment valuations applying earnings multiples. See Note 6.

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# Notes to the Audited Financial Statements of the 2012 Cell

For the year ended 31 March 2019 continued

## 9. Financial risk management (continued)

- Concentration leads to an exposure to price risk through the fair value movement in the underlying investments.

With two remaining principal investments clearly the potential volatility of valuation is high. This risk cannot be mitigated.

The level of analytical sophistication, both financial and legal, necessary for successful investment in businesses experiencing significant operating issues and associated financial distress is unusually high. Fund II has a low number of investments and thus a high concentration.

### (b) Foreign currency risk

The 2012 Cell has no direct foreign currency risk since all assets and transactions to date have been denominated in Pound Sterling, the 2012 Cell's functional and presentation currency.

Fund II has indirect foreign currency risk, primarily with the Euro, arising from the overseas transactions of the underlying portfolio investments. The investee companies' management monitor options for hedging against adverse exchange rate movements. The Fund II GP does not consider foreign exchange risk to be significant at this stage.

### (c) Interest rate risk

The 2012 Cell's exposure to interest rate risk relates to the 2012 Cell's cash and cash equivalents. The 2012 Cell is subject to risk due to fluctuations in the prevailing levels of market interest rates. Given the size of these deposits and current interest rate levels this risk is immaterial.

## Liquidity risk

Ultimate responsibility for liquidity risk management of the 2012 Cell rests with the Board of Directors.

Liquidity risk is defined as the risk that the 2012 Cell may not be able to settle or meet its obligations on time or at a reasonable price.

The 2012 Cell adopts a prudent approach to liquidity management and through the preparation of budgets and cash flow forecasts maintains sufficient cash reserves to meet its obligations.

During the year ended 31 March 2019, the 2012 Cell had no liabilities other than creditors and accruals (2018: £nil). The 2012 Cell had sufficient cash and cash equivalents to pay these as they fall due.

All creditors and accruals are due within six months.

## Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the 2012 Cell.

The 2012 Cell's principal financial asset is the investment in Fund II and as a consequence the 2012 Cell has a significant credit risk if Fund II fails.

The carrying value of the investment in Fund II as at 31 March 2019 was £55.3 million (2018: £137.2 million).

Financial assets mainly consist of cash and cash equivalents and investments at fair value through profit or loss. Fund II's underlying investments are dynamic in nature and Fund II aims to maintain flexibility in funding by keeping sufficient liquidity in cash and cash equivalents. Uninvested or surplus capital or assets may be invested on a temporary basis in cash deposits or other high interest accounts.

# Notes to the Audited Financial Statements of the 2012 Cell

For the year ended 31 March 2019 continued

## 9. Financial risk management (continued)

As at 31 March 2019, £4.1 million (2018: £6.8 million) or 7.5 per cent. (2018: 5.0 per cent.) of the Fund II's financial assets were cash balances held on deposit.

The 2012 Cell mitigates its credit risk exposure on investments at fair value through profit or loss by the exercise of due diligence on the counterparties of Fund II and its General Partner. The aggregate amount deposited or invested with any single such bank or other counterparty (including their associates) or in government and public securities of any single issue, shall not exceed £50.0 million for Fund II.

The investment objectives, policy and restrictions of Fund II are set out in its limited partnership agreement and cannot be varied without an amendment to the limited partnership agreement, which would require the consent of all the Partners including the 2012 Cell.

The table below shows the 2012 Cell's material cash balances and the credit rating for the counterparties used at the year end date:

Counterparty	Location	Standard & Poor's Rating	31 March 2019 £'000	31 March 2018 £'000
Royal Bank of Scotland International Limited	Guernsey	A-2	75	107
Barclays Bank Plc	Guernsey	A-1	335	5

The 2012 Cell's maximum exposure to loss of capital at the year end is shown below:

31 March 2019	Carrying value and maximum exposure £'000
Investment at fair value through profit or loss	55,318
Amortised cost loans and receivables (including cash and cash equivalents but excluding prepayments)	410
	<b>55,728</b>
31 March 2018	Carrying value and maximum exposure £'000
Investment at fair value through profit or loss	137,206
Amortised cost loans and receivables (including cash and cash equivalents but excluding prepayments)	949
	<b>138,155</b>

There are no past due or impaired receivable balances outstanding at the year end.

# Notes to the Audited Financial Statements of the 2012 Cell

For the year ended 31 March 2019 continued

## 10. Earnings per share and net asset value per share

### Earnings per share

	2019	2018
Loss for the year	£(29,395,195)	£(25,976,828)
Weighted average number of 2012 Shares in issue	305,659,968	318,052,242
<b>EPS (pence)</b>	<b>(9.62)</b>	<b>(8.17)</b>

The earnings per share is based on the loss for the year and on the weighted average number of shares in issue for the year.

The 2012 Cell does not have any instruments which could dilute basic earnings per share.

### Net asset value per share

	2019	2018
Net assets attributable to 2012 Share Shareholders	£55,602,124	£138,057,867
2012 Shares in issue	302,181,436	318,052,242
<b>NAV per share (IFRS) (pence)</b>	<b>18.40</b>	<b>43.41</b>

The Net Asset Value per share for the 2012 Cell is arrived at by dividing the total net assets of the 2012 Cell at the year end by the number of 2012 shares in issue at the year end.

## 11. Subsequent events

Having considered the medium term liquidity of Fund II, the Fund II GP has informed the Company of its decision to sell the remaining 2012 Shares in Fund II's holding. It is expected that these 2012 Shares will be repurchased by the Company on or around 2 July 2019 and as before, on the terms as agreed under the buyback contract entered into in December 2016.

The financial effect of the cancellation will provide a pro-forma uplift to the NAV per remaining 2012 Shares, of approximately 0.44p per 2012 Share or 2.4 per cent. based on the 2012 Cell's NAV per share at 31 March 2019.

Following the sale of the legal forms business in SPOT during March 2019, the Board intends to declare a fifth distribution out of the 2012 Cell of approximately 1.0 pps. Further details will be announced in due course.

Other than the above, there have been no significant events occurring after 31 March 2019.

## Defined Terms

<b>"2009 Cell" or "Better Capital 2009 Cell"</b>	the Cell in the Company established following conversion which holds partnership interest in Fund I, and is interpreted as the Company acting in its capacity as a protected cell company transacting its business in the name of the 2009 Cell;
<b>"2009 Shares"</b>	the ordinary shares of £1 par value in the 2009 Cell being, prior to Conversion, the Shares;
<b>"2012 Cell" or "Better Capital 2012 Cell"</b>	the Cell in the Company established following the Conversion which holds partnership interests in Fund II, and is interpreted as the Company acting in its capacity as a protected cell company transacting its business in the name of the 2012 Cell;
<b>"2012 Shares"</b>	the ordinary shares of £1 par value in the 2012 Cell issued by the Company pursuant to the Firm Placing and Placing and Open Offer;
<b>"Administrator" or "Estera" or "EIFG"</b>	means Estera International Fund Managers (Guernsey) Limited (formerly known as Heritage International Fund Managers Limited);
<b>"AIC"</b>	the Association of Investment Companies;
<b>"AIC Code"</b>	the AIC Code of Corporate Governance dated July 2016;
<b>"AIC Guide"</b>	the AIC Corporate Governance Guide for Investment Companies dated July 2016;
<b>"AIFMD"</b>	the Alternative Investment Fund Managers Directive;
<b>"Annual General Meeting" or "AGM"</b>	the general meeting of the Company;
<b>"Annual Report"</b>	the Annual Report and Audited Financial Statements;
<b>"Carried Interest"</b>	the Special Limited Partner's entitlement to participate in the gains and profits of Fund I or Fund II, as set out in the relevant partnership agreement;
<b>"Cells"</b>	the 2009 Cell and 2012 Cell together;
<b>"Cell Shares"</b>	the 2009 Shares and 2012 Shares together;
<b>"City Link"</b>	means City Link Limited;
<b>"Companies Law"</b>	the Companies (Guernsey) Law, 2008;
<b>"Company" or "Better Capital PCC Limited"</b>	Better Capital Limited, being prior to the Conversion, a non-cellular company limited by shares and being upon and after the Conversion a protected cell company, in each case incorporated in Guernsey with registered number 51194 whose registered office is at PO Box 286, Floor 2, Trafalgar Court, Le Banques, St Peter Port, Guernsey GY1 4HY;
<b>"Company's Articles"</b>	means the Company's Articles of Incorporation;
<b>"Conversion"</b>	the conversion of the Company from a non-cellular company into a protected cell company pursuant to the Resolutions in accordance with section 46 of the Companies Law;
<b>"Core"</b>	the Company excluding its Cells;

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## Defined Terms continued

<b>"Core Shares"</b>	the shares in the Core;
<b>"Corporate Broker"</b>	being Numis Securities Limited;
<b>"Directors" or "Board"</b>	the directors of the Company as at the date of this document and "Director" means any one of them;
<b>"DTR"</b>	Disclosure and Transparency Rules of the UK's FCA;
<b>"EBITDA"</b>	being earnings before interest, tax, depreciation and amortisation;
<b>"EU" or "European Union"</b>	the European Union first established by the treaty made at Maastricht on 7 February 1992;
<b>"EU Adopted IFRS"</b>	International Financial Reporting Standards as adopted in the EU;
<b>"Everest"</b>	means the Everest group of companies;
<b>"Fairline"</b>	means the Fairline group of companies;
<b>"FATCA"</b>	the Foreign Account Tax Compliance Act;
<b>"FCA"</b>	the Financial Conduct Authority;
<b>"FCA Rules"</b>	the rules or regulations issued or promulgated by the FCA from time to time and for the time being in force (as varied by any waiver or modification granted, or guidance given, by the FCA);
<b>"FRC"</b>	the Financial Reporting Council;
<b>"Funds"</b>	both Fund I and Fund II together;
<b>"Fund GP Companies"</b>	being both Fund I GP Company and Fund II GP Company;
<b>"Fund GPs"</b>	being both Fund I GP and Fund II GP;
<b>"Fund I"</b>	BECAP Fund LP, a Guernsey limited partnership established on 23 November 2009 and registered in Guernsey as a limited partnership on 25 November 2009 (registration number 1242);
<b>"Fund I GP"</b>	means BECAP GP LP acting as general partner of BECAP Fund LP and by its general partner, the Fund I GP Company;
<b>"Fund I GP Company"</b>	means BECAP GP Limited (a company registered in Guernsey with registration number 51176) acting as general partner of the Fund I GP;
<b>"Fund I GP's Share"</b>	the priority profit share payable to the Fund I GP pursuant to the Fund I Partnership Agreement;
<b>"Fund I Investment Policy"</b>	the investment policy to be applied by the Company in respect of the 2009 Cell and relating to Fund I, as set out on page 39;
<b>"Fund I Total Commitments"</b>	the aggregate commitments of the 2009 Cell and the Fund I Special Limited Partner to Fund I, being prior to Conversion the total commitments of the Company and the Fund I Special Limited Partner to Fund I;
<b>"Fund II"</b>	BECAP12 Fund LP, a Guernsey limited partnership established and registered in Guernsey as a limited partnership on 17 November 2011 (registration number 1558);

## Defined Terms continued

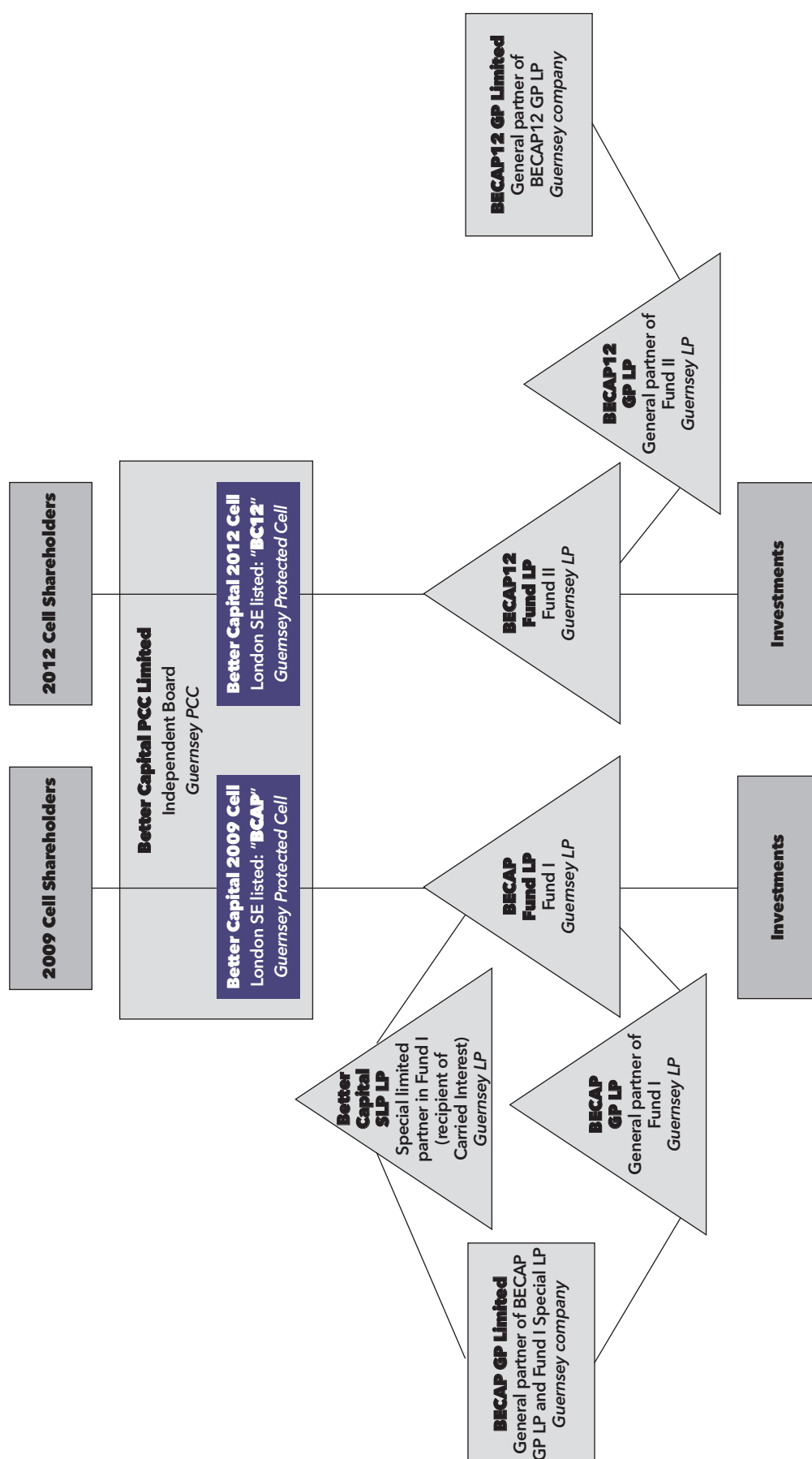
<b>"Fund II GP Company"</b>	means BECAP12 GP Limited (a company registered in Guernsey with registration number 54252) acting as general partner of the Fund II GP;
<b>"Fund II GP"</b>	means BECAP12 GP LP acting as general partner of BECAP12 Fund LP and by its general partner, the Fund II GP 12 Company;
<b>"Fund II GP's Share"</b>	the priority profit share payable to the Fund II GP pursuant to the Fund II Partnership Agreement;
<b>"Fund II Investment Policy"</b>	the investment policy to be applied by the Company in respect of the 2012 Cell and relating to Fund II, as set out on page 61;
<b>"Fund II Total Commitments"</b>	the aggregate commitments of the 2012 Cell and Fund II Special Limited Partner to Fund II;
<b>"Gardner"</b>	means Gardner Aerospace Holdings Limited;
<b>"General Partners" or "GPs"</b>	both Fund I GP and Fund II GP together;
<b>"General Partner's Share"</b>	the priority profit share payable to the General Partner pursuant to the Partnership Agreement;
<b>"GFSC"</b>	the Guernsey Financial Services Commission;
<b>"GFSC Code"</b>	the GFSC Finance Sector Code of Corporate Governance as amended February 2016;
<b>"GP Companies"</b>	both the Fund I GP Company and Fund II GP Company together;
<b>"IFRS"</b>	International Financial Reporting Standards;
<b>"Interim Report"</b>	the Interim Financial Report;
<b>"iNTERTAIN"</b>	means iNTERTAIN Limited;
<b>"IPEV"</b>	International Private Equity and Venture Capital Valuation Guidelines;
<b>"Listing Rules"</b>	the listing rules made under section 73A of the Financial Services and Markets Act 2000 (as set out in the FCA Handbook), as amended;
<b>"London Stock Exchange"</b>	London Stock Exchange plc;
<b>"LSE"</b>	London Stock Exchange's main market for listed securities;
<b>"Main Market"</b>	the main market of the London Stock Exchange;
<b>"MNR Committee"</b>	the Management Engagement, Nomination and Remuneration Committee;
<b>"Net Asset Value" or "NAV"</b>	the value of the assets of the Company less its liabilities, calculated in accordance with the valuation guidelines laid down by the Board;
<b>"Northern Aerospace"</b>	means Northern Aerospace Limited;
<b>"OfficeTeam"</b>	means Project Oliver Topco Limited and its subsidiaries, which together trade as Office Team;

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## Defined Terms continued

<b>"Official List"</b>	the official list of the UK Listing Authority;
<b>"Omnic Group"</b>	the business formed from the merger of DigiPoS and Clarity;
<b>"PCC"</b>	Protected Cell Company;
<b>"POI Law"</b>	The Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended;
<b>"PPS"</b>	means pence per share;
<b>"Prospectus"</b>	the prospectus of the Company, most recently updated on 29 July 2013 and available on the Company's website ( <a href="http://www.bettercapital.gg">www.bettercapital.gg</a> );
<b>"Registrar"</b>	Link Market Services (Guernsey) Limited;
<b>"Santia"</b>	means the Santia group of companies;
<b>"Shareholders"</b>	meaning the holders of the shares in both the 2009 Cell and 2012 Cell;
<b>"Spicers"</b>	means the Spicers group of companies;
<b>"SPOT"</b>	means the Spicers Office Team group of companies;
<b>"UK"</b>	United Kingdom;
<b>"UK Code"</b>	the UK Corporate Governance Code (April 2016) published by the Financial Reporting Council;
<b>"US"</b>	the United States of America.

# Better Capital Structure Diagram



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## General Information

### Board of Directors

Richard Crowder (Chairman)  
Richard Battey  
Philip Bowman  
Jon Moulton (appointed 28 June 2013)

*All of the above are non-executive, including the Chairman, and were appointed on the 24 November 2009 unless otherwise stated.*

### Company secretary

Estera International Fund Managers  
(Guernsey) Limited  
PO Box 286  
Floor 2, Trafalgar Court  
Les Banques  
St Peter Port  
Guernsey  
GY1 4LY

### Registered office

PO Box 286  
Floor 2, Trafalgar Court  
Les Banques  
St Peter Port  
Guernsey  
GY1 4LY

### Guernsey administrator

Estera International Fund Managers  
(Guernsey) Limited  
PO Box 286  
Floor 2, Trafalgar Court  
Les Banques  
St Peter Port  
Guernsey  
GY1 4LY

### Registrar

Link Market Services (Guernsey) Limited  
Longue Hougue House  
St Sampson  
Guernsey  
GY2 4JN

### Guernsey advocates to the Company

Carey Olsen  
PO Box 98  
Carey House  
Les Banques  
St Peter Port  
Guernsey  
GY1 4BZ

### English solicitors to the Company

DLA Piper UK LLP  
3 Noble Street  
London  
EC2V 7EE

### Corporate broker and financial adviser

Numis Securities Limited  
10 Paternoster Square  
London  
EC4M 7LT

### Independent auditor

BDO Limited  
PO Box 180  
Place du Pré  
Rue du Pré  
St Peter Port  
Guernsey  
GY1 3LL

### Public relations adviser

Powerscourt  
1 Tudor Street  
London  
EC4Y 0AH

### Website

[www.bettercapital.gg](http://www.bettercapital.gg)

### Tickers

2009 Cell: BCAP.L  
2012 Cell: BC12.L

**Registered office**  
PO Box 286  
Floor 2, Trafalgar Court  
Les Banques  
St Peter Port  
Guernsey GY1 4LY  
**Company Number: 51194**