

BRAVEHEART  
INVESTMENT GROUP

Annual Report and Accounts 2009

Growth  
Support  
Service  
Partnership

Our business is based on the following principles:

Growth

Support

Service

Partnership

## About Braveheart

**Braveheart** was founded in 1997 by a small group of investors in order to encourage and syndicate investments in privately held companies that offered opportunities for significant growth.

Twelve years on, Braveheart is a public company with:

- A demonstrable track record in early stage technology investing
- Market leading investment returns
- Established deal flow and exclusive access to intellectual property
- A client base of high net worth investors
- Service offerings of bespoke EIS portfolios, fund management, investment facilitation and management services
- A directly held portfolio of investments in 28 companies
- A strong balance sheet with cash balances of £3.22m
- Offices in Perth, London and Yorkshire



## Highlights

### Operational

- Opening of London office
- Appointments of CFO and Director of Marketing
- Establishment of commercialisation partnership with the University of Aberdeen
- First close of Strathclyde Innovation Fund and co-investment partners at £4.48m
- Further funding of £2.77m by the Group and its clients made in 16 portfolio companies
- Client exit portfolio showing an internal rate of return of 33%
- Overall client portfolio (being both realised and unrealised investments) showing an internal rate of return of 24%

### Financial

- Loss from investment management operations before net movement on the revaluation of investments of £977,000 (2008: £42,000)
- Loss before tax of £1.26m (2008: profit of £106,000)
- Cash balances of £3.22m (2008: £4.81m)
- Operational cash outflow before investments of £523,000 (2008: £501,000)
- Net assets per share of 46.03p (2008: 54.80p)

### Post Period End

- On 8 June 2009 the Group announced the acquisition of Inkopo Ltd. This acquisition, based principally on an earn-out consideration, gives the Group an established presence in Yorkshire, an additional revenue stream and further complementary income from investment facilitation and management activities.

# 24%

Internal rate of return  
of client portfolio

# £2.77m

Further funding in 16 portfolio  
companies

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## Chairman's Statement

I have pleasure in presenting the results of Braveheart Investment Group for the year ended 31 March 2009.

### Financial Environment

Like most AIM-listed technology and financial stocks, Braveheart had a tough year as problems in the financial markets unfolded. Market volatility and shareholder nervousness, which had been apparent at the start of the year, were rapidly compounded by the credit crunch, deteriorating property markets, and a recession whose length and depth still remains uncertain. As the business environment deteriorated we experienced reduced client appetite for investment with a consequent reduction in deal fees from both clients and portfolio companies.

While our financial results reflect the current environment, your Board has responded positively to both challenges and opportunities by laying the foundation for future growth through establishing a broader geographical footprint and positioning the Group for expansion. At the same time, a strong balance sheet has been maintained.

Throughout these difficult times our priority has been to ensure that our portfolio companies receive the funding they need to pursue their development plans. The provision of such capital preserves and enhances the potential value of the Group's investments, and those of our clients.

### Results

The loss from investment management operations before net movement on the revaluation of investments for the year ended 31 March 2009 was £977,000 (2008: £42,000).

The loss after tax for the year was £1.25m (2008: profit after tax £99,000), which equates to a loss per share of 9.22p (2008: earnings per share of 0.74p).

Total income before net movement on the revaluation of investments decreased to £565,000 (2008: £991,000). Investment management fee income fell to £350,000 (2008: £660,000), and interest income fell to £215,000 (2008: £331,000). Inclusive of the net unrealised loss arising on the revaluation of portfolio investments of £278,000 (2008: gain of £148,000), total income decreased to £287,000 (2008: £1.14m).

Operating costs increased to £1.54m (2008: £1.03m) as a result of the implementation of our growth strategy and one-time costs of £257,000.

Cash utilisation fell marginally in the year to £1.59m (2008: £1.67m) and comprised £1.06m (2008: £1.17m) invested in portfolio companies and £523,000 (2008: £501,000) used in other activities.

The Group continues to have a strong balance sheet, with cash balances of £3.22m (2008: £4.81m) and net assets of £6.17m (2008: £7.35m) at the year end.

### Investing for the Longer Term

As I reported last year, the Board had adopted a growth strategy in order to achieve the Group's potential. In the light of market conditions that strategy was tested throughout the second half of the year, with the Board concluding that it should press ahead with its plans. M&A transactions are one means of achieving this growth and at the present time values are attractive. I am therefore pleased that on 8 June 2009 we were able to report the acquisition of Inkopo Ltd, a highly regarded fund management and financial services business based in Yorkshire. Details of this acquisition are set out in the CEO and CFO reports and in Note 25 to the financial statements. I am personally delighted that Inkopo has joined our Group. I believe that this acquisition will give us a strong presence in Yorkshire and the North of England, further complementing our existing business and enhancing our fund management capacity.



The establishment of an office in London and the setting up of a dedicated marketing resource was the second part of our expansion plan. While the catalyst of an economic upturn is required to cement new relationships, we are well pleased with the progress that has been made to date.

#### Portfolio Investment

Notwithstanding short term fluctuations in valuations, our investment strategy is well proven, involving investment from our clients and our own balance sheet, leveraged by specialist public sector funds. With reduced levels of investment from our clients, and correspondingly lower public sector matched funding, greater proportionate responsibility has rested upon the Group's own resources than has been necessary in the past.

Our CIO will expand on our strategy for meeting that challenge but I would emphasise that our firepower has been focused on supporting our existing portfolio investments. More rounds of funding were concluded last year, albeit at lower average investment amounts, than in recent years and your Board is confident that no portfolio company deserving of additional capital has gone without.

#### Board, Management and Staff

We appointed Colin Grant as Chief Financial Officer in October, and he immediately joined the Group's Board. He has also taken over the role of Company Secretary from Carolyn Smith. Colin joined us from Digital Bridges Ltd where he held similar appointments. His experience and his knowledge of technology businesses makes him a valuable addition to the executive team.

With the appointment of its first CFO, Braveheart now has a well balanced Board of executive and non-executive talent which, in my view, gives the Group the best possible opportunity to deliver its growth plans. I am most encouraged by the cohesive and positive way in which the Board is tackling current issues.

In the financial services sector it is particularly true that companies are judged by the quality of their people. For our part we employ people of the highest calibre and it is their decisions and hard work that make Braveheart what it is. I should like to thank all of them for working so well together in what have been particularly challenging conditions.

#### Prospects

We are pursuing our growth strategy because of our belief in the underlying strength of our investment business, and the confidence that we have in our executive team to nurture our investments and extract value when more benign economic conditions return and realisation opportunities emerge.

Braveheart has strong liquid resources. With cash in excess of £3.2m at the year end, and an experienced management team, we can confidently look ahead in the knowledge that we have the ability to deliver our growth strategy and make things happen. I believe this will create shareholder value in what is likely to be a consolidating market.

**"...we can confidently look ahead in the knowledge that we have the ability to deliver our growth strategy and make things happen."**

#### Annual General Meeting

The notice regarding the business to be dealt with at the Company's Annual General Meeting, to be held on 9 September 2009, is set out on pages 53 to 55.

In particular, I would like to draw your attention to Resolution 7 which authorises an increase in the Company's share option pool. The directors believe that an increase in the option pool will enable it to utilise incentive based remuneration as a way of furthering the development of the Group, including attracting new employees, through acquisition or otherwise.

Your directors are unanimously in favour of resolutions nos. 1-7 (inclusive), which they consider to be in the best interests of shareholders as a whole.

Accordingly, your directors recommend shareholders to vote in favour of those resolutions, as they intend to do in respect of their own beneficial shareholdings.

I look forward to welcoming those shareholders who are able to attend.

**Garry S Watson**  
Chairman

## Growth

Providing equity capital to enable companies to achieve their ambitions.

## Chief Executive Officer's Report

My last report to shareholders was drafted early in December 2008. Since that date the carnage in the financial markets has continued unabated and Churchill's wish made in 1925 about preferring to see 'finance less proud' has certainly come to pass.

In addition, other sectors such as retail and property have felt the pain that hitherto had principally been felt by the financial services sector, of which we are a part. The economic world of the last three decades has changed, probably forever.

While some commentators tell us that we are through the worst of the recession I believe prudent investors will be bearish for some time to come and I do not see confidence returning to the financial system in short course. It is therefore particularly important that we continue to take a conservative and prudent approach to running our business, that we plan for the long term and that we have contingency plans for 'rainy days'.

Our financial results as outlined in this report continue to reflect the state of the markets and we have posted a loss after tax for the year of £1.25m (2008: £99,000 profit after tax). This loss comes mainly as a result of reduced fee income from investment clients and from a reduction in the aggregate value of our investment portfolio. However, the portfolio remains fundamentally strong and includes some potentially very valuable companies. In addition, our cash balances of £3.22m put us in a strong position, and we believe we are well placed to grow our business once more stable market conditions prevail. Colin Grant, our recently appointed Chief Financial Officer, expands on these results in his report on pages 6 to 7.

Our new London office has been active and our associated marketing activities have been well received. In addition, I was very pleased to announce the recent acquisition of Inkopo Ltd which provides growth opportunities in a new geographical location and extends the services the overall Group can provide to both the private and public sectors.

In these difficult times our main focus has been on the following:

- Managing our cash
- Supporting our existing portfolio companies
- Utilising more flexible investment instruments
- Positioning ourselves for growth when markets stabilise, and
- Looking for M&A opportunities where we can add value

These priorities have not changed from when I last reported to you. I will deal with each of these matters in turn:

### Managing our cash

Despite our losses this year, we managed our balance sheet well and cash utilisation remained in line with last year. We pared back investment in new opportunities and, while continuing to support an increased number of portfolio companies, we reduced the typical unit investment size from our own balance sheet. During the year we moved away from setting up new strategic partnerships that are cash hungry and increased our focus on medium term opportunities that are revenue and cash generative. Our operating costs for the year under review included a number of one-off costs and with continued sound financial management our cash balances are sufficient to see the business through the medium term.

### Supporting our existing portfolio companies

Both institutional and private investors have shown a heavily reduced appetite for investment in the current market conditions. This impacted directly on our portfolio and placed an increased responsibility on us to support our companies both with cash and management assistance, particularly regarding



business strategy and fund raising. In the year the Group invested an aggregate of £1.06m into 15 existing portfolio companies and one new business. The investment in the new business was made early in the year. Carolyn Smith, our Chief Investment Officer, provides additional detail on our portfolio companies in her report on pages 8 to 10.

#### Utilising more flexible investment instruments

We have invested £508,000 by way of convertible loan notes this year, compared to £183,000 in the previous year. These instruments have a number of advantages: firstly they are easier to tranche, secondly they are faster and less expensive to arrange, and thirdly we can take security over the assets of the business thereby reducing our risk. Typically the interest income is rolled up and will be converted to equity, at a discount, at some future date. The flipside is that these instruments are not as tax efficient for private investors and the balance sheets of the portfolio companies concerned appear highly geared which can be a disadvantage in commercial matters.

#### Positioning ourselves for growth when markets stabilise

As noted in our December 2008 statement your Board believes that shareholder value can best be achieved by scaling up the Group's business. To this end we opened a London office last November. In the intervening months our director of marketing and myself have been working hard building our presence and brand in London and the Home Counties. As a result we have ongoing dialogue with a number of intermediaries regarding potential strategic alliances and we expect these discussions to bear fruit in the fullness of time. Our London office has quickly become a valuable resource to the Group and is the first part of our plan to increase our geographical coverage.

#### Looking for M&A opportunities where we can add value

Over the last few months we have looked at a number of M&A opportunities and we have recently announced the acquisition of Inkopo Ltd. This acquisition gives us an operating base in the North of England which fits well with our two existing offices in Scotland and London. As well as owning a small portfolio of investments, Inkopo generates income from fund management, private client/business angel network management and management services. By working closely with Inkopo's incumbent management team, we believe we can successfully grow this business. This acquisition has been structured in such a way that Inkopo's management will benefit from growth while being tied in to the Group as a whole.

We continue to look for other M&A opportunities and see good value in the market given the cash constraints of a number of advisory type businesses.

#### Forward Strategy

Given the current market conditions, your Board is particularly focused on reviewing strategic options on a regular basis. Our key goals over the short and medium term are:

- Continue to provide strong support to our highly ranked portfolio companies
- Complete the integration of Inkopo into the Group and provide resources to enable that entity to fulfil its potential
- Build our core business lines of fund management, private client investment management and management services
- Continue to look for additional M&A opportunities where we can add value, and
- Use our cash wisely

#### Outlook

At the time of writing there are early signs that the worst of the turmoil in the financial markets may be over. In my view it would be premature to take such a view as read.

We have utilised our resources to put us into the best possible position going forward. Our offering now emanates from three offices (one this time a year ago) and we have added the provision of management services to our existing core businesses of private client investment management and fund management.

We have a number of new opportunities presenting themselves to us and we expect further M&A activity or new business creation within the next 12 months.

When the market returns to more stable levels we will be first in the queue for an uptick in business.

**Geoffrey C B Thomson**  
Chief Executive Officer

## Support

Offering experienced business people to assist with corporate development.



## Chief Financial Officer's Report

### Overview

The Group's income comprises investment management revenue, valuation movements on its investment portfolio and finance income.

Investment management revenue, which is generated from portfolio companies, clients and other co-investors, is directly related to the number, value and equity-to-loan note funding mix of investments made in any given period.

Alongside its clients and co-investors, the Group also makes investments from its own balance sheet, and these investments are revalued at each reporting date.

Finance income is earned on the Group's surplus cash balances.

As a result of the challenging financial environment in which the Group has operated in the last 12 months all components of income have suffered.

Nonetheless, as the Chairman and Chief Executive state in their reports, the Board continues to believe that growth opportunities exist within this environment and the Group has pursued its expansion strategy which it outlined last year, strengthening its senior management team and establishing a presence in London.

While the combination of reduced income and increased overhead has resulted in a substantial loss for the year, the Group has a strong balance sheet at the year end.

### A summary analysis of the Group's performance is:

	2009 £'000	2008 £'000
Investment management revenue	350	660
Finance income	215	331
Investment management income	565	991
Net movement arising on the revaluation of investments	(278)	148
<b>Total income</b>	<b>287</b>	<b>1,139</b>
Employee benefits expense (including share-based compensation)	(800)	(559)
Other operating and finance costs	(742)	(474)
<b>Total costs</b>	<b>(1,542)</b>	<b>(1,033)</b>
<b>(Loss)/profit before taxation</b>	<b>(1,255)</b>	<b>106</b>
Opening cash balance	4,809	6,482
Increase in investments	(1,064)	(1,172)
Utilised in other activities	(523)	(501)
Closing cash balance	3,222	4,809
<b>Net assets</b>	<b>6,170</b>	<b>7,345</b>

### Income

Total income for the year ended 31 March 2009 was £287,000, a decrease from £1.14m in 2008.

Investment management fee income was £350,000 (2008: £660,000). While the number of investments rose in the year, the average sum and the aggregate sum

invested both fell. Furthermore, as the appetite for equity investment generally decreased, the proportion of the sums invested by way of lower fee-generating convertible loan notes increased.

At the start of the year, the Group's own active investment portfolio of 32 companies was valued at £2.57m. During the year the Group made investments totalling £1.06m (2008: £1.22m) into one new and 15 existing portfolio companies. Of this total investment, £556,000 (2008: £1.04m) was made by way of equity and £508,000 (2008: £183,000) by way of convertible loan notes.

Five companies instigated insolvency proceedings and/or ceased to trade and one company was acquired by way of a share-for-share exchange. No other realisations were made during the year, and at 31 March 2009 the fair value of the active investment portfolio of 28 companies was £3.26m,





resulting in an aggregate unrealised revaluation loss of £378,000 (2008: unrealised revaluation gain of £458,000). This comprises an unrealised loss of £131,000 (2008: £147,000) on listed equity investments (of which one company accounted for 83% of the loss), an unrealised loss of £22,000 (2008: unrealised gain of £674,000) on unlisted equity investments and an impairment charge of £225,000 (2008: £69,000) on convertible loan notes.

The Group's investments are held either by the Company or by Caledonia Portfolio Realisations Ltd (CPR), which it acquired in 2007. Of the aggregate unrealised revaluation loss described above, £177,000 (2008: £161,000) was incurred on the Company's portfolio and £201,000 (2008: unrealised gain of £619,000) on the CPR portfolio.

The unrealised revaluation loss on the CPR portfolio was offset in part by a reduction in contingent consideration of £100,000 (2008: increase in contingent consideration of £310,000) payable on future exit values of its portfolio companies. In accordance with IFRS 3, the fair value of contingent consideration arising on future exit values of the CPR portfolio is recognised as goodwill. However, given that the underlying assets of CPR are held at fair value, any goodwill so recognised is immediately written off or written back to the income statement.

Interest income was £215,000 (2008: £331,000) reflecting decreasing cash balances throughout the year and, latterly, sharply lower interest rates.

### Costs

Total costs were £1.54m, an increase from £1.03m in 2008.

Employee benefits expense (excluding share-based compensation) was £721,000 (2008: £535,000) reflecting an increase in average headcount to 11 (2008: 9).

Share-based compensation was £79,000 (2008: £24,000). In order to more accurately measure the cost of certain share options, during the year the Group changed from a Black-Scholes to a Trinomial pricing model for performance options with market conditions.

As reported in our interim statement, a first close of the Strathclyde Innovation Fund (SIF) was achieved during the year. SIF is structured as a limited partnership (SIF LP). Group companies manage, and have an 89% equity interest in, SIF LP, and, accordingly, SIF LP is consolidated within the Group's accounts. One-time costs of £111,000 (2008: £nil) incurred in establishing SIF are included in the Group Income Statement. An element of these costs may be recoverable should future closings involving new partners occur.

Also included in the Group Income Statement are recruitment and secondment costs of £118,000 (2008: £11,000) and fees of £28,000 (2008: £nil) in connection with the reduction of our share premium account (see below).

Other core operating expenses, including those incurred in establishing and running our London office, were £511,000 (2008: £463,000).

The loss after a taxation credit of £2,000 (2008: taxation charge of £7,000) was £1.25m (2008: profit of £99,000) of which £17,000 (2008: nil) was attributable to minority interests. This equates to a loss per share of 9.22p (2008: earnings per share of 0.74p).

### Balance Sheet

The Group continues to have a strong balance sheet with net assets of £6.17m (2008: £7.35m) including cash balances of £3.22m (2008: £4.81m).

Notwithstanding the strategic expansion of the Group, underlying cost control and cash management is of paramount importance. Cash utilisation fell marginally in the year to £1.59m (2008: £1.67m) and comprised £1.06m (2008: £1.17m) invested in portfolio companies and £523,000 (2008: £501,000) used in other activities.

During the year, the petition filed by the Company under sections 135 to 138 of the Companies Act 1985 seeking confirmation of the reduction of its share premium account was approved by the Court of Session and the total balance of £7.01m was converted from share premium to retained earnings.

### Post Balance Sheet Event

On 5 June 2009, the Company acquired the entire issued share capital of Inkopo Ltd, a specialist investment business based in Yorkshire.

The initial consideration comprised a cash payment of £75,000 and 511,937 ordinary shares in Braveheart. In addition, at the date of acquisition Inkopo had approximately £52,000 of net debt. Two further tranches of consideration are payable on the first and second anniversary of completion (Contingent Consideration). The Contingent Consideration will be settled by the further issue of ordinary shares in Braveheart or, at Braveheart's discretion, in cash or by the issue of unsecured loan notes. The Contingent Consideration will be based on (i) Inkopo's turnover for the years ending 31 March 2010 and 31 March 2011, and (ii) the attainment by Inkopo of certain other non-turnover based operating targets benefitting the Group. The total aggregate consideration is capped at £1.31m irrespective of any over-performance of Inkopo's targets. All Braveheart ordinary shares issued as consideration will be valued at a price of 39.2p, representing a one third premium to the average closing price of Braveheart shares on the five days prior to 15 May 2009, being the date on which heads of agreement were signed.

### Colin C Grant

Chief Financial Officer

## Service

Building diversified portfolios for investors and showing market leading returns.

## Chief Investment Officer's Report

Last year I reported that given the prevailing economic climate we were going to need to support our existing portfolio companies with more capital than perhaps we might previously have expected and that we anticipated that it would be more challenging to raise new money for unquoted companies. This has indeed proven to be the case.

During the year under review we have made further sums available to half of the companies in the portfolio. An update on the investment activity follows and we have featured four of our companies on pages 11 to 14.

### Investment Activity

We added one new company to the Group's portfolio, Im-Sense, and made follow-on equity investments into six companies: Cascade Technologies, Spiral Gateway, EctoPharma, Biopta, Pufferfish and Traak Systems. We also provided short term funding in the form of convertible loans, alongside other existing shareholders, to seven companies: Alivox, Tayside Flow Technologies (TFT) (subsequently converted to equity), NXVision, PSI Electronics, NiTech Solutions, Quantum Filament Technologies and Hydrosense. Finally, two other existing portfolio companies, Atlas Genetics and Conjoint, received second tranches of funds after meeting certain conditions throughout the year.

The aggregate investment made into our portfolio companies during the year was £7.25m, being £2.77m from the Group and its clients leveraging £4.48m from other sources.

### Portfolio Divestments

I reported last year that Pentland Systems, a Caledonia Portfolio Realisations (CPR) portfolio company, was acquired on a deferred consideration basis; we still await the final determination and receipt of the proceeds of this sale, although we do not expect the proceeds to be material to the Group. Staying with the CPR portfolio, we have seen the loss of Orkell, and Intrallect was acquired by an IT services company, Leading Software, in a share-for-share exchange.

On the remainder of the Group's portfolio, Alivox has ceased to trade, and companies that instigated insolvency proceedings were Edinburgh Robotics, MicroEmissive Displays Group and Virtual Well Engineer.

Some of our companies have had tentative approaches by potential acquirers but current market conditions would suggest that more time is needed to maximise the potential outcome and any near-term exits will be opportunistic at best.



### Progress in our Portfolio Companies

At the end of our financial year we had 28 companies in the Group's portfolio, as outlined in the table on page 10. Our portfolio is diversified both by sector and stage of company and our focus is on investing in companies where there is the potential for significant growth.

A number of our early stage companies have been working towards the completion of various innovative products or services, with a number of market launches planned for the coming year. There have also been some notable achievements by some of our companies since the date of my last report: examples include TFT which achieved a CE mark and FDA 510k approval for its peripheral artery graft based on its proprietary Spiral Laminar Flow™ design – the TFT graft is now being distributed on a world-wide basis; Bloxx, with its web filtering software 'Tru-View', continues to demonstrate promising growth on a global scale, and in addition to other awards was included in the Deloitte Technology Fast 50 (UK) and the Fast 500 (EMEA) indices of fastest growing technology companies, and secured a place in Red Herring's 'Global 200' technology firms to watch; EctoPharma completed its phase 3 clinical trial into the use of its non-toxic headlice product, KindaPed, with compelling results; and in its best year yet, Pufferfish's 360° spherical display systems captivated audiences at Coldplay's Viva La Vida world tour.

In the majority of our companies we maintain an active interest and provide management support where necessary through the various stages in the company lifecycle. We are encouraged by the calibre of the executive teams, in support of which we often introduce experienced individuals from our client base to chair the companies or to act in a non-executive capacity. Our client base is a valuable resource and we are immensely grateful for their contribution.

### Portfolio Returns

At the end of the year under review, our rebased client exit portfolio (being a portfolio where all exited investment returns are modelled since Braveheart's inception in 1997) showed an internal rate of return of 33.40%. The overall client portfolio (modelling both exited and unexited investment returns) is showing a return of 24.48%.

### Forward Strategy

In summation, we continue to nurture our portfolio of companies by providing cash and management support where necessary. Investing in and managing our portfolio remains a key activity in building on the success of Braveheart and whilst a number of our companies will continue to need to show resilience under quite trying market circumstances we remain confident of the intrinsic value in the portfolio and will continue to drive these companies to achieve the goal of delivering a return for their respective shareholders.

**Carolyn Smith**  
Chief Investment Officer

## Partnership

Working with the academic and business communities to deliver economic benefit.

## Chief Investment Officer's Report

CONTINUED

The Group's portfolio (including the CPR portfolio) comprised 28 companies at the year end.

Portfolio Company	Description of business
<b>Company Portfolio</b>	
AppShare Ltd	Web collaboration software design
Atlas Genetics Ltd	Rapid 'point-of-care' molecular diagnostic equipment
Biopta Ltd	Contract research services for drug and tissue measurement
The Capital Pub Company plc	Purchase and operation of pubs
Cascade Technologies Ltd	Laser-based equipment to detect presence of gases, explosives, etc
Conjunct Ltd	Optical communications components
Convivial London Pubs plc <sup>1</sup>	Purchase and operation of pubs
Design LED Products Ltd	Lighting display technology based on LEDs
Dimensional Imaging Ltd	3D and 4D image capture systems
EctoPharma Ltd <sup>2</sup>	Therapeutic healthcare pesticides
Elonics Ltd	Multi-band radio frequency (RF) IC products
Im-Sense Ltd	Image signal processing technology
MicroStencil Ltd	Manufacture of stencils for microelectronics sector
NiTech Solutions Ltd	Design manufacturing solutions for chemical and process industries
NXVision Ltd	'Place-shifting' technology
PSI Electronics Ltd	Equipment to pinpoint faults in power cables
Pufferfish Ltd	360° display solutions principally for promotional activities
Pyreos Ltd	Infrared sensor arrays and components for commercial applications
Quantum Filament Technologies Ltd	Flat screen display technology
Spiral Gateway Ltd	Low power solutions for integrated circuit design
Tayside Flow Technologies Ltd	Cardiovascular medical devices
Traak Systems Ltd	Intelligent self-learning RFID identification and sensor network solutions
<b>CPR Portfolio</b>	
Adaptive Venture Managers Ltd	Specialist private trading group
Bloxx Ltd	Web filtering and internet filtering software
Hydrosense Ltd	Identification of microbial contamination in industrial and environmental hygiene markets
Leading Software Ltd <sup>3</sup>	IT services
Scalar Technologies Ltd	Thin film measurement
Verbalis Ltd	Language translation software

<sup>1</sup> Previously The Capital Pub Company 2 plc

<sup>2</sup> Also a CPR portfolio company

<sup>3</sup> Acquired Intrallect Ltd in January 2009



## Our Portfolio: Featured Investments

### Pyreos

Edinburgh-based Pyreos manufactures infrared component products aimed at mainly industrial applications such as spectroscopy, gas sensing, security and energy management.

In mid-2007, Pyreos acquired know-how and granted patents from Siemens AG relating to unique thin film pyroelectric ceramic infrared sensor technology developed over many years in the corporate research facilities in Munich. Pyreos has rapidly developed a range of infrared sensors for each of its target markets that offer compelling advantages over competitors' products.

Pyreos is building an international customer base, including early adopter brand names in the field of infrared technology, and has recently signed two long term supply agreements with an export value of £8m over the next five years.



## Our Portfolio: Featured Investments

### Pufferfish

Established in 2004, Pufferfish designs and develops inflatable spherical projection displays for use in the audio visual industry. Pufferfish was launched by Will Cavendish and Ollie Collier, graduates of the University of Edinburgh.

The PufferSphere is of lightweight design, has a stable image projection and a compact footprint making it easy for artistic creators to incorporate into their installations. Equally it offers the camera teams the ability to fly-by, zoom, pan and jib around displays creating a visually stunning effect for the audience. Pufferfish is also able to offer specialist content development and consultancy services.

Recent successes include six units used by Coldplay during their recent world concert tour, the PGA Tour opener in Scottsdale, Arizona and the Eurovision Song contest in Moscow where an estimated 100 million people witnessed the visual spectacle of six PufferSphere planets suspended above the crowd.



## Our Portfolio: Featured Investments

### Tayside Flow Technologies

Tayside Flow Technologies Ltd (TFT) was formed by three doctors in 2000 and is focused on the research, development and commercialisation of vascular devices based on a new understanding of blood flow dynamics called Spiral Laminar Flow™ (SLF) technology.

The technology restores the natural blood flow pattern. In initial clinical trials TFT's first product, the peripheral vascular graft (PVG), has been implanted in patients with blocked or poorly functioning arteries, with compelling results.

TFT received section 510k approval in April 2009 from the US Food and Drug Administration (FDA) to market the PVG, incorporating its proprietary technology. Receiving FDA approval is a key milestone for TFT, opening up the large US market for the first time. Sales commenced in June 2009.

TFT already sells its product in Germany, Italy, Spain, UK, Greece, Belgium, Sweden, Netherlands, Switzerland, the Czech Republic, Austria and Ireland, and announced that it had recently signed distribution agreements in Turkey and Russia. Further distributor appointments are expected throughout the coming year.

TFT's technology is now becoming recognised as an important new innovation in a growing and increasingly competitive medical device market.



## Our Portfolio: Featured Investments

### Bloxx

Bloxx is an award-winning web filtering company which has developed novel approaches to prevent inappropriate use of the web by employees. Founded in 1999, Bloxx has expanded to a multimillion pound operation with products sold in Europe and North America.

Bloxx's Tru-View technology uses patented technology to analyse and categorise web pages quicker and more accurately than other web filters. By using advanced intelligent identification and analysis techniques, Tru-View provides instant classification of web content as soon as it is accessed, which helps organisations proactively manage users' access to web

content which otherwise might lower productivity, expose the organisation to risk and liability or pose a network security threat.

Over 1.5 million users from an impressive customer list already benefit from enhanced security and performance.



**BLOXX**  
NO NONSENSE.



## Directors' Report

The directors present their report together with the audited financial statements for the year ended 31 March 2009.

### Principal Activities

The Group's principal activities during the year continued to be the commercialisation of intellectual property through investments made from the Group's own resources and on behalf of private clients and other co-investors, and the provision of investment management services.

### Results and Dividends

The financial statements of the Group and the Company for the year to 31 March 2009 are set out on pages 27 to 52.

The Group's consolidated loss for the year after taxation was £1,253,229 (2008: profit £99,183), which has been transferred to reserves.

The directors do not recommend payment of a dividend for the year (2008: £nil).

### Directors and their Interests

The names of the directors who held office during the financial year are listed on page 57.

Biographical details of the directors who held office at the end of the financial year are shown on page 19.

No director had a material interest in any contract, other than their contract for services, during or at the end of the financial year that was significant to the Group's business.

### Directors' Interests in Shares

The directors at 31 March 2009 and their interests in the share capital in the Company (all of which are held beneficially, other than 39,062 shares held by Garry Watson's spouse, 13,750 shares held in trust for Garry Watson's children, 10,000 shares held in trust for Garry Watson's grandchildren and options to acquire ordinary shares which are detailed in the analysis of options included in the Directors' Remuneration Report), are as follows:

Directors	At 31 March 2009		At 31 March 2008 (or date of appointment)	
	Ordinary shares	Options over ordinary shares	Ordinary shares	Options over ordinary shares
G S Watson	328,177	66,907	328,177	100,361
G C B Thomson	2,750,890	294,207	2,750,890	277,958
C Smith	231,680	184,660	231,680	170,286
C C Grant (appointed 15 October 2008)	—	64,000	—	—
E B Cunningham	493,275	26,719	493,275	40,079
J K Brown	—	—	—	—
J H Delmar-Morgan (appointed 3 June 2008)	—	—	—	—

No notification of any change in the above interests has been received in the period from 31 March 2009 to the date of this report.

### Business Review and Future Developments

Accompanying this Directors' Report are the Chairman's Statement, Chief Executive Officer's Report, Chief Financial Officer's Report, Chief Investment Officer's Report, Corporate Governance Statement and Directors' Remuneration Report.

A review of the business and the future developments of the Group is presented in the Chairman's Statement on pages 2 to 3, the Chief Executive Officer's Report on pages 4 to 5, the Chief Financial Officer's Report on pages 6 to 7 and the Chief Investment Officer's Report on pages 8 to 10, all of which form part of this Directors' Report by reference.

### Key Performance Indicators (KPIs)

The KPIs we use to monitor business performance, which given the nature of our business are primarily financial measures, are:

	2009	2008
Net assets (£m)	6.17	7.35
Cash balance (£m)	3.22	4.81
(Loss)/profit after tax attributable to equity holders (£m)	(1.24)	0.10
Investments made by Group (£m)	1.06	1.22
Investments made by Group (number)	16	12
Returns achieved on client exit portfolio (% to date)	33.40	33.40

# Directors' Report

CONTINUED

## Principal Risks and Uncertainties, and Financial Instruments

Through its operations the Group is exposed to a number of risks. The Group's risk management objectives and policies are described in the Corporate Governance Statement on pages 20 to 22.

The Group's financial instruments comprise investments designated at fair value through profit or loss, cash and various items such as trade and other receivables, and trade payables, all of which arise directly from its normal operations. The main purposes of these financial instruments are to provide returns from investment and finance for the Group's operations.

Further information regarding the Group's financial risk management objectives and policies, including those in relation to credit risk, liquidity risk and market risk, is provided in Note 23 to the financial statements.

## Share Capital

Details of the structure of the Company's share capital and the rights attaching to the shares are set out in Note 18 to the financial statements.

At 31 March 2009, the Company had 13,403,895 allotted, called up and fully paid ordinary shares of 2p each.

The Company has one class of ordinary shares. All shares carry equal voting rights, equal rights to income and distribution of assets on liquidation or otherwise, and no right to fixed income.

There are no specific restrictions on the size of a holding or on the transfer of shares, which are both governed by the general provisions of the Company's Articles of Association (the Articles) and prevailing legislation.

Power to purchase the Company's own shares is provided in the Company's Articles subject to statutory provisions. The directors have no existing authority to purchase the Company's own shares.

## Articles of Association

The Company's Articles may be amended by a special resolution of the shareholders.

## Appointment and Replacement of Directors

The Company may by ordinary resolution appoint a person who is willing to act to be a director, either to fill a vacancy or as an addition to the existing directors and may also determine the rotation in which any additional directors are to retire. Any person so appointed by the directors shall hold office only until the conclusion of business at the next Annual General Meeting and shall be eligible for reappointment by ordinary resolution at that meeting. The Company may also by ordinary resolution remove a director from office.

At each Annual General Meeting of the Company, directors eligible to retire shall retire from office by rotation. No director shall continue to hold office as a director after the third Annual General Meeting following his/her election or re-election, without submitting themselves for re-election at the said third Annual General Meeting.

## Significant Shareholdings

As at 31 March 2009, the following beneficial owners each held 3% or more of the Company's issued share capital:

Name	Number	Percentage
G C B Thomson	2,750,890	20.52
Kenmore Private Equity Ltd	2,500,000	18.65
Uberior Investments plc <sup>1</sup>	1,338,410	9.99
Securities Services Nominees Ltd <sup>2</sup>	523,411	3.90
E B Cunningham	493,275	3.68
K J Campbell	454,500	3.39
Schweco Nominees Ltd <sup>3</sup>	406,250	3.03

<sup>1</sup> A subsidiary of Lloyds Banking Group plc

<sup>2</sup> Beneficial owner being A M Threipland

<sup>3</sup> Beneficial owner being Sir J Mactaggart

## Events after the Balance Sheet Date

Events since the balance sheet date are described within the Chairman's Statement on pages 2 to 3, the Chief Executive Officer's Report on pages 4 to 5, the Chief Financial Officer's Report on pages 6 to 7 and Note 25 to the financial statements.

### Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRS) as adopted by the European Union.

The directors are required to prepare financial statements for each financial year which give a true and fair view of the financial position of the Company and of the Group, and the financial performance and cash flows of the Company and of the Group for that period. In preparing those financial statements, the directors are required to:

- 1 select suitable accounting policies and then apply them consistently;
- 2 present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- 3 provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company and Group's financial position and financial performance;
- 4 state that the Company and Group have complied with IFRS, subject to any material departures disclosed and explained in the financial statements;
- 5 prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- 6 make judgements and estimates that are reasonable and prudent.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Creditor Payment Policy

The Group's policy is to:

- a) agree payment terms with each supplier when placing orders and
- b) adhere to the agreed terms.

The Group's average creditor payment period at 31 March 2009 was 22 days (2008: 25 days).

### Political and Charitable Donations

It is the Board's policy not to make charitable and political donations which exceed £200. The Group did not make any such donations in the year.

### Annual General Meeting

Notice of the Annual General Meeting is set out on pages 53 to 55. Information relating to certain of the resolutions is given or referred to in the notes forming part of the notice.

### Disclosure of Information to Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Group's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

### Auditors

During the year Ernst & Young LLP resigned as auditor and Grant Thornton UK LLP were appointed to fill the casual vacancy. A resolution proposing the reappointment of Grant Thornton UK LLP will be put to the shareholders at the forthcoming Annual General Meeting.

On behalf of the Board

### Colin C Grant

Company Secretary  
17 June 2009

## Board of Directors





**1 Garry S Watson OBE CA****Chairman**

Garry is a former managing director of Hill Samuel Bank (Head of Investment Finance), Legal Services Ombudsman for Scotland and a Governor and Deputy Chairman of the Macaulay Land Use Research Institute in Aberdeen. He is currently a Director and Chairman of the Audit Committee of Places for People Group, one of the largest UK providers of mixed tenure housing.

**2 Geoffrey C B Thomson****Chief Executive Officer**

One of the founders of Braveheart, Geoffrey is a well known business angel and deal maker. Geoffrey has written columns on investment for various national broadsheets and regularly speaks at business events in Scotland. Other than Braveheart, he is a director of NESTech (the challenge fund of the universities of St Andrews, Dundee and Aberdeen), and sits on the advisory board of EPSRC (a steering body for innovation in UK biotechnology). Geoffrey's contribution to Scottish businesses was recognised by the receipt of a special Ernst & Young Entrepreneur of the Year (Scotland) award in 2008.

**3 Carolyn Smith BA Hons ACIS****Chief Investment Officer**

Carolyn has an honours degree in accountancy from the University of Stirling and is a Chartered Secretary. She spent five years working in insolvency before moving to business development and investment. After five years working in private equity with LINC Scotland, the national association for business angels in Scotland, she joined Braveheart in 2000.

**4 Colin C Grant BCom CA****Chief Financial Officer and Company Secretary**

Colin joined the Board in October 2008, bringing with him experience of public markets and venture-backed technology companies. Prior to joining Braveheart he was Chief Financial Officer and Company Secretary and before that Chief Operating Officer for Digital Bridges Ltd, a leading global provider of mobile entertainment software applications. Previous to that he worked as Finance Director and Company Secretary at VISION Group plc, an LSE-listed university spin-out company which pioneered CMOS imaging.

**5 Edward B Cunningham CBE****Senior non-executive Director**

Edward has UK and international industry experience. Latterly he was Director, Industry and Enterprise Development with the Scottish Development Agency. He has been Chairman of a number of 3i-invested companies as well as other companies including the Scottish Exhibition and Conference Centre. He has also been a Director of TSB Bank Scotland and Watson & Philip. He is currently Chairman of two companies, and on the board of two other companies and one charitable trust.

**6 J Ken Brown BA CA****Non-executive Director**

Ken was previously Finance Director at a major international real estate group, where gross assets grew from £40m to £1.7bn during his time there. He has extensive experience of negotiating corporate acquisitions and disposals, of structuring joint venture arrangements and of arranging both equity and debt finance. Prior to this he spent 12 years as Group Finance Director of two quoted companies. He is currently an executive director of one company and a non-executive director of three others.

**7 Jeremy H Delmar-Morgan****Non-executive Director**

Jeremy was a partner in Hoblyn, Dix & Maurice and a Director of Vickers Da Costa before joining Teather & Greenwood in 1979, where he went on to become Chairman. He subsequently joined Hichens, Harrison & Co as Chairman in 2004. He is a Director of London Symphony Orchestra and Sefton Resources Inc and Chairman of The Brendoncare Foundation and of Eagle Crown Productions Ltd. Jeremy joined the Board in June 2008.

## Corporate Governance Statement

The directors recognise the importance of sound corporate governance. As a company whose shares are traded on the London Stock Exchange (Alternative Investment Market) (AIM), the Company is not obliged to comply with the corporate governance regime as set out in the Combined Code on Corporate Governance, but it does support the principles of the Code. It intends to comply with the Quoted Companies Alliance's Corporate Governance Guidelines for AIM Companies insofar as it is reasonably practicable for a public company of its size and nature. The directors have adopted a code of conduct for dealings by directors and employees which complies with the AIM Rules and are committed to maintaining the highest standards of corporate governance.

### The Board of Directors

The Board currently comprises the Chairman, Garry Watson; three other non-executive directors, Edward Cunningham, Ken Brown and Jeremy Delmar-Morgan; and three executive directors, the Chief Executive Officer, Geoffrey Thomson, the Chief Investment Officer, Carolyn Smith and the Chief Financial Officer, Colin Grant.

Biographical details of the current directors are set out on page 19. Executive and non-executive directors are subject to re-election at intervals of no more than three years. The letters of appointment of all directors are available for inspection at the Company's registered office during normal business hours.

The Board meets at least eight times per annum. It has established an Audit and Risk Management Committee, a Remuneration Committee and a Nominations Committee, particulars of which appear hereafter.

All members of the Board and its committees served throughout the year with the exception of Jeremy Delmar-Morgan who was appointed on 3 June 2008, and Colin Grant who was appointed on 15 October 2008. Shonaig Macpherson and Donald Turner resigned as non-executive directors on 10 September 2008.

Certain executive and non-executive directors are clients of Braveheart Ventures Ltd, the Company's principal investment management subsidiary. Further information regarding related party transactions during the year is detailed in Note 22 to the financial statements.

### Non-executive Directors

The non-executive directors have a broad range of experience, as evidenced by their biographical details, and are well equipped to bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct that are vital to the success of the Company.

The Board has adopted guidelines for the appointment of non-executive directors which have been in place and which have been observed throughout the year. These provide for the orderly and constructive succession and rotation of the chairman and non-executive directors insofar as both chairman and non-executive directors will be appointed for an initial term of three years and may, at the Board's discretion, believing it to be in the best interests of the Company, be appointed for subsequent terms. The chairman may serve as a non-executive director before commencing a first term as chairman.

In accordance with the Companies Act 2006, the directors comply with: a duty to act within their powers; a duty to promote the success of the Company; a duty to exercise independent judgement; a duty to exercise reasonable care, skill and diligence; a duty to avoid conflicts of interest; a duty not to accept benefits from third parties and a duty to declare any interest in a proposed transaction or arrangement.

### Delegation of Responsibilities by the Board of Directors

Ultimate authority for all aspects of the Group's activities rests with the Board, the respective responsibilities of the Chairman and Chief Executive Officer arising as a consequence of delegation by the Board. The Board has adopted two statements; the first sets out matters which are reserved to the Board and the second establishes the division of responsibilities between the Chairman and the Chief Executive Officer. The Chairman is responsible for the effectiveness of the Board and for ensuring communication with shareholders, while management of the Group's business has been delegated by the Board to the Chief Executive Officer.

### Audit and Risk Management Committee

The Audit and Risk Management Committee comprises Ken Brown (its Chairman), Edward Cunningham and Jeremy Delmar-Morgan and has primary responsibility for monitoring the quality of internal controls and ensuring that the financial performance of the Group is properly measured and reported. It receives reports from the executive management and auditors relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Group. The Audit and Risk Management Committee meets not less than three times in each financial year and has unrestricted access to the Group's auditors.

### Remuneration Committee

The Remuneration Committee comprises Edward Cunningham (its Chairman), Ken Brown and Garry Watson. The Remuneration Committee reviews the performance of the executive directors and employees and makes recommendations to the Board on matters relating to their remuneration and terms of employment. The Remuneration Committee also considers and approves the granting of share options pursuant to the share option plan.

### Nominations Committee

The Nominations Committee was established in April 2008 and meets as and when required. The Nominations Committee comprises Edward Cunningham (its Chairman) and Garry Watson and is responsible for the identification and nomination of candidates for the roles of Chairman, Chief Executive Officer, other executive directors and non-executive directors. Members of the Nominations Committee met twice during the year, such meetings being subsumed within Board meetings, to consider the appointment to the Board of Directors of Jeremy Delmar-Morgan and Colin Grant. The Committee's remit extends to the nomination of all directors of subsidiary companies and with succession planning in relation to the above aforementioned posts. It is also concerned with matters relating to corporate governance, insofar as they may relate to concerns or complaints from shareholders concerning the conduct of Board directors, and bringing any such issue to the attention of the Board.

### Attendance at Board and Committee Meetings

The following table summarises the number of board and committee meetings held during the year and the attendance record of individual directors:

	Board		Audit and Risk Management		Remuneration		Nominations	
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
G S Watson	11	11	—	—	2	2	—	—
G C B Thomson	11	11	—	—	—	—	—	—
C Smith	11	11	—	—	—	—	—	—
C C Grant	6	6	—	—	—	—	—	—
(appointed 15 October 2008)								
E B Cunningham	9	11	3	4	2	2	—	—
J K Brown	11	11	4	4	2	2	—	—
J H Delmar-Morgan	10	10	2	2	—	—	—	—
(appointed 3 June 2008)								
A L A S Macpherson	3	4	—	—	—	—	—	—
(resigned 10 September 2008)								
D I Turner	2	4	—	2	—	—	—	—
(resigned 10 September 2008)								

### Share Dealings

The Company has adopted, with effect from the date on which its shares were admitted to AIM, a code for directors and employees' dealings in securities which is appropriate for a company whose securities are traded on AIM, and is in accordance with rule 21 of the AIM rules.

### Investment Authorities

Investment authorities are reviewed in March of each year and more frequently as determined by the Board. These authorities relate to the maximum amount that the executive directors may invest from the Group's balance sheet in any one portfolio investment. Investments outwith the agreed parameters may be made with the agreement of a non-executive director or by the Board.

### Risk Management and Internal Control

Risk management is the responsibility of the Risk Management Group, which comprises the three executive directors. The Risk Management Group reports to the Audit and Risk Management Committee, which is responsible to the Board for ensuring that procedures are in place, and are being effectively implemented to identify, evaluate and manage the significant risks faced by the Company. A risk assessment matrix sets out those risks, and identifies their ownership and the controls that are in place. The Risk Management Group updates this matrix as changes arise in the nature of risks or the controls that are implemented to mitigate them. The Audit and Risk Management Committee reviews the risk matrix and the effectiveness of scenario testing by the Risk Management Group on a regular basis.

## Corporate Governance Statement

CONTINUED

The following key risks, and controls to mitigate them, have been identified:

Activity	Risk	Control
Management	Recruitment and retention of staff	Stimulating and safe working environment. Balancing salary with longer term incentive plans.
Regulatory adherence	Breach of rules	Strong compliance regime.
Strategic	Reputation	Effective communications with shareholders and roadshows. Robust compliance.
	Disaster recovery	Secure off-site storage of data. Two networks.
Financial	Liquidity, market and credit risk	Appropriate authority and investment levels as set by Treasury and Investment Policies.
	Inappropriate controls and accounting policies	Audit and Risk Management Committee.

Further details of the financial risks, including quantitative considerations of their potential impacts, are set out in Note 23 to the financial statements.

The directors have established procedures, as represented by this statement, for the purpose of providing a system of internal control. An internal audit function is not considered necessary or practical due to the size of the Company and the close day-to-day control exercised by the executive directors. However, the Board will continue to monitor the need for an internal audit function.

### Going Concern

The directors have reviewed the Group and the Company's budgets and plans and are satisfied that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future and that it is therefore appropriate to continue to adopt the going concern basis in preparing the financial statements.

### Communication with Shareholders

The Board is committed to maintaining good communication and having constructive dialogue with its shareholders. The Company has particularly close ongoing relationships with its investment clients, many of whom are also private shareholders. Institutional shareholders, private client brokers and analysts have the opportunity to discuss issues and provide feedback in the course of roadshow presentations following the announcement of preliminary and interim results. In addition, all shareholders are encouraged to attend the Company's Annual General Meeting.

Investors have access to current information on the Company through its website, [www.braveheartinvestmentgroup.co.uk](http://www.braveheartinvestmentgroup.co.uk), and via Andrew McInroy, its Investor Relations Officer, who is available to answer investor relations enquiries.



# Directors' Remuneration Report

## Remuneration Committee

The Remuneration Committee is comprised entirely of non-executive directors. It is chaired by Edward Cunningham and its other members are Garry Watson and Ken Brown. The Chief Executive Officer, Geoffrey Thomson, attends by invitation and assists the Committee. The Committee met twice during the year.

## Remuneration Policy

The Remuneration Committee reviews the remuneration of executive directors towards the end of each financial year. The overall policy of the Committee is to enable the Company to secure and retain the skills and experience required to ensure that its corporate objectives are achieved, including an increase in shareholder value.

## Determination of Directors and Senior Management's Salaries

The Remuneration Committee determines directors and senior management's salaries in relation to the tasks and responsibilities involved and the level of comparable salaries in the market place. In particular, the Committee seeks to ensure that salaries are competitive. The Committee takes performance into account through the Company's appraisal process. In its final determination of salaries, the Committee's conclusions are set within what is affordable. The Company did not contribute to any pension schemes nor pay any bonuses during the year, although it did establish a private medical insurance scheme for executive directors and employees.

## Executive Director Service Agreements

Each of the executive directors has a service agreement with the Company. These agreements can be terminated by either party giving the other written notice at any time, not less than six months in the case of Geoffrey Thomson and not less than three months in the cases of Carolyn Smith and Colin Grant. Payments on termination are restricted to the value of the salary for the notice period.

## Non-executive Directors

The fees payable to the Chairman and the non-executive directors are first reviewed by the Committee, taking into account market rates, following which it submits recommendations to the Board for approval.

The Chairman and each non-executive director have agreed a letter of appointment which sets out their duties, responsibilities and fees.

## Directors' Remuneration

The total amount of directors' remuneration is set out below:

	Current basic salary and/ or fees p.a. £	Total 2009 £	Total 2008 £
<b>Executive directors</b>			
G C B Thomson	141,750	141,750	135,000
C Smith	105,000	105,000	100,000
C C Grant (appointed 15 October 2008)	100,000	47,436	–
<b>Non-executive directors</b>			
G S Watson	15,750	15,750	25,000
E B Cunningham	10,500	10,500	10,000
J K Brown	10,500	10,500	5,385
J H Delmar-Morgan (appointed 3 June 2008)	10,500	8,683	–
D I Turner (resigned 10 September 2008)	–	4,500	10,000
A L A S Macpherson (resigned 10 September 2008)	–	4,500	10,000
		<b>348,619</b>	<b>295,385</b>

The Company did not contribute to any pension schemes nor pay any bonuses during the year (2008: £nil). During the year the Company established a private medical insurance scheme for executive directors and employees and paid premiums of £899, £316 and £222 in respect of Geoffrey Thomson, Carolyn Smith and Colin Grant.

## Share Option Scheme

The Company operates the Braveheart Investment Group plc Executive Share Option Scheme 2006 (the Scheme), which comprises Part A, a share option scheme approved by HMRC (the Approved Scheme) and Part B, an unapproved share option scheme (the Unapproved Scheme).

Historically, the Scheme was open to all directors and employees of the Group, although non-executive directors could only participate in Part B. The Scheme is now open only to executive directors and employees.

# Directors' Remuneration Report

CONTINUED

Options are granted by the Board taking into account the need to motivate, retain and recruit high calibre employees and with regard to the contribution that such employees are expected to make in achieving the Company's objectives.

Options granted under the Scheme are categorised as either Employment Options or Performance Options. Employment Options may be granted under either Part A or Part B. All Performance Options are granted under Part B.

Employment Options vest and become exercisable on the third anniversary of date of grant, and generally lapse on the earlier of cessation of employment (or six months thereafter if options have vested at cessation date) or the 10th anniversary of date of grant.

Performance Options have vesting conditions linked to the growth in the Company's market capitalisation from the date of grant (Performance Conditions). If a Performance Condition is not met, the related Performance Option lapses at the end of the relevant measurement period.

Otherwise Performance Options vest on attainment of the Performance Condition and become exercisable on the 1st anniversary of the date of the Performance Condition being met, and lapse on the 10th anniversary of date of grant.

## Share Options

The interests of the directors in share options were as follows:

	Date of grant	At 1 April 2008	No. of options granted in year	No. of options exercised in year	No. of options lapsed in year	At 31 March 2009	Exercise price	Date first exercisable	Expiry date
<b>Employment Options granted under Part A</b>									
G C B Thomson	25 June 2008	–	26,086	–	–	26,086	£1.15	25 June 2011	24 June 2018
C Smith	18 June 2007	18,237	–	–	–	18,237	£1.645	18 June 2010	17 June 2017
C C Grant	8 December 2008	–	28,902	–	–	28,902	£0.35	8 December 2011	7 December 2018
<b>Employment Options granted under Part B</b>									
G C B Thomson	18 June 2007	24,948	–	–	–	24,948	£1.645	18 June 2010	17 June 2017
	25 June 2008	–	14,377	–	–	14,377	£1.15	25 June 2011	24 June 2018
		24,948	14,377	–	–	39,325			
C Smith	18 June 2007	243	–	–	–	243	£1.645	18 June 2010	17 June 2017
	25 June 2008	–	28,902	–	–	28,902	£1.15	25 June 2011	24 June 2018
		243	28,902			29,145			

	Date of grant	At 1 April 2008	No. of options granted in year	No. of options exercised in year	No. of options lapsed in year	At 31 March 2009	Exercise price	Date first exercisable	Expiry date
<b>Performance Options granted under Part B</b>									
G S Watson	18 June 2007	100,361	–	–	(33,454)	66,907	£1.645	18 June 2008	17 June 2017
G C B Thomson	18 June 2007	253,010	–	–	(84,337)	168,673	£1.645	18 June 2008	17 June 2017
	25 June 2008	–	60,123	–	–	60,123	£1.15	25 June 2009	24 June 2018
		253,010	60,123	–	(84,337)	228,796			
C Smith	18 June 2007	151,806	–	–	(50,602)	101,204	£1.645	18 June 2008	17 June 2017
	25 June 2008	–	36,074	–	–	36,074	£1.15	25 June 2009	24 June 2018
		151,806	36,074	–	(50,602)	137,278			
C C Grant	8 December 2008	–	35,098	–	–	35,098	£0.35	8 December 2009	7 December 2018
E B Cunningham	18 June 2007	40,079	–	–	(13,360)	26,719	£1.645	18 June 2008	17 June 2017

The Performance Conditions attached to the Performance Options are as follows:

Date of grant	Performance condition	Percentage of the grant to which the performance condition applies to
18 June 2007	The Company's market capitalisation exceeds the benchmark price by 50% for 5 consecutive business days at any time before the 1st anniversary of date of grant.	33.33%
	The Company's market capitalisation exceeds the benchmark price by 100% for 5 consecutive business days at any time before the 2nd anniversary of date of grant.	33.33%
	The Company's market capitalisation exceeds the benchmark price by 150% for 5 consecutive business days at any time before the 3rd anniversary of date of grant.	33.33%
25 June 2008	The Company's market capitalisation exceeds the benchmark price by 25% for 5 consecutive business days at any time before the 1st anniversary of date of grant.	100%
8 December 2008	The Company's market capitalisation exceeds the benchmark price by 25% for 5 consecutive business days at any time before the 1st anniversary of date of grant.	100%

The benchmark price is the option exercise price multiplied by the number of ordinary shares of 2p each in the issued share capital of the Company on the date of grant of the related option.

The charge made in respect of the fair value of options granted to directors was:

	2009 £	2008 £
Expense arising from equity-settled share-based payment transactions	54,415	21,481

Additional information on share options is provided at Note 19.

## Independent Auditors' Report to the Members of Braveheart Investment Group plc

We have audited the Group and Parent Company financial statements (the Financial Statements) of Braveheart Investment Group plc for the year ended 31 March 2009, which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statement of Changes in Equity and the related Notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work for this report or for the opinions we have formed.

### Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement, the Chief Executive Officer's Report, the Chief Financial Officer's Report and the Chief Investment Officer's Report that is cross referred from the Business Review section of the Directors' Report.

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only Highlights, the Chairman's Statement, the Chief Executive Officer's Report, the Chief Financial Officer's Report, the Chief Investment Officer's Report, the Directors' Report, the Corporate Governance Statement, the Directors' Remuneration Report and Company Information. We consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### Basis of Audit Opinion

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

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

### Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 March 2009 and of its loss for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union as applied in accordance with provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 31 March 2009;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

### Grant Thornton UK LLP

Registered Auditor  
Chartered Accountants  
Edinburgh  
17 June 2009



# Group Income Statement

FOR THE YEAR ENDED 31 MARCH 2009

	Notes	2009 £	2008 £
Revenue	3	350,335	659,449
Unrealised (loss)/profit on the revaluation of investments	12	(377,815)	458,142
Movement on contingent consideration	13, 14	100,206	(309,717)
Finance revenue	5	214,675	330,856
<b>Total income</b>		<b>287,401</b>	<b>1,138,730</b>
Employee benefits expense	4	(800,341)	(558,532)
Other operating costs		(741,070)	(474,187)
Finance costs	6	(991)	–
<b>Total costs</b>		<b>(1,542,402)</b>	<b>(1,032,719)</b>
<b>(Loss)/profit before taxation</b>		<b>(1,255,001)</b>	<b>106,011</b>
Taxation	8	1,772	(6,828)
<b>(Loss)/profit for the period</b>		<b>(1,253,229)</b>	<b>99,183</b>
<b>(Loss)/profit attributable to:</b>			
Equity holders of the parent		(1,235,902)	99,183
Minority interest		(17,327)	–
		<b>(1,253,229)</b>	<b>99,183</b>
		Pence	Pence
(Loss)/earnings per share – basic and diluted	10	(9.22)	0.74

All revenues and (losses)/profits arise from continuing operations.

# Group Balance Sheet

AS AT 31 MARCH 2009

	Notes	2009 £	2008 £
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11	44,034	26,734
Investments at fair value through profit or loss	12	3,260,512	2,574,595
		<b>3,304,546</b>	<b>2,601,329</b>
<b>Current assets</b>			
Trade and other receivables	15	99,804	442,879
Current tax asset		–	24,577
Cash and cash equivalents	16	3,221,844	4,808,870
		<b>3,321,648</b>	<b>5,276,326</b>
<b>Total assets</b>		<b>6,626,194</b>	<b>7,877,655</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	17	(172,693)	(198,712)
Contingent consideration	13	(209,511)	(309,717)
Deferred income		(22,585)	(22,442)
Borrowings	21	(9,875)	–
		<b>(414,664)</b>	<b>(530,871)</b>
<b>Non-current liabilities</b>			
Deferred tax liability	8	–	(1,772)
Borrowings	21	(41,078)	–
		<b>(41,078)</b>	<b>(1,772)</b>
<b>Total liabilities</b>		<b>(455,742)</b>	<b>(532,643)</b>
<b>Net assets</b>		<b>6,170,452</b>	<b>7,345,012</b>
<b>EQUITY</b>			
Called up share capital	18	268,078	268,078
Share premium account		–	7,008,838
Retained earnings		5,919,701	68,096
<b>Total shareholders' equity</b>		<b>6,187,779</b>	<b>7,345,012</b>
Minority interest in equity		(17,327)	–
<b>Total equity</b>		<b>6,170,452</b>	<b>7,345,012</b>

Approved for issue by the Board of Directors on 17 June 2009 and signed on its behalf by:

**Garry S Watson**  
Chairman

# Company Balance Sheet

AS AT 31 MARCH 2009

	Notes	2009 £	2008 £ (as restated)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments at fair value through profit or loss	12	2,735,489	1,855,160
Investment in subsidiaries	13	1,233,705	583,911
		<b>3,969,194</b>	<b>2,439,071</b>
<b>Current assets</b>			
Trade and other receivables	15	292,015	605,522
Cash and cash equivalents	16	2,769,303	4,616,263
		<b>3,061,318</b>	<b>5,221,785</b>
<b>Total assets</b>		<b>7,030,512</b>	<b>7,660,856</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	17	(188,870)	(151,158)
Contingent consideration	13	(209,511)	(309,717)
<b>Total liabilities</b>		<b>(398,381)</b>	<b>(460,875)</b>
<b>Net assets</b>		<b>6,632,131</b>	<b>7,199,981</b>
<b>EQUITY</b>			
Called up share capital	18	268,078	268,078
Share premium account		–	7,008,838
Retained earnings		6,364,053	(76,935)
<b>Total equity</b>		<b>6,632,131</b>	<b>7,199,981</b>

Approved for issue by the Board of Directors on 17 June 2009 and signed on its behalf by:

**Garry S Watson**  
Chairman

# Group Cash Flow Statement

FOR THE YEAR ENDED 31 MARCH 2009

	2009 £	2008 £
<b>Operating activities</b>		
(Loss)/profit before tax	(1,255,001)	106,011
<b>Adjustments to reconcile (loss)/profit before taxation to net cash flow from operating activities</b>		
Depreciation of property, plant and equipment	12,399	8,278
Share-based payments expense	78,669	24,360
Decrease/(increase) on the revaluation of investments	377,815	(456,492)
Loss/(profit) on disposal of property, plant and equipment	1,615	(19)
Interest income	(214,675)	(330,856)
Increase in investments	(1,063,732)	(1,171,947)
Decrease/(increase) in trade and other receivables	367,652	(381,277)
(Decrease)/increase in trade and other payables	(47,934)	178,768
<b>Net cash flow from operating activities</b>	<b>(1,743,192)</b>	<b>(2,023,174)</b>
<b>Investing activities</b>		
Acquisition of subsidiaries (net of cash acquired)	–	20,963
Purchase cost of property, plant and equipment	(31,314)	(9,448)
Proceeds from disposal of property, plant and equipment	–	672
Interest received	214,675	330,856
<b>Net cash flow from investing activities</b>	<b>183,361</b>	<b>343,043</b>
<b>Financing activities</b>		
Expenses recovered in connection with share issue	–	7,250
Capital element of hire purchase contract	(27,195)	–
<b>Net cash flow from financing activities</b>	<b>(27,195)</b>	<b>7,250</b>
Net decrease in cash and cash equivalents	(1,587,026)	(1,672,881)
Cash and cash equivalents at the beginning of the year	4,808,870	6,481,751
<b>Cash and cash equivalents at the end of the year</b>	<b>3,221,844</b>	<b>4,808,870</b>



# Company Cash Flow Statement

FOR THE YEAR ENDED 31 MARCH 2009

	2009 £	2008 £
<b>Operating activities</b>		
Loss before tax	(567,850)	(7,230)
<b>Adjustments to reconcile loss before taxation to net cash flow from operating activities</b>		
Decrease on the revaluation of investments	177,403	162,942
Interest income	(205,141)	(322,437)
Increase in investments	(1,057,732)	(1,121,946)
Decrease/(increase) in trade and other receivables	313,507	(559,362)
Increase/(decrease) in trade and other payables	37,712	(46,666)
<b>Net cash flow from operating activities</b>	<b>(1,302,101)</b>	<b>(1,894,699)</b>
<b>Investing activities</b>		
Acquisition of subsidiaries (net of cash acquired)	–	20,959
Investment in subsidiary	(750,000)	–
Interest received	205,141	322,437
<b>Net cash flow from investing activities</b>	<b>(544,859)</b>	<b>343,396</b>
<b>Financing activities</b>		
Expenses recovered in connection with share issue	–	7,250
<b>Net cash flow from financing activities</b>	<b>–</b>	<b>7,250</b>
Net decrease in cash and cash equivalents	(1,846,960)	(1,544,053)
Cash and cash equivalents at the beginning of the year	4,616,263	6,160,316
<b>Cash and cash equivalents at the end of the year</b>	<b>2,769,303</b>	<b>4,616,263</b>

# Statement of Changes in Equity

FOR THE YEAR ENDED 31 MARCH 2009

	Attributable to equity holders of the Company				Minority interest	Total equity
	Share capital £	Share premium £	Retained earnings £	Total £	£	£
<b>Group</b>						
At 1 April 2007	268,078	7,001,588	(55,447)	7,214,219	–	7,214,219
Consolidated profit for the year	–	–	99,183	99,183	–	99,183
Expenses recovered in connection with share issue	–	7,250	–	7,250	–	7,250
Total recognised income and expense	268,078	7,008,838	43,736	7,320,652	–	7,320,652
Share-based payments	–	–	24,360	24,360	–	24,360
At 1 April 2008	268,078	7,008,838	68,096	7,345,012	–	7,345,012
Consolidated loss for the year	–	–	(1,235,902)	(1,235,902)	(17,327)	(1,253,229)
Total recognised income and expense	268,078	7,008,838	(1,167,806)	6,109,110	(17,327)	6,091,783
Reduction in share premium account	–	(7,008,838)	7,008,838	–	–	–
Share-based payments	–	–	78,669	78,669	–	78,669
<b>At 31 March 2009</b>	<b>268,078</b>	<b>–</b>	<b>5,919,701</b>	<b>6,187,779</b>	<b>(17,327)</b>	<b>6,170,452</b>
			Share capital £	Share premium £	Retained earnings £	Total £
<b>Company</b>						
At 1 April 2007			268,078	7,001,588	(44,312)	7,225,354
Loss for the year			–	–	(32,623)	(32,623)
Expenses recovered in connection with share issue			–	7,250	–	7,250
Total recognised income and expense			268,078	7,008,838	(76,935)	7,199,981
At 1 April 2008			268,078	7,008,838	(76,935)	7,199,981
Loss for the year			–	–	(567,850)	(567,850)
Total recognised income and expense			268,078	7,008,838	(644,785)	6,632,131
Reduction in share premium account			–	(7,008,838)	7,008,838	–
<b>At 31 March 2009</b>			<b>268,078</b>	<b>–</b>	<b>6,364,053</b>	<b>6,632,131</b>

# Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2009

## 1 Corporate information

The Group and Company financial statements of Braveheart Investment Group plc (the Company) for the year ended 31 March 2009 were authorised for issue by the Board of Directors on 17 June 2009 and the balance sheets were signed on the Board's behalf by Garry Watson.

Braveheart Investment Group plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is detailed at the back of this report. The nature of the Group's operations and its principal activities are set out in the Directors' Report. The Company is registered in Scotland. The Company's ordinary shares are traded on the London Stock Exchange (Alternative Investment Market) (AIM).

## 2 Accounting policies

### (a) Basis of preparation

The Group and Company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as they apply to financial statements for the year ended 31 March 2009 and as applied in accordance with the provisions of the Companies Act 1985. The principal accounting policies adopted by the Group and by the Company are set out in the following notes.

The Company has taken advantage of the provision of section 230 of the Companies Act 1985 not to publish its own Income Statement. The amount of loss for the financial year dealt with in the financial statements of the Company is set out in Note 9 to the accounts.

The financial statements have been prepared on a historical cost basis, except investments designated as fair value through profit or loss. The financial statements are presented in sterling and all values are rounded to the nearest pound (£) except where otherwise indicated.

### (b) Changes in accounting policy

The accounting policies adopted are consistent with those of the previous year.

During the year the Company recorded a prior year adjustment in respect of an increase in the value of an investment in a subsidiary arising from an increase in contingent consideration due on future exit values of certain portfolio companies (as fully detailed in Note 13).

### (c) Basis of consolidation

The Group's financial statements consolidate the results of Braveheart Investment Group plc and its subsidiaries (together referred to as the Group) drawn up to 31 March each year. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting year as the parent company using consistent accounting policies. All intra-group balances, transactions, income and expenses are eliminated in full on consolidation.

The subsidiaries have been consolidated from the date of their acquisition, being the date on which the Group obtained control, and will continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the subsidiary so as to obtain benefit from its activities and is achieved through direct ownership.

Group companies manage, and have an 89.29% equity interest in, Strathclyde Innovation Fund LP, which is included in the consolidated financial statements.

Minority interests represent the portion of profit or loss and net assets that is not held by the Group and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity.

### (d) Use of estimates and assumptions

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Where management's judgement has been applied, this is noted in the relevant accounting policy.

The key assumptions concerning the future, and other key sources of estimating uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### *Fair value of unquoted investments*

Unquoted investments have been valued by the directors in compliance with the principles of the International Private Equity and Venture Capital Guidelines. The use of such valuation techniques requires the directors to make certain judgements including making assessments of future revenue and earnings of portfolio companies, appropriate multiples to apply, and marketability and other risk discounts and provisions, and hence they are subject to uncertainty. The fair value of unquoted investments at 31 March 2009 was £3,244,860 (2008: £2,427,874).

## Notes to the Financial Statements

### CONTINUED

#### *Share-based payments*

The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they were granted. Judgement is required in determining the most appropriate valuation model for a grant of equity instruments depending on the terms and conditions of the grant. During the year the Group changed from using a Black-Scholes option pricing model to a Trinomial option pricing model for Performance Options. Management are also required to use certain assumptions in determining the most appropriate inputs to the valuation model, including expected life of the option, volatility, risk free rate and dividend yield. The assumptions and models used are fully disclosed in Note 19.

#### **(e) Revenue recognition and segmental reporting**

The Group earns fee income from the services it provides to its clients. Revenue is recognised at the fair value of the consideration received or receivable on fee income, excluding rebates. Fees earned for the provision of an ongoing service are recognised as that service is provided. Deal fees and facilitation fees are earned on individual transactions and related revenue is recognised on completion of the underlying transaction.

Dividend income is recognised when the Group's right to receive payment is established.

Interest income is recognised using the effective interest method. Interest income is interest earned on bank deposit accounts and loan notes.

The business is regarded as one segment due to the nature of services provided and the methods used to provide these services. All operations are conducted in the United Kingdom.

#### **(f) Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax. Current tax is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expenses that are deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits (temporary differences) and is accounted for using the balance sheet liability method.

A deferred tax asset or liability shall be recognised for all taxable temporary differences, except to the extent that the deferred tax asset or liability arises from (a) the initial recognition of goodwill, (b) the initial recognition of an asset or liability in a transaction which (i) is not a business combination and (ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss) or (c) relates to an investment in subsidiary. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

#### **(g) Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment.

Depreciation has been provided on the following basis annually:

Computer equipment	33.3% reducing balance
Fixtures and fittings	20% reducing balance

The carrying value of assets and their useful lives are reviewed at each reporting date and if an indication of impairment exists, the assets will be written down to their recoverable amount and the impairment charged to the income statement in the period in which it arises.

#### **(h) Impairment**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset or cash-generating unit's fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at the revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

#### (i) Financial assets

Financial assets are recognised when the Group becomes party to the contracts that give rise to them and are classified at initial recognition as either financial assets at fair value through profit or loss or loans and receivables. Financial assets are derecognised when the rights to receive cash flows from the asset have expired or the Group has transferred substantially all the risks and rewards of the asset.

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

Investments, which include equity and debt investments, are designated on initial recognition as financial assets at fair value through profit or loss. This measurement basis is consistent with the fact that the Group's performance in respect of its portfolio investments is evaluated on a fair value basis in accordance with an established investment strategy. When investments are recognised initially, they are measured at fair value.

After initial recognition, the fair value of listed investments is determined by reference to bid prices at the close of business on the balance sheet date.

Unlisted equity investments are measured at fair value by the directors in compliance with the principles of the International Private Equity and Venture Capital Guidelines, updated and effective 2 January 2007, as recommended by the European Venture Capital Association (EVCA). The fair value of unlisted equity investments is determined using one of the valuation methodologies set out in the guidelines. These include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; earnings or profit multiples; indicative offers; discounted cash flow analysis and pricing models.

Wherever possible the Group uses valuation techniques which make maximum use of observable market-based inputs and accordingly the valuation methodology used most commonly by the Group is 'price of most recent investment'.

Where a fair value cannot be estimated reliably, the investment is reported at the carrying value at the previous reporting date unless there is objective evidence that the investment has since been impaired.

In calculating fair value, the directors have also taken account of rights which when exercised either enhance or diminish the value of the investment. These rights are reviewed on a regular basis to assess whether they are likely to be exercised. The extent of any impact on the value of the investments has been calculated on the basis that all quantifiable rights are, or are likely to be, exercisable, or that occur automatically on certain events taking place, such as exit and liquidation preferences on realisation.

Debt investments are generally unquoted debt instruments which are convertible to equity at a future point in time. Such instruments are considered to be hybrid instruments containing a fixed rate debt host contract with an embedded equity derivative. The Group designates the entire hybrid contract at fair value through profit or loss on initial recognition and, accordingly, the embedded derivative is not separated from the host contract and accounted for separately. Given their short term nature, the fair value of debt investments is deemed to be cost less any impairment provision.

The gains and losses arising from changes in fair value are recognised in the income statement in the period in which they arise.

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and comprise trade and other receivables, other financial assets and cash and cash equivalents.

##### *Trade receivables*

Trade receivables are initially recognised at fair value and are carried at the lower of invoice value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that a balance will not be recovered in full and balances are written off when the probability of recovery is assessed as remote.

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash in hand and short term bank deposits.



## Notes to the Financial Statements

CONTINUED

### (j) Financial liabilities

Financial liabilities, which comprise trade and other payables, are initially recognised at fair value and are carried at amortised cost.

### (k) The Company's investment in its subsidiaries

In the Company's accounts, investment in its subsidiary undertakings is stated at cost less any provision for impairment.

### (l) Contingent consideration

Contingent consideration is recognised at fair value when it is probable and can be measured reliably.

### (m) Leases

Lease payments under operating leases, where a significant proportion of the risks and benefits remain with the lessor, are recognised on a straight-line basis over the term of the lease.

Hire purchase contracts, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased assets, are capitalised at the commencement of the lease at the fair value of the leased assets or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the income statement.

### (n) Share capital

Financial instruments issued by the Group are treated as equity if the holders have only a residual interest in the Group's assets after deducting all liabilities. The Group considers its capital to comprise its share capital and retained earnings. During the year the Group reduced its share premium account and transferred the full balance to retained earnings.

The Group's capital management objectives are:

- to ensure the Group's ability to continue as a going concern;
- to ensure a sufficient cash balance is maintained; and
- to maximise returns to shareholders.

The Group continuously monitors rolling cash flow forecasts to ensure sufficient cash is available for anticipated cash requirements. Investments are subject to detailed selection criteria and are monitored carefully by the Board.

Braveheart Ventures Ltd, a Group investment management subsidiary, is subject to external capital requirements imposed by the Financial Services Authority and as such must ensure that it has sufficient capital to satisfy these requirements. The Group ensures it remains compliant with these requirements as described in the financial statements of Braveheart Ventures Ltd.

There has been no change in capital management policies and procedures from the previous year.

### (o) Share-based payments

The cost of equity-settled transactions with employees is measured by reference to the fair value of the instruments issued at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an appropriate pricing model. During the year the Group changed from using a Black-Scholes option pricing model to a Trinomial option pricing model for Performance Options. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, any expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

#### (p) Business combinations

The Group uses the purchase method of accounting to account for acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

#### (q) New standards and interpretations not yet applied

The International Accounting Standards Board and the International Financial Reporting Interpretations Committee have issued the following standards and interpretations with an effective date after the date of these financial statements:

International Accounting Standards (IAS/IFRS)		Effective for accounting periods commencing on or after
IFRS 2	Share-based payment: Vesting Conditions and Cancellations (Amendment)	1 January 2009
IFRS 3	Business Combinations (revised 2008)	1 July 2009
IFRS 7	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments (Amendment)	1 January 2009
IFRS 8	Operating Segments	1 January 2009
IAS 1	Presentation of Financial Statements (revised 2007)	1 January 2009
IAS 1 and IAS 32	Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (Amendment)	1 January 2009
IAS 23	Borrowing costs (revised 2007)	1 January 2009
IAS 27	Consolidated and Separate Financial Statements (revised 2008)	1 July 2009
IAS 39*	Financial Instruments: Recognition and Measurement – Eligible Hedged Items (Amendment)	1 July 2009
	Improvements to IFRSs	1 January 2009

International Financial Reporting Interpretations Committee (IFRIC)		Effective for accounting periods commencing on or after
IFRIC 13	Customer Loyalty Programmes	1 July 2008
IFRIC 15*	Agreements for the Construction of Real Estate	1 January 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 October 2008
IFRIC 17*	Distributions of Non-Cash Assets to Owners	1 July 2009
IFRIC 18*	Transfers of Assets from Customers	1 July 2009

IAS and IFRIC		Effective for accounting periods ending on or after
IAS 39 and IFRIC 9	Embedded Derivatives (Amendment)	30 June 2009

\* Not endorsed by the EU as at the date of approval of these financial statements.

The amendment to IFRS 2 restricts the definition of vesting conditions to include only service conditions (requiring a specified period of service to be completed) and performance conditions (requiring the other party to achieve a personal goal or contribute to achieving a corporate target). All other features are not vesting conditions, and whereas a failure to achieve such a condition was previously regarded as a forfeiture (giving rise to a reversal of amounts previously charged to profit) it must be reflected in the grant date fair value of the award and treated as a cancellation, which results in either an acceleration of the expected charge, or a continuation over the remaining vesting period, depending on whether the condition is under the control of the entity or counterparty. The amendment is mandatory for periods beginning on or after 1 January 2009 and the Group is currently assessing its impact on the financial statements, although it is not expected to be material.

The Group does not anticipate early adoption of the revised IFRS 3 and so will apply it prospectively to all business combinations on or after 1 April 2010. Whilst it is not possible to estimate the outcome of adoption, the key features of the revised IFRS 3 include a requirement for acquisition-related costs to be expensed and not included in the purchase price, and for contingent consideration to be recognised at fair value on the acquisition date (with subsequent changes recognised in the income statement and not as a change to goodwill). The standard also changes the treatment of non-controlling interests (formerly minority interests) with an option to recognise these at full fair value as at the date control is obtained, with gains and losses recognised in the income statement.

# Notes to the Financial Statements

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The amendment to IFRS 7, which is mandatory for periods beginning on or after 1 January 2009, requires enhanced disclosures about fair value measurements and liquidity risk. Among other things, the new disclosures:

- clarify that the existing IFRS 7 fair value disclosures must be made separately for each class of financial instrument;
- add disclosure of any change in the method for determining fair value and the reasons for the change;
- establish a three-level hierarchy for making fair value measurements; and
- add disclosure, for each fair value measurement in the statement of financial position, of which level in the hierarchy was used and any transfers between levels.

IFRS 8 requires disclosure based on information presented to the Board on the financial performance of the Group's operating segments. The Group will apply IFRS 8 for its accounting period commencing 1 April 2009, though does not consider that the future adoption of this standard will have any material impact on the financial statements as presented, given that the business is regarded as, and financial performance is reported to the Board in respect of, one segment, due to the nature of services provided and the methods used to provide these services.

The revised IAS 1 will have no impact on the measurement of the Group's results or net assets but will result in certain changes in the presentation of the Group's financial statements from 2009 onwards. A Statement of Comprehensive Income, which can be presented in one of two ways, will be required, and the Statement of Changes in Equity will no longer be a primary statement.

IAS 23 has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional provisions in the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date of 1 January 2009. No changes will be made for borrowing costs incurred prior to this date that have been expensed.

IAS 27 revised is effective for annual periods beginning on or after 1 July 2009, with earlier application only permitted when the revised IFRS 3 is applied. The revised standard applies retrospectively, with some exceptions. IAS 27 revised no longer restricts the allocation to minority interest of losses incurred by a subsidiary to the amount of the non-controlling equity investment in the subsidiary. A partial disposal of equity interest in a subsidiary that does not result in a loss of control will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to any gain or loss. Where there is loss of control of a subsidiary, any retained interest will have to be re-measured to fair value, which will impact the gain or loss recognised on disposal. The Group is currently assessing the impact on its financial statements from adopting IAS 27 revised.

The directors do not anticipate that the adoption of the remaining standards and interpretations will have a material impact on the Group's financial statements in the period of initial application.

## 3 Revenue

Revenue is attributable to the principal activities of the Group. All revenue arose within the United Kingdom.

	Group 2009 £	Group 2008 £
Deal fees	233,629	488,504
Client subscriptions	62,700	114,970
Monitoring fees	54,006	55,975
	<b>350,335</b>	<b>659,449</b>

#### 4 Employee benefits expense

	Group 2009 £	Group 2008 £
Salaries	642,434	481,768
Social security costs	79,238	52,404
Expense of share-based payments	78,669	24,360
	<b>800,341</b>	<b>558,532</b>

The average number of employees (including executive directors) was as follows:

	No.	No.
	<b>11</b>	<b>9</b>

All of the Group's employees are employed by Braveheart Ventures Ltd and work within management and administration. During the year Braveheart Ventures Ltd recharged £264,283 (2008: £nil) to the Company in respect of employee benefits expense.

The remuneration of the directors, who are key management personnel of the Group, is set out in the Directors' Remuneration Report on pages 23 to 25.

#### 5 Finance revenue

	Group 2009 £	Group 2008 £
Bank interest receivable	192,111	323,507
Interest on loan notes	22,564	7,349
	<b>214,675</b>	<b>330,856</b>

#### 6 Finance costs

	Group 2009 £	Group 2008 £
<b>Finance charges payable under hire purchase contract</b>	<b>991</b>	<b>–</b>

#### 7 (Loss)/profit before taxation

(Loss)/profit for the year has been arrived at after charging:

	Group 2009 £	Group 2008 £
Depreciation of property, plant and equipment	12,399	8,278
Lease payments recognised as an operating lease (office rent)	39,924	31,861
Loss/(profit) on the disposal of plant, property and equipment	1,615	(19)
Auditors remuneration:		
– audit of parent company	21,300	35,000
– audit of subsidiary companies	19,000	12,750
– audit-related regulatory reporting	3,000	5,500
– taxation compliance	4,500	4,500

# Notes to the Financial Statements

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## 8 Taxation on (loss)/profit on ordinary activities

	2009 £	2008 £
UK corporation tax	–	–
Deferred tax	(1,772)	6,828
<b>Tax (credit)/charge in the income statement</b>	<b>(1,772)</b>	<b>6,828</b>
<b>Reconciliation of total tax</b>		
(Loss)/profit before tax	(1,255,001)	106,011
Tax at the rate of 21% (2008: 20%)	(263,550)	21,202
Disallowed expenses	41,325	113,876
Unrealised loss/(profit) on revaluation of investments	41,756	(133,364)
Increase in unutilised tax losses	179,456	8,218
Other adjustments	(759)	(3,104)
<b>Total tax reported in the income statement</b>	<b>(1,772)</b>	<b>6,828</b>

### Deferred tax

The deferred tax included in the balance sheet is as follows:

	2009 £	2008 £
<b>Deferred tax liability</b>		
Accelerated capital allowances	2,372	1,772
Total deferred tax liability	2,372	1,772
<b>Deferred tax asset</b>		
Trade losses	(2,372)	–
Total deferred tax asset	(2,372)	–
<b>Total deferred tax as reported in the balance sheet</b>	<b>–</b>	<b>1,772</b>

The Group has potential deferred tax assets in respect of:

- excess management expenses of £355,310 arising from Braveheart Investment Group plc;
- excess management expenses of £948,063 arising from Caledonia Portfolio Realisations Ltd; and
- unutilised trading losses of £721,424 in Braveheart Ventures Ltd.

In addition, the Group has a potential deferred tax asset in respect of unrealised losses on the revaluation of investments in the year of £198,836.

No deferred tax assets have been recognised in respect of these amounts as it is uncertain that there will be suitable taxable profits from which the future reversal of the deferred tax could be deducted.

## 9 Loss of the Parent Company

	2009 £	2008 £
<b>Loss of the Parent Company only</b>	<b>(567,850)</b>	<b>(32,623)</b>



## 10 (Loss)/earnings per share

Basic (loss)/earnings per share have been calculated by dividing the (loss)/earnings attributable to equity holders of the parent by the weighted average number of ordinary shares in issue during the year.

Diluted (loss)/earnings per share is adjusted for share options granted where the exercise price is less than the average price of the ordinary shares during the year.

The calculations of (loss)/earnings per share are based on the following (loss)/profit and numbers of shares in issue:

	2009 £	2008 £
<b>(Loss)/profit for the year attributable to equity holders of the parent</b>	<b>(1,235,902)</b>	<b>99,183</b>
	No.	No.
Weighted average number of ordinary shares in issue:		
For basic (loss)/earnings per ordinary share	13,403,895	13,403,895
Dilutive effect of exercisable options	–	–
	<b>13,403,895</b>	<b>13,403,895</b>

The exercise price of all share options exceeded the average price of ordinary shares during the period in which they were outstanding, and accordingly no diluted earnings per share adjustment is required.

The Group acquired 100% of the issued ordinary share capital of Inkopo Ltd after the balance sheet date in a transaction involving the issue of the Company's shares (see Note 25).

## 11 Property, plant and equipment

Group	Fixtures & fittings £	Computer equipment £	Total £
<b>Cost</b>			
At 1 April 2007	27,572	30,328	57,900
Additions	1,529	7,919	9,448
Disposals	–	(978)	(978)
At 1 April 2008	29,101	37,269	66,370
Additions	6,049	25,265	31,314
Disposals	(2,403)	(13,959)	(16,362)
<b>At 31 March 2009</b>	<b>32,747</b>	<b>48,575</b>	<b>81,322</b>
<b>Accumulated depreciation</b>			
At 1 April 2007	13,059	18,624	31,683
Charge for year	3,103	5,175	8,278
Disposals	–	(325)	(325)
At 1 April 2008	16,162	23,474	39,636
Charge for year	3,226	9,173	12,399
Disposals	(1,722)	(13,025)	(14,747)
<b>At 31 March 2009</b>	<b>17,666</b>	<b>19,622</b>	<b>37,288</b>
<b>Net Book Value</b>			
<b>At 31 March 2009</b>	<b>15,081</b>	<b>28,953</b>	<b>44,034</b>
At 31 March 2008	12,939	13,795	26,734

All of the above assets are held within the subsidiary company Braveheart Ventures Ltd.

Included within the net book value of £44,034 is £19,144 (2008: £nil) relating to an asset held under a hire purchase contract. The depreciation charged to the financial statements in the year in respect of such an asset amounted to £4,565 (2008: £nil).

# Notes to the Financial Statements

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## 12 Investments at fair value through profit or loss

Group	Listed			Unlisted			Total £
	Equity £	Loan £	Sub-total £	Equity £	Loan £	Sub-total £	
Fair value at 1 April 2007	135,845	40,000	175,845	720,311	–	720,311	896,156
Additions at cost	98,639	–	98,639	939,845	183,463	1,123,308	1,221,947
Transfers	58,695	–	58,695	(58,695)	–	(58,695)	–
Disposals proceeds	–	–	–	(1,650)	–	(1,650)	(1,650)
Change in fair value in year	(146,458)	(40,000)	(186,458)	673,989	(29,389)	644,600	458,142
Fair value at 1 April 2008	146,721	–	146,721	2,273,800	154,074	2,427,874	2,574,595
Additions at cost	–	–	–	556,126	507,606	1,063,732	1,063,732
Conversions	–	–	–	208,846	(208,846)	–	–
Change in fair value in year	(131,069)	–	(131,069)	(21,746)	(225,000)	(246,746)	(377,815)
<b>Fair value at 31 March 2009</b>	<b>15,652</b>	<b>–</b>	<b>15,652</b>	<b>3,017,026</b>	<b>227,834</b>	<b>3,244,860</b>	<b>3,260,512</b>

Company	Listed			Unlisted			Total £
	Equity £	Loan £	Sub-total £	Equity £	Loan £	Sub-total £	
Fair value at 1 April 2007	135,845	40,000	175,845	720,311	–	720,311	896,156
Additions at cost	98,639	–	98,639	839,844	183,463	1,023,307	1,121,946
Transfers	58,695	–	58,695	(58,695)	–	(58,695)	–
Disposals proceeds	–	–	–	(1,650)	–	(1,650)	(1,650)
Change in fair value in year	(146,458)	(40,000)	(186,458)	54,555	(29,389)	25,166	(161,292)
Fair value at 1 April 2008	146,721	–	146,721	1,554,365	154,074	1,708,439	1,855,160
Additions at cost	–	–	–	556,126	501,606	1,057,732	1,057,732
Conversions	–	–	–	208,846	(208,846)	–	–
Change in fair value in year	(131,069)	–	(131,069)	178,666	(225,000)	(46,334)	(177,403)
<b>Fair value at 31 March 2009</b>	<b>15,652</b>	<b>–</b>	<b>15,652</b>	<b>2,498,003</b>	<b>221,834</b>	<b>2,719,837</b>	<b>2,735,489</b>

Investments, which include equity and debt investments, are designated on initial recognition as financial assets at fair value through profit or loss. This measurement basis is consistent with the fact that the Group's performance in respect of its portfolio investments is evaluated on a fair value basis in accordance with an established investment strategy. When investments are recognised initially, they are measured at fair value.

After initial recognition, the fair value of listed investments is determined by reference to bid prices at the close of business on the balance sheet date.

Unlisted equity investments are measured at fair value by the directors in compliance with the principles of the International Private Equity and Venture Capital Guidelines, updated and effective 2 January 2007, as recommended by the European Venture Capital Association (EVCA). The fair value of unlisted equity investments is determined using one of the valuation methodologies set out in the guidelines. These include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; earnings or profit multiples; indicative offers; discounted cash flow analysis and pricing models.

Wherever possible the Group uses valuation techniques which make maximum use of observable market-based inputs and accordingly the valuation methodology used most commonly is 'price of most recent investment', which accounted for 82% (2008: 95%) of the value of the Group's unlisted equity investments.

Details of investments where the nominal value of the holding in the undertaking is 20% or more of any class of share are as follows:

Name of Company	Holding	% of shares held	Nature of Business
Verbalis Ltd	'A' Ordinary shares	100%	Design and production of automated language translation systems.

The above shareholding, which is held by Caledonia Portfolio Realisations Ltd, represents a 20% aggregate shareholding in Verbalis Ltd. In the opinion of the directors, this shareholding does not entitle the Company to exert significant or a dominant influence over the portfolio company.

### 13 Investment in subsidiaries

Company	£
Cost	
At 1 April 2007	224,190
Additions	50,004
At 31 March 2008	274,194
Increase in investment value	309,717
At 31 March 2008 (restated)	583,911
Additions (Note 22)	750,000
Impairment in investment value	(100,206)
<b>At 31 March 2009</b>	<b>1,233,705</b>

The Company has the following interests in subsidiary undertakings:

Name	Country of incorporation	Nature of business	% Interest
Braveheart Ventures Ltd	Scotland	Investment management	100%
Caledonia Portfolio Realisations Ltd	Scotland	Investment management	100%
Caledonia LP Ltd	Scotland	Investment management	100%
Strathclyde Innovation Fund GP Ltd	Scotland	Investment management	100%
Caledonia Portfolio Ltd	Scotland	Dormant	100%

Caledonia Portfolio Realisations Ltd (CPR) was acquired on 4 April 2007. CPR is an unlisted company based in Scotland specialising in making investments in technology businesses. The acquisition consisted of a cash consideration of £50,000 and contingent consideration based on future exit values of the portfolio, and has been accounted for using the purchase method of accounting. At the date of acquisition contingent consideration was determined to be £nil. At 31 March 2008, an unrealised revaluation gain in respect of CPR portfolio investments resulted in a contingent consideration liability of £309,717. This liability was originally incorrectly recorded in the accounts of CPR whereas the liability should have been recorded in the accounts of the Company together with a corresponding increase in the value of the Company's investment in CPR, and this has been corrected by way of a prior year adjustment.

At 31 March 2009, an unrealised revaluation loss in respect of CPR portfolio investments has resulted in a reduction of £100,206 in both the contingent consideration liability and the value of the Company's investment in CPR.

Group entities act as General Partner to, and have an interest in, the following limited partnership:

Name	Place of business	% interest
Strathclyde Innovation Fund LP	Scotland	89.29%

Strathclyde Innovation Fund LP has been included in the consolidated financial statements since 1 April 2008.

### 14 Contingent consideration/Goodwill

In accordance with IFRS 3, the fair value of the contingent consideration arising on future exit values of the CPR portfolio (as described in Note 13) is recognised as goodwill.

However, given that the underlying assets of CPR are held at fair value, any goodwill so recognised is immediately written off or written back to the income statement.

# Notes to the Financial Statements

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## 15 Trade and other receivables

	Group 2009 £	Group 2008 £	Company 2009 £	Company 2008 £
Trade receivables	48,479	147,999	–	–
Prepayments and accrued income	29,925	180,103	22,177	166,157
Amounts due from related parties	–	–	248,438	324,588
Other receivables	21,400	114,777	21,400	114,777
	<b>99,804</b>	<b>442,879</b>	<b>292,015</b>	<b>605,522</b>

Due to the short term maturity of trade receivables, the directors consider the carrying amounts to approximate their fair value. All receivables are non-interest bearing and unsecured. No impairment provision is considered necessary by reference to past default experience.

## 16 Cash and cash equivalents

	Group 2009 £	Group 2008 £	Company 2009 £	Company 2008 £
<b>Cash at bank and on hand</b>	<b>3,221,844</b>	<b>4,808,870</b>	<b>2,769,303</b>	<b>4,616,263</b>

Cash balances are held with Bank of Scotland plc and The Royal Bank of Scotland plc and earn interest at floating rates based on daily bank deposit rates.

## 17 Trade and other payables

	Group 2009 £	Group 2008 £	Company 2009 £	Company 2008 £
Trade payables	24,549	78,997	3,625	56,797
Amounts due to related parties	–	–	113,100	40,694
Other taxes and social security	45,949	40,029	–	–
Accruals	102,195	79,686	72,145	53,667
	<b>172,693</b>	<b>198,712</b>	<b>188,870</b>	<b>151,158</b>

Due to the short term maturity of trade payables, the directors consider the carrying amounts to approximate their fair value. Trade payables are non-interest bearing and are normally settled on 30-day terms.

## 18 Share capital

	2009 £	2008 £
<i>Authorised</i>		
<b>33,645,000 ordinary shares of 2p each</b>	<b>672,900</b>	<b>672,900</b>
<i>Allotted, called up and fully paid</i>		
<b>13,403,895 ordinary shares of 2p each</b>	<b>268,078</b>	<b>268,078</b>

The Company has one class of ordinary shares. All shares carry equal voting rights, equal rights to income and distribution of assets on liquidation or otherwise, and no right to fixed income.

## 19 Share-based payments

The Company operates the Braveheart Investment Group plc Executive Share Option Scheme 2006 (the Scheme), which comprises Part A, a share option scheme approved by HMRC (the Approved Scheme) and Part B, an unapproved share option scheme (the Unapproved Scheme).

Historically, the Scheme was open to all directors and employees of the Group, although non-executive directors could only participate in Part B. The Scheme is now open only to executive directors and employees.

Options are granted by the Board taking into account the need to motivate, retain and recruit high calibre employees and with regard to the contribution that such employees are expected to make in achieving the Company's objectives.

Options granted under the Scheme are categorised as either Employment Options or Performance Options. Employment Options may be granted under either Part A or Part B. All Performance Options are granted under Part B.

Employment Options vest and become exercisable on the third anniversary of date of grant, and generally lapse on the earlier of cessation of employment (or six months thereafter if options have vested at cessation date) or the 10th anniversary of date of grant.

Performance Options have vesting conditions linked to the growth in the Company's market capitalisation from the date of grant (Performance Conditions). If a Performance Condition is not met, the related Performance Option lapses at the end of the relevant measurement period.

Otherwise, Performance Options vest on attainment of the Performance Condition and become exercisable on the 1st anniversary of the date of the Performance Condition being met, and lapse on the 10th anniversary of date of grant.

During the year ended 31 March 2008, on 18 June 2007, 81,311 Employment Options and 762,443 Performance Options were granted. No options lapsed or were exercised.

During the current year ended 31 March 2009, on 25 June 2008, 139,077 Employment Options and 150,306 Performance Options were granted, and on 8 December 2008, 65,896 Employment Options and 56,116 Performance Options were granted. No Employment Options were exercised, and 23,365 lapsed. No Performance Options have vested or were exercised, and 312,183 lapsed, the majority due to the related Performance Condition not having been met.

The movement in Share Options is summarised below:

Date of grant	At 1 April 2007	Weighted average exercise price	No. of options granted in year	No. of options exercised in year	No. of options lapsed in year	At 31 March 2008	Exercise price	Weighted average exercise price	Date first exercisable	Expiry date
<b>Employment Options granted under Part A</b>										
18 June 2007	–	–	56,120	–	–	56,120	£1.645	£1.645	18 June 2010	17 June 2017
<b>Employment Options granted under Part B</b>										
18 June 2007	–	–	25,191	–	–	25,191	£1.645	£1.645	18 June 2010	17 June 2017
<b>Performance Options granted under Part B</b>										
18 June 2007	–	–	762,443	–	–	762,443	£1.645	£1.645	18 June 2010	17 June 2017



# Notes to the Financial Statements

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Date of grant	At 1 April 2008	Weighted average exercise price	No of options granted in year	No of options exercised in year	No of options lapsed in year	At 31 March 2009	Exercise price	Weighted average exercise price	Date first exercisable	Expiry date
<b>Employment Options granted under Part A</b>										
18 June 2007	56,120		–	–	(11,457)	44,663	£1.645		18 June 2010	17 June 2017
25 June 2008	–		95,798	–	(11,908)	83,890	£1.15		25 June 2011	24 June 2018
8 December 2008	–		65,896	–	–	65,896	£0.35		8 December 2011	7 December 2018
	56,120	£1.645	161,694	–	(23,365)	194,449		£0.99		
<b>Employment Options granted under Part B</b>										
18 June 2007	25,191		–	–	–	25,191	£1.645		18 June 2010	17 June 2017
25 June 2008	–		43,279	–	–	43,279	£1.15		25 June 2011	24 June 2018
	25,191	£1.645	43,279	–	–	68,470		£1.33		
<b>Performance Options granted under Part B</b>										
18 June 2007	762,443		–	–	(306,171)	456,272	£1.645		18 June 2010	17 June 2017
25 June 2008	–		150,306	–	(6,012)	144,294	£1.15		25 June 2009	24 June 2018
8 December 2008	–		56,116	–	–	56,116	£0.35		8 December 2009	7 December 2018
	762,443	£1.645	206,422	–	(312,183)	656,682		£1.43		

The weighted average exercise price of the total number of options granted and not exercised at 31 March 2009 was £1.33 (2008: £1.645).

The Performance Conditions attached to the Performance Options are as follows:

Date of grant	Performance condition	Percentage of the grant to which the performance condition applies
18 June 2007	The Company's market capitalisation exceeds the benchmark price by 50% for 5 consecutive business days at any time before the 1st anniversary of date of grant.	33.33%
	The Company's market capitalisation exceeds the benchmark price by 100% for 5 consecutive business days at any time before the 2nd anniversary of date of grant.	33.33%
	The Company's market capitalisation exceeds the benchmark price by 150% for 5 consecutive business days at any time before the 3rd anniversary of date of grant.	33.33%
25 June 2008	The Company's market capitalisation exceeds the benchmark price by 25% for 5 consecutive business days at any time before the 1st anniversary of date of grant.	100%
8 December 2008	The Company's market capitalisation exceeds the benchmark price by 25% for 5 consecutive business days at any time before the 1st anniversary of date of grant.	100%

The benchmark price is the option exercise price multiplied by the number of ordinary shares of 2p each in the issued share capital of the Company on the date of grant of the related option.

The option exercise price is the closing mid-market price on AIM of an ordinary share of 2p each in Braveheart Investment Group plc share on the last business day prior to the date of the grant.

The charge made in respect of the fair value of options granted was:

	2009 £	2008 £
<b>Expense arising from equity-settled share-based payments transactions</b>	<b>78,669</b>	<b>24,360</b>

The fair value of all options granted during 2008 was originally estimated at the date of grant using a Black-Scholes option pricing model. The Company now believes that given the nature of the Performance Conditions it is more appropriate to use a Trinomial option pricing model for Performance Options. Accordingly, the fair value of all Performance Options granted to date has been calculated using such a model. The fair value of Employment Options continues to be calculated using a Black-Scholes option pricing model.

The following assumptions have been used in calculating the fair value of share options:

	Options granted in year ended 31 March			
	2009		2008	
	Employment options	Performance options	Employment options	Performance options
Valuation method	Black-Scholes	Trinomial	Black-Scholes	Trinomial
Risk free interest rate	2.0-4.5%	2.0-4.5%	4.5%	4.5%
Expected life (average years)	3	2	3	2
Expected volatility	28-33%	28-33%	28%	28%
Dividend yield	0%	0%	0%	0%

The expected life of the options is the expected average point at which an option becomes exercisable. The expected volatility is based on historical volatility of the share price of the Company and of quoted comparable companies over the most recent period at the date of grant that is commensurate with the average expected life of the option. The weighted average share price used in each calculation was equal to the option exercise price.

## 20 Operating lease commitments

The Group entered into a commercial lease on its office premises in Perth in June 2005 for a five-year period. The Group also entered into a commercial lease on its office premises in London in November 2008 for a 12-month period. Renewals are at the option of the lessor. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under operating leases are as follows:

	2009 £	2008 £
Future minimum payments due:		
Not later than one year	48,730	30,730
In two to five years	5,122	35,852
	<b>53,852</b>	<b>66,582</b>

## 21 Borrowings

The Group entered into a hire purchase contract for the purchase of computer equipment in November 2008. The asset is included under computer equipment in Note 11. The effective interest rate is 7.6%.

Future minimum rentals payable under the hire purchase contract are as follows:

	2009 £	2008 £
Future minimum payments due:		
Not later than one year	9,875	—
In two to five years	17,320	—
	<b>27,195</b>	<b>—</b>

# Notes to the Financial Statements

CONTINUED

At 31 March 2009, Strathclyde Innovation Fund LP had received £23,758 (2008: £nil) from limited partners unrelated to the Group to cover partnership obligations. Such sums are treated as long term loans from limited partners.

## 22 Related party disclosures

Trade and other receivables (Note 15) include the following amounts due from subsidiary undertakings:

	2009 £	2008 £
Braveheart Ventures Ltd	–	274,587
Caledonia Portfolio Realisations Ltd	50,453	50,001
Caledonia LP Ltd	197,985	–
	<b>248,438</b>	<b>324,588</b>

Trade and other payables (Note 17) include the following amounts due to subsidiary undertakings:

	2009 £	2008 £
Braveheart Ventures Ltd	113,100	40,694

All above amounts are unsecured, interest free and repayable on demand.

During the year, the Company subscribed for 7,500,000 redeemable preference shares of 10p each in Braveheart Ventures Ltd at an aggregate cost of £750,000.

Transactions between the Company and its subsidiaries are eliminated on consolidation.

Certain executive and non-executive directors are clients of Braveheart Ventures Ltd. Investment transactions executed on their behalf are carried out on the same commercial terms as all other clients of Braveheart Ventures Ltd. Fees arising during the year from such transactions were as follows: Garry Watson £1,370, Edward Cunningham £1,023 and Donald Turner £112.

## 23 Financial risk management objectives and policies (Group and Company)

The Group and Company's financial instruments comprise investments designated at fair value through profit or loss, cash and various items such as trade and other receivables, and trade and other payables, all of which arise directly from its normal operations.

The carrying values of all of the Group and Company's financial instruments approximate their fair values at 31 March 2009 and 31 March 2008. The accounting policies described in Note 2 outline how the financial instruments are measured.

An analysis of the balance sheet sums, relevant to an analysis of risk management, is as follows:

Group	Financial instruments			Balance sheet total £
	Designated at fair value through profit or loss £	Loans and receivables £	Non-financial assets £	
<b>2009</b>				
Investments	3,260,512	–	–	3,260,512
Trade and other receivables	–	69,879	29,925	99,804
Cash and cash equivalents	–	3,221,844	–	3,221,844
	<b>3,260,512</b>	<b>3,291,723</b>	<b>29,925</b>	<b>6,582,160</b>
<b>2008</b>				
Investments	2,574,595	–	–	2,574,595
Trade and other receivables	–	262,776	180,103	442,879
Current tax asset	–	24,577	–	24,577
Cash and cash equivalents	–	4,808,870	–	4,808,870
	<b>2,574,595</b>	<b>5,096,223</b>	<b>180,103</b>	<b>7,850,921</b>

Company	Financial instruments			Balance sheet total £
	Designated at fair value through profit or loss £	Loans and receivables £	Non-financial assets £	
<b>2009</b>				
Investments	2,735,489	–	1,233,705	3,969,194
Trade and other receivables	–	269,838	22,177	292,015
Cash and cash equivalents	–	2,769,303	–	2,769,303
	<b>2,735,489</b>	<b>3,039,141</b>	<b>1,255,882</b>	<b>7,030,512</b>
<b>2008</b>				
Investments	1,855,160	–	583,911	2,439,071
Trade and other receivables	–	439,365	166,157	605,522
Cash and cash equivalents	–	4,616,263	–	4,616,263
	<b>1,855,160</b>	<b>5,055,628</b>	<b>750,068</b>	<b>7,660,856</b>
Group				Balance sheet total £
		Other financial liabilities at amortised cost £	Liabilities not within the scope of IAS 39 £	
<b>2009</b>				
Trade and other payables		126,744	45,949	172,693
Contingent consideration		–	209,511	209,511
Deferred income		22,585	–	22,585
Borrowings		23,758	27,195	50,953
Deferred tax liability		–	–	–
		<b>173,087</b>	<b>282,655</b>	<b>455,742</b>
<b>2008</b>				
Trade and other payables		158,683	40,029	198,712
Contingent consideration		–	309,717	309,717
Deferred income		22,442	–	22,442
Borrowings		–	–	–
Deferred tax liability		1,772	–	1,772
		<b>182,897</b>	<b>349,746</b>	<b>532,643</b>
Company				Balance sheet total £
		Other financial liabilities at amortised cost £	Liabilities not within the scope of IAS 39 £	
<b>2009</b>				
Trade and other payables		188,870	–	188,870
Contingent consideration		–	209,511	209,511
		<b>188,870</b>	<b>209,511</b>	<b>398,381</b>
<b>2008</b>				
Trade and other payables		151,158	–	151,158
Contingent consideration		–	309,717	309,717
		<b>151,158</b>	<b>309,717</b>	<b>460,875</b>

One of the Group's principal objectives and policies is to achieve income and capital gains through investment in equity shares in a portfolio of UK companies, the majority of which are unlisted.

Through its normal operations the Group is exposed to a number of financial risks, namely credit risk, liquidity risk and market risk. The Board reviews and agrees policies for managing each of these risks as summarised below.

# Notes to the Financial Statements

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## Credit risk

Credit risk arises from the exposure to the risk of loss if the counterparty fails to perform its financial obligations to the Group. The Group's financial assets predominantly comprise investments designated at fair value through profit or loss, and cash. In accordance with its Investment Policy, the Group seeks to manage credit risk related to its investments through detailed investment selection criteria and diversification and by placing limits on individual investments. In accordance with its Treasury Policy, the Group seeks to mitigate this risk on cash by placing funds only with banks with high credit ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk within any of its other financial assets. Included within such other financial assets are balances which are past due at the reporting date for which the Group has not provided as there has not been a significant change in their credit quality and which the Group believes are fully recoverable. The age profile of the Group and Company's other financial assets is as follows:

Group	Neither past due nor impaired £	Less than 3 months £	3 to 12 months £	More than 1 year £	Total £
<b>2009</b>					
Trade receivables	31,432	2,300	14,747	–	48,479
Other receivables	51,325	–	–	–	51,325
	<b>82,757</b>	<b>2,300</b>	<b>14,747</b>	<b>–</b>	<b>99,804</b>
<b>2008</b>					
Trade receivables	116,156	2,350	29,493	–	147,999
Other receivables	319,457	–	–	–	319,457
	<b>435,613</b>	<b>2,350</b>	<b>29,493</b>	<b>–</b>	<b>467,456</b>
<b>Company</b>					
<b>2009</b>					
Amounts due from related parties	248,438	–	–	–	248,438
Other receivables	43,577	–	–	–	43,577
	<b>292,015</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>292,015</b>
<b>2008</b>					
Amounts due from related parties	324,588	–	–	–	324,588
Other receivables	280,934	–	–	–	280,934
	<b>605,522</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>605,522</b>

The Group considers its exposure to credit risk is negligible.

## Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group seeks to manage its liquidity risk by holding sufficient cash reserves to meet foreseeable needs, and by investing cash assets safely. The Group continuously monitors rolling cash flow forecasts to ensure sufficient cash is available for anticipated cash requirements and, in accordance with its Treasury Policy, the Group only invests cash assets with reputable counterparties.



The maturity profile of the Group and Company's financial liabilities is as follows:

Group	On demand £	Less than 3 months £	3 to 12 months £	More than 1 year £	Total £
<b>2009</b>					
Trade and other payables	126,112	632	—	—	126,744
Other liabilities	22,585	—	9,875	41,078	73,538
	<b>148,697</b>	<b>632</b>	<b>9,875</b>	<b>41,078</b>	<b>200,282</b>
<b>2008</b>					
Trade and other payables	111,583	—	47,100	—	158,683
Other liabilities	22,442	—	—	1,772	24,214
	<b>134,025</b>	<b>—</b>	<b>47,100</b>	<b>1,772</b>	<b>182,897</b>
<b>Company</b>					
<b>2009</b>					
Trade and other payables	75,770	—	—	—	75,770
Amounts due to related parties	113,100	—	—	—	113,100
	<b>188,870</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>188,870</b>
<b>2008</b>					
Trade and other payables	63,364	—	47,100	—	110,464
Amounts due to related parties	40,694	—	—	—	40,694
	<b>104,058</b>	<b>—</b>	<b>47,100</b>	<b>—</b>	<b>151,158</b>

### Market risk

Market risk is the risk that changes in market conditions such as equity prices, interest rates and foreign exchange rates will have an adverse impact on the Group's financial position or results.

#### Equity price risk

The Group is exposed to equity price risk due to uncertainties about future values of its portfolio of listed and unlisted equity investments. The Group manages such equity price risk in a similar way to credit risk through detailed investment selection criteria and diversification and by placing limits on individual investments. Investments are monitored carefully and the Board reviews the portfolio on a regular basis.

It is estimated that the maximum effect of a 10% fall in market prices to which the Group is exposed would be an increase in the loss before tax for the 12 months to 31 March 2009 of £303,268 (2008: reduction in profit before tax of £242,052).

#### Interest rate risk

The Group finances its operations through equity funding as opposed to debt and therefore minimises its exposure to interest rate risks. The Group's financial instruments are non-interest bearing, with the exception of loan notes which attract fixed rate interest, and cash balances which attract variable interest rates determined with reference to the bank interest rate.

# Notes to the Financial Statements

CONTINUED

The interest rate profile of the Group's financial instruments is as follows:

Group	Fixed rate £	Variable rate £	Interest free £	Total £
<b>2009</b>				
<b>Financial assets</b>				
Investments: equity	–	–	3,032,678	3,032,678
Investments: loan notes	227,834	–	–	227,834
Cash and cash equivalents	–	3,221,844	–	3,221,844
Other financial assets	–	–	99,804	99,804
	<b>227,834</b>	<b>3,221,844</b>	<b>3,132,482</b>	<b>6,582,160</b>
<b>Financial liabilities</b>				
Deferred consideration	–	–	209,511	209,511
Other financial liabilities	–	27,195	219,036	246,231
	<b>–</b>	<b>27,195</b>	<b>428,547</b>	<b>455,742</b>
<b>2008</b>				
<b>Financial assets</b>				
Investments: equity	–	–	2,420,521	2,420,521
Investments: loan notes	154,074	–	–	154,074
Cash and cash equivalents	–	4,808,870	–	4,808,870
Other financial assets	–	–	467,456	467,456
	<b>154,074</b>	<b>4,808,870</b>	<b>2,887,977</b>	<b>7,850,921</b>
<b>Financial liabilities</b>				
Trade and other payables	–	–	198,712	198,712
Deferred consideration	–	–	309,717	309,717
Other financial liabilities	–	–	24,214	24,214
	<b>–</b>	<b>–</b>	<b>532,643</b>	<b>532,643</b>

It is estimated that the maximum effect of a one percentage point (100 basis points) fall in interest rates to which the Group is exposed would be an increase in loss before tax for the 12 months to 31 March 2009 of £32,215 (2008: reduction in profit before tax of £47,414).

## Foreign currency risk

The Group is not exposed to foreign currency risk as all of its financial instruments are denominated in sterling.

## 24 Ultimate controlling party

There is no ultimate controlling party.

## 25 Post balance sheet acquisition

On 5 June 2009, the Company acquired the entire issued share capital of Inkopo Ltd, a specialist investment business based in Yorkshire.

The initial consideration comprised a cash payment of £75,000 and 511,937 ordinary shares in Braveheart. In addition, at the date of acquisition Inkopo had approximately £52,000 of net debt. Two further tranches of consideration are payable on the first and second anniversary of completion (Contingent Consideration). The Contingent Consideration will be settled by the further issue of ordinary shares in Braveheart or, at Braveheart's discretion, in cash or by the issue of unsecured loan notes. The Contingent Consideration will be based on (i) Inkopo's turnover for the years ending 31 March 2010 and 31 March 2011, and (ii) the attainment by Inkopo of certain other non-turnover based operating targets benefitting the Group. The total aggregate consideration is capped at £1.31m irrespective of any over performance of Inkopo's targets. All Braveheart ordinary shares issued as consideration will be valued at a price of 39.2p, representing a one-third premium to the average closing price of Braveheart shares on the five days prior to 15 May 2009, being the date on which heads of agreement were signed.

Due to the proximity of the date of approval of the financial statements to the date of acquisition there has been insufficient time available to enable the identification of all assets, liabilities and contingent liabilities existing at date of acquisition and to perform a full and reliable fair value exercise thereon. Consequently, full disclosure as set out in IFRS 3 'Business combinations' has not been given as it is impracticable to provide this information.

# Notice of Annual General Meeting

BRAVEHEART INVESTMENT GROUP PLC (THE COMPANY)

(REGISTERED IN SCOTLAND WITH COMPANY NUMBER SC247376)

NOTICE IS HEREBY GIVEN that an Annual General Meeting of the Company will be held at The Centenary Suite, St Johnstone Football Club, McDiarmid Park, Crieff Road, Perth, PH1 2SJ on Wednesday 9 September 2009 at 12.30pm to consider the following resolutions:

## Ordinary Business

To consider and, if thought fit, pass the following resolutions which will be proposed as Ordinary Resolutions of the Company:

### Resolution 1

THAT the audited accounts of the Company for the financial year ended 31 March 2009 and the reports of the directors and auditors thereon, be received.

Explanation of Resolution 1: The directors are required by law to present to the shareholders of the Company at a general meeting the audited accounts of the Company for the financial year ended 31 March 2009 and the reports of the directors and auditors thereon. The report of directors and the audited accounts have been approved by the directors, and the report of the auditors has been approved by the auditors. A copy of each of these documents may be found in the Annual Report of the Company.

### Resolution 2

THAT Grant Thornton UK LLP, having been appointed by the Board since the last Annual General Meeting, be re-appointed as auditors of the Company to hold office until the conclusion of the next general meeting of the Company before which audited accounts are laid.

Explanation of Resolution 2: The auditors are responsible for examining the annual accounts of the Company and forming an opinion as to whether or not they give a true and fair view of its results and financial position. It is a requirement of law that the Company appoint auditors at each meeting at which accounts are presented to its shareholders, such appointment to continue until the next meeting at which accounts are presented.

### Resolution 3

THAT the directors be authorised to determine the remuneration of the auditors.

Explanation of Resolution 3: The resolution gives the directors of the Company the authority to determine the remuneration paid to the auditors for the next financial year. The amount of the remuneration for the next financial year will be disclosed in the next audited accounts of the Company.

### Resolution 4

THAT Garry Sanderson Watson, who retires by rotation under article 107.1 of the Company's Articles of Association, be re-elected as a director of the Company.

Explanation of Resolution 4: Garry Sanderson Watson, a director of the Company, is retiring by rotation pursuant to the requirements of the Company's Articles of Association and is making himself available for re-election. Biographical details for Mr Watson are shown on page 19 of the Annual Report.

### Resolution 5

THAT Carolyn Smith, who retires by rotation under article 107.1 of the Company's Articles of Association, be re-elected as a director of the Company.

Explanation of Resolution 5: Carolyn Smith, a Director of the Company, is retiring by rotation pursuant to the requirements of the Company's Articles of Association and is making herself available for re-election. Biographical details for Ms Smith are shown on page 19 of the Annual Report.

### Resolution 6

THAT Colin Craigie Grant, having been appointed by the Board since the last Annual General Meeting, be re-elected as a director of the Company.

Explanation of Resolution 6: Colin Grant was elected a director of the Company by the Board on 15 October 2008 and pursuant to the requirements of the Company's Articles of association is making himself available for re-election. Biographical details for Mr Grant are shown on page 19 of the Annual Report.

# Notice of Annual General Meeting

CONTINUED

## Special Business

To consider and, if thought fit, pass the following resolution which will be proposed as a Special Resolution of the Company:

### Resolution 7

THAT the limits to the Company's Share Option Scheme approved by the members (Option Scheme) be increased from 10% to 15% of the Company's issued share capital from time to time and that, in addition to those powers currently conferred upon the directors and in the exercise of the existing authorities granted pursuant to section 80 of the Companies Act 1985 (the Act), the directors be and are hereby empowered pursuant to section 95 of the Act to allot equity securities (as defined in section 94 of the Act) as if subsection 89(1) of the Act did not apply to any such allotment, provided that this additional power shall (i) be limited to the allotment of equity securities pursuant to the foregoing increase in the limits to the Option Scheme not exceeding 5% of the enlarged share capital of the Company from time to time; and (ii) expire on 16 May 2011, except that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and notwithstanding such expiry the directors may allot equity securities in pursuance of such offer or agreements.

Explanation of Resolution 7: On 16 May 2006 the members of the Company approved the adoption of the Option Scheme limited to 10% of the enlarged share capital of the Company from time to time and the allotment of equity securities in satisfaction of options exercised under the Option Scheme. The directors wish to increase the limits to the Option Scheme, and the number of equity securities which can be allotted under the Option Scheme without statutory pre-emption rights applying, to 15% of the enlarged share capital of the Company from time to time. The directors believe that an increase in the option pool will enable it to utilise incentive based remuneration as a way of furthering the development of the Group, including attracting new employees, through acquisition or otherwise. This power is in addition to any existing power granted to the directors.

BY ORDER OF THE BOARD

**Colin C Grant**

Company Secretary

Dated: 10 August 2009

Registered office:

The Cherrybank Centre

Cherrybank Gardens

Perth PH2 0PF

#### Notes:

1. A member entitled to attend and vote at the Annual General Meeting (the Meeting) is entitled to appoint one or more proxies to exercise all or any of his rights to attend, vote and speak instead of him. A proxy need not be a member of the Company. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise the rights attached to any one share.
2. To be valid, a form of proxy (other than an electronic communication appointing a proxy) together with the power of attorney or other authority (if any) under which it is signed (or a copy of such authority certified notarially) must be lodged at the office of the Company's registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU by 12.30 pm on 7 September 2009, or not less than 48 hours before the time appointed for holding any adjourned meeting.
3. Pursuant to Regulation 41 of the Uncertificated Securities Regulation 2001, the Company has specified that only those shareholders registered in the register of members of the Company as at close of business on 7 September 2009 or, in the event that this meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting, will be entitled to vote, or to appoint one or more proxies to vote on their behalf, at this meeting in respect of the number of shares registered in their names at that time. Changes to entries on the register of members after close of business on 7 September 2009 or, in the event that this meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting.
4. Completion and return of a form of proxy will not prevent a member from attending the meeting and voting in person should he wish to do so.
5. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the Meeting and any adjournment(s) thereof by utilising the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
6. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (EUI) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RO33) by 12.30pm on 7 September 2009. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.
7. CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is therefore the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
8. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001.
9. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the chairman of the meeting as its corporate representative to vote on a poll in accordance with the directions of all the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives ([www.icsa.org.uk](http://www.icsa.org.uk)) for further details of this procedure. The guidance includes a sample form of appointment letter if the chairman is being appointed as described in (i) above.
10. Copies of the existing Articles of Association of the Company will be available for inspection at the Company's registered office from 10 August 2009 to (and including) the date of the Meeting during normal business hours on any day (Saturdays, Sundays and public holidays excepted) and will also be available at the Registered Office for at least 15 minutes before the Meeting until its conclusion.

## Notes



## Company Information

### Directors

Garry S Watson OBE CA, Chairman<sup>(n) (r)</sup>

Geoffrey C B Thomson, Chief Executive Officer

Carolyn Smith BA Hons ACIS, Chief Investment Officer

Colin C Grant BCom CA, Chief Financial Officer (appointed 15 October 2008)

Edward B Cunningham CBE, Non-executive Director<sup>(a) (n) (r)</sup>

J Kenneth Brown BA CA, Non-executive Director<sup>(a) (r)</sup>

Jeremy H Delmar-Morgan MA MSI, Non-executive Director (appointed 3 June 2008)<sup>(a)</sup>

A L A Shonaig Macpherson CBE FRSE Non-executive Director (resigned 10 September 2008)<sup>(r)</sup>

Donald I Turner CA Non-executive Director (resigned 10 September 2008)<sup>(a)</sup>

(a) Member of Audit and Risk Management Committee

(n) Member of Nominations Committee

(r) Member of Remuneration Committee

### Secretary

Colin C Grant BCom CA

### Company Registration Number

SC247376

### Registered Office

The Cherrybank Centre

Cherrybank Gardens

Perth

PH2 0PF

Telephone +44 (0) 1738 587555

### Website

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