



SHORE CAPITAL



PUMA VCT III PLC

ANNUAL REPORT & ACCOUNTS 2006

Contents

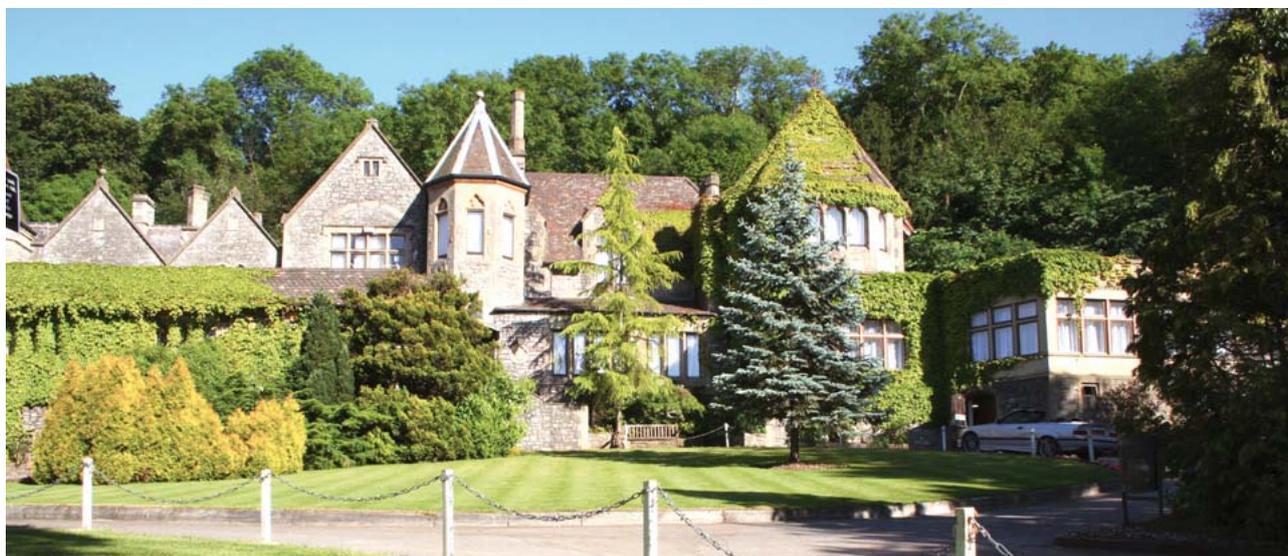
Chairman's Statement	2
Investment Manager's Report	3
Investment Portfolio Summary	6
Largest Investments	7
Directors' Biographies	11
Report of the Directors	12
Directors' Remuneration Report	15
Corporate Governance	16
Independent Auditors' Report	18
Income Statement	19
Balance Sheet	20
Cash Flow Statement	21
Reconciliation of Movements in Shareholders' Funds	22
Notes to the Accounts	23
Notice of Extraordinary General Meeting	34
Form of Proxy	35
Officers and Professional Advisers	Inside Back Cover

Highlights

- £39 million subscribed in Puma VCT III plc and Puma VCT IV plc on flotation, to invest jointly pro rata to their respective sizes – approximately 50:50.
- Fully diluted NAV per share of 101.16p for Puma VCT III plc at the period end (up 3.5% since inception). Unaudited fully diluted NAV of 103.95p at 28 February 2007.
- Five qualifying investments made in 2006.
- Strong performance of alternative asset investments during and since the period end.

Sir Aubrey Brocklebank Bt of Puma VCT III plc said:

“The period to 31 December 2006 has shown progress with a number of qualifying and non qualifying investments contributing significantly to performance. We continue to look for qualifying opportunities which meet our criteria to ensure that we meet the minimum targets for qualifying investments of 70%. In the meantime, we are confident in the prospects for our existing portfolio of companies.”



Cadbury House Hotel & Country Club plc

Chairman's Statement

The first period of trading for Puma VCT III plc to 31 December 2006 has shown satisfactory progress with a number of qualifying and non qualifying investments contributing well to performance. I am pleased to report that at the year end the Company's net asset value per share ("NAV"), after deducting performance fees, stood at 101.16p. This is a rise of 3.16p, or 3.2% from inception. Progress to date in 2007 has also been pleasing with the unaudited NAV after performance as at 28 February 2007 standing at 103.95p, an increase of 2.8% since the year end.

Puma VCT III plc and Puma VCT IV plc have jointly invested in proportion to their respective fundraising throughout the period where possible.

Venture capital investments

The Company completed four qualifying investments (Clarity Commerce Solutions plc, Interactive World plc, Stocklight Limited and Vertu Motors plc) and provided follow on financing into an existing investment of Puma VCT plc and Puma VCT II plc, Cadbury House Hotel & Country Club, during the year.

Puma VCT III plc's first two investments were both in AiM listed companies. Clarity Commerce Solutions Plc is a leading supplier of software and services to the leisure and hospitality sectors. This was followed by an investment in Interactive World Plc, which distributes digital media content to mobile phones via the internet.

We have seen impressive progress in Cadbury House Hotel & Country Club plc. The development has been going to plan and budget and the business has been performing very strongly. Puma VCT III Plc took the opportunity to invest £1 million in October as part of a refinancing of their £12 million loan facility.

Towards the end of 2006, Puma VCT III plc invested in Stocklight Limited, also an unquoted company. Stocklight is the parent of Bloomsbury Auctions Limited, Europe's largest specialist book auctioneer. The cash will be used as development capital.

Puma VCT III plc's final investment of 2006 was in Vertu Motors Plc. Vertu's strategy is to acquire and consolidate motor dealerships. To pursue this aim it raised an initial £25 million from VCTs and institutions.

At 31 December 2006, the Company's qualifying portfolio had a total cost of £2,551,000 and was valued at £2,578,000 resulting in an unrealised gain of £27,000. Further details are set out in the Investment Manager's Report and the Largest Investments on pages 3 to 9.

Non-qualifying investments

The Investment Manager has invested the non-qualifying investments on an absolute return basis. There has only been a modest uplift in the non-qualifying portfolio in 2006 as a result of the turbulent markets but performance has subsequently picked up in 2007 to date. The market value was £12,649,000 as at 31 December 2006 against an underlying book cost of £12,506,000.

Results and dividend

The total return for the period was £1,168,000 and the net total return for the period was £616,000. Gross revenue for the period was £507,000 and net revenue return after taxation was £219,000. The Board does not propose a final dividend.

Annual General Meeting

The Annual General Meeting of the Company will be held at Bond Street House, 14 Clifford Street, London, W1S 4JU on 17 May 2007. Notice of the Annual General Meeting and Form of Proxy have been sent separately to the annual accounts.

Outlook

We continue to look for qualifying opportunities that meet our criteria to ensure that we meet the minimum targets for qualifying investments of 70%. In the meantime, we are confident in the prospects for our existing portfolio of companies.

Sir Aubrey Brocklebank Bt

Chairman

3 May 2007

Investment Manager's Report

Overall Performance

The Company has delivered returns of 3.5 per cent. (3.2 per cent. net of performance fees) in its first period of operations. This compares favourably to a fall of 12.3 per cent. in the FTSE AiM index over the same period. Between the period-end and 28 February 2007, the Company's assets have performed well delivering an additional 2.8 per cent. to the NAV. This brings the unaudited NAV after performance to 103.95p as at 28 February 2007. This puts the Company on track to meet its targeted return of 120p after five years. This would be a post-tax return of 14.9 per cent. p.a. on the 60p net cost to investors.

The strong performance since period-end has been achieved by a combination of gains in the qualifying portfolio and strong delivery from the manager's innovative approach to the non qualifying investments where the manager's hedge fund strategy made a significant contribution out-performing their benchmark indices. The hedge fund returns have been achieved with low volatility (a normal measure of risk) in keeping with the manager's focus on relatively lower risk opportunities. AiM listed property related investments have also performed well for the non qualifying portfolio with investments in The Hotel Corporation plc, Puma Brandenburg Limited and Dawnay Day Treveria plc showing strong gains since purchase.

The performance since launch demonstrates the benefits of our strategy and positioning.

Activity

The Company completed five qualifying investments during the period. This included an investment in Cadbury House Hotel & Country Club plc, an unquoted company which we have had extensive experience with through our other VCTs (Puma VCT plc and Puma VCT II plc).

In Puma VCT III plc's first year, our focus has been on identifying private companies, which fitted our lower risk investment mandate. This reflects our concerns about



Interactive World plc

valuations on VCT qualifying AiM IPOs, which we often conclude are too expensive. Notwithstanding this, we identified and invested in two AiM IPOs and an AiM placing where we felt valuations were more realistic and risk was lower. Having the ability to structure deals to invest in private companies and also participate in AiM issues widens the net of potential investments in addition to providing a better balance of risks within the qualifying portfolio.

Puma VCT III plc and Puma VCT IV plc jointly invest in proportion to their respective fundraising and alongside Puma VCT plc and Puma VCT II plc. We have found that having the ability to syndicate larger investments within the Puma VCT family makes our offering more attractive for potential private equity investments.

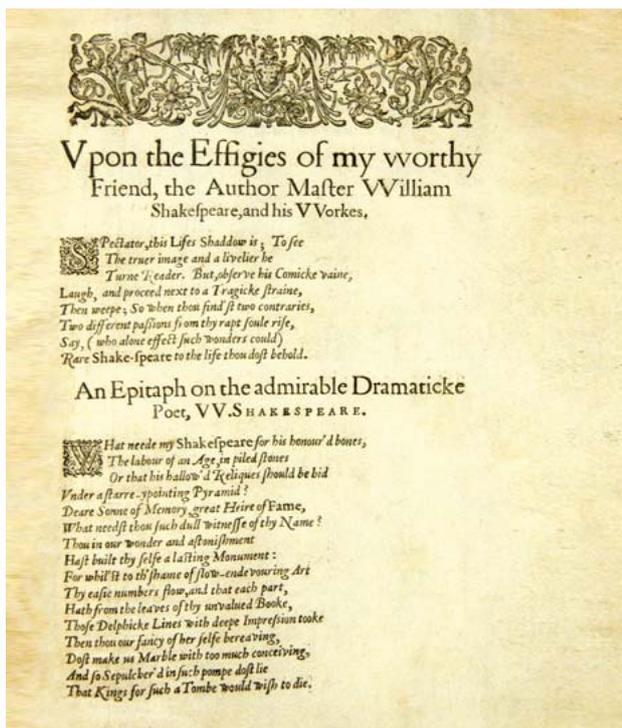
Puma VCT III plc invested in three AiM quoted companies during the year: Clarity Commerce Solutions plc, Interactive World plc and Vertu Motors plc, discussed further below.

The Company made its first investment in Clarity Commerce Solutions Plc. Clarity is an AiM quoted supplier of business management software focused on the leisure industry (pubs, hotels, cinemas, restaurants

Investment Manager's Report continued

etc). Puma VCT III plc invested £230,000 in April 2006 on the back of the company winning some significant contracts, providing a high level of recurring revenues. Although the share price performance has been a little disappointing, we believe that the underlying business is sound and we expect share price appreciation going forward, as long as management execute to plan. Related to this last point, in April 2007, a number of shareholders requisitioned an Extraordinary General Meeting to effect a change in management. We expect further developments in the near future and are hopeful that this will be positive for the company.

Puma VCT III plc invested £164,000 in Interactive World Plc in May as part of its fundraising on admission to AiM. Interactive World is a digital content provider, principally to mobile phone handsets. It has an exclusive agreement with the Sports Group and therefore differentiates itself from other content aggregators and distributors. In addition, the business is highly cash flow generative and the offer was at an attractive valuation. The company trades on an attractive yield and we expect further share price appreciation.



Typical item for auction, Bloomsbury Auctions, subsidiary of Stocklight Limited



The Club, Cadbury House Hotel and Country Club plc

The Company's third AiM investment of 2006 was Vertu Motors plc. Puma VCT III plc invested £500,000 as part of the £25 million fundraising in December. Vertu is pursuing a buy and build strategy in the motor dealership industry. It was an attractive opportunity for Puma VCT III plc as we were backing a highly experienced management team to consolidate a fragmented industry which will be supported by substantial property assets. Vertu's first acquisition of Bristol Street Motors (after the year end) required an additional £26 million fundraising at a 25% premium to our entry price. We believe this will underpin our investment whilst providing a solid base for further acquisitions.

Puma VCT III plc made two investments in private companies; Cadbury House & Country Club plc and Stocklight Limited.

In June 2005, Puma VCT plc and Puma VCT II plc participated in a £4 million equity investment in Cadbury House & Country Club plc. Since then the company has performed well. The health club opened on time in May 2006 and impressively grew its membership from 1,600 to over 3,000 at the year end (ahead of forecasts). The banqueting and conferencing facilities were also developed to budget in time for a busy summer of weddings, which led to a successful Christmas period.

The last stage in the development is the hotel which should be open for business in May 2007. The hotel will now be 72 rooms (from 63) and fitted out to a four star standard. Given the progress made Puma VCT III plc invested £1 million in October, as part of a £12 million refinancing of bank debt and invested in a business which we know well and where we have strong security

Stocklight Limited is the parent company of Bloomsbury Auctions, a fast growing auction house. Puma VCT III plc invested £657,000 as part of a £2 million fundraising together with Puma VCT plc, Puma VCT II plc and Puma VCT IV plc to fund the further expansion of Bloomsbury Auctions. Growth is expected to come from increasing the number of specialist departments and being able to attract bigger and higher value lots by offering advances to potential vendors. The company is also expanding into overseas markets. Although the growth prospects of Bloomsbury Auctions were an attraction, primarily we liked the deal as it was structured to provide good security on the investment.

Outlook

We are pleased with the qualifying investments that we have made so far. We also expect the portfolio of non



Vertu Motors plc

qualifying investments to continue to do well in the year ahead. 2007 will see an increase in the rate and size of investments in qualifying investments and we are confident that we will be able to identify both private and AiM quoted companies which will satisfy Puma VCT III plc's investment mandate.

Shore Capital Limited

3 May 2007



The Club, Cadbury House Hotel and Country Club plc

Investment Portfolio Summary

As at 31 December 2005

Investment	Valuation £'000	Original Cost £'000	Gain/(Loss) £'000	Valuation as % of NAV
Qualifying Investments – Unquoted				
Cadbury House Hotel and Country Club plc	1,000	1,000	–	5%
Stocklight Limited	657	657	–	3%
Qualifying Investments – Quoted				
Clarity Commerce Solutions plc	187	230	(43)	1%
Interactive World plc	176	164	12	1%
Vertu Motors Plc	558	500	58	3%
Total Qualifying Investments	2,578	2,551	27	13%
Non-Qualifying Investments				
Alphagen Crucis Fund Limited	829	904	(75)	4%
Alphagen Regulus Fund Limited	609	608	1	3%
Blackrock European Opportunities	634	600	34	3%
Blackrock UK Emerging	821	800	21	4%
Highbridge Capital Corp Class A	787	769	18	4%
M-Invest	891	921	(30)	5%
Puma Absolute Return Fund Limited Class B	2,963	2,869	94	15%
Puma Brandenburg Limited	837	779	58	4%
Other hedge funds and equity investments	4,278	4,256	22	22%
Total Non-Qualifying Investments	12,649	12,506	143	64%
Total investments	15,227	15,057	170	77%
Cash and other net assets	4,568	4,568	–	23%
	19,795	19,625	170	100%

Largest Investments



Cadbury House Hotel & Country Club plc

www.cadburyhouse.com

Cost (£'000):	1,000
Investment comprises:	
Ordinary shares – Class C (£'000):	302
Mezzanine Loan (£'000):	703
Valuation method:	Directors' valuation
Valuation (£'000):	1,000
Source of financial data –	
Last audited accounts:	31/03/06
Turnover (£'000):	1,324
Loss before tax (£'000):	(871)
Retained loss (£'000):	(1,006)
Net assets (£'000):	536
Proportion of equity held:	8.2%

Cadbury House Hotel & Country Club plc (Cadbury) is a major venue for weddings, conferences and banqueting in the Bristol area with a well-established fitness centre on 14 acres of freehold grounds.



Vertu Motors Plc

www.vertumotors.com

Cost (£'000):	500
Investment comprises:	
Ordinary shares (£'000):	500
Valuation method:	Bid Market Price
Valuation (£'000):	558
Source of financial data –	
Last audited accounts:	1
Turnover (£'000):	1
Profit before tax (£'000):	1
Retained loss (£'000):	1
Net assets (£'000):	1
Proportion of equity held:	2.0%

Vertu Motors has been formed to acquire and consolidate UK motor retail businesses with the potential for performance improvements and which may contain freehold property portfolios.

¹ This is Vertu Motors' first year of operations and hence there are no audited accounts to report.



Stocklight Limited

www.shapero.com

Cost (£'000):	657
Investment comprises:	
Ordinary shares (£'000):	66
Debt (£'000):	597
Valuation method:	Directors' Valuation
Valuation (£'000):	657
Source of financial data –	
Last audited accounts:	31/12/05
Turnover (£'000):	9,743
Profit before tax (£'000):	18
Retained profit (£'000):	893
Net assets (£'000):	3,534
Proportion of equity held:	0.3%

Stocklight Limited owns 100% of Bloomsbury Auctions and trades as Bernard J Shapero Rare Books, an internationally recognised dealer in antiquarian and rare books. Bernard Shapero, who owns the business with his business partner Tommaso Zanzotto, has been dealing in antiquarian books for over 20 years. The company bought its current premises in Saint George Street, Mayfair, in 1996.

Puma Absolute Return Fund Limited

Cost (£'000):	2,869
Investment comprises:	
Ordinary shares (£'000):	2,869
Valuation method:	NAV per share
Valuation (£'000):	2,963
Source of financial data –	
Last audited accounts:	30/04/06
Turnover (\$'000):	73
Profit before tax (\$'000):	9,536
Retained profit (\$'000):	n/a
Net assets (\$'000):	82,237
Proportion of equity held:	4.7%

Puma Absolute Return Fund Limited (PARF) is a fund of hedge funds. PARF invests across a range of third party hedge fund managers. It diversifies its portfolio across a number of different investment styles.

Largest Investments continued

M-Invest

Cost (£'000):	921
Investment comprises:	
Ordinary shares (£'000):	921
Valuation method:	NAV per share
Valuation (£'000):	891
Source of financial data –	
Last audited accounts:	31/12/05
Turnover (\$'000):	9,174
Profit before tax (\$'000):	30,652
Retained profit (\$'000):	n/a
Net assets (\$'000):	350,050
Proportion of equity held:	0.4%

M-Invest is a hedge fund with an equity market neutral strategy. It has stock selection strategies that are implemented to maintain an even balance between longs and shorts, and hence immunise the portfolio from market fluctuations.

The AlphaGen Crucis Fund Limited

Cost (£'000):	904
Investment comprises:	
Ordinary shares (£'000):	904
Valuation method:	NAV per share
Valuation (£'000):	829
Source of financial data –	
Last audited accounts:	31/01/06
Turnover (\$'000):	15,805
Profit before tax(\$'000):	9,278
Retained profit (\$'000):	n/a
Net assets (\$'000):	138,112
Proportion of equity held:	0.4%

The AlphaGen Crucis Fund Limited is a hedge fund with an equity market neutral strategy. It has stock selection strategies that are implemented to maintain an even balance between longs and shorts, and hence immunise the portfolio from market fluctuations.

Puma Brandenburg Limited

Cost (£'000):	779
Investment comprises:	
Ordinary shares (£'000):	779
Valuation method:	Bid Price
Valuation (£'000):	837
Source of financial data –	
Last audited accounts:	¹
Turnover (€'000):	¹
Profit before tax (€'000):	¹
Retained profit (€'000):	¹
Net assets (€'000):	¹
Proportion of equity held:	0.4%

Puma Brandenburg Limited invests in German residential real estate, typically apartment blocks which often also have some retail/commercial element. The Company's primary objective is to generate income and capital growth by acquiring, actively managing and selling real estate, as opportunities arise.

¹ This is Puma Brandenburg's first year of operations and hence there are no audited accounts to report

Blackrock UK Emerging

Cost (£'000):	800
Investment comprises:	
Ordinary shares (£'000):	800
Valuation method:	NAV per share
Valuation (£'000):	821
Source of financial data –	
Last audited accounts:	31/12/05
Turnover (£'000):	6,951
Profit before tax (£'000):	13,726
Retained profit (£'000):	n/a
Net assets (£'000):	114,485
Proportion of equity held:	0.4%

Black Rock UK Emerging is a hedge fund with a long/short equity investment strategy. It benefits from stock selection strategies to profit from rising share prices on the long picks and falling share prices from shorts. Market exposure is variable.

Highbridge Capital Corp Class A

Cost (£'000):	769
Investment comprises:	
Ordinary shares (£'000):	769
Valuation method:	NAV per share
Valuation (£'000):	787
Source of financial data –	
Last audited accounts:	31/12/05
Turnover (\$'000):	501,621
Profit before tax (\$'000):	274,383
Retained profit (\$'000):	n/a
Net assets (\$'000):	5,376,187
Proportion of equity held:	0.01%

Highbridge Capital Corp Class A is a hedge fund with a multi-strategy arbitrage investment strategy. This fund has a flexible and opportunistic allocation of capital across a broad range of arbitrage or relative value opportunities.

The AlphaGen Regulus Fund Limited

Cost (£'000):	608
Investment comprises:	
Ordinary shares (£'000):	608
Valuation method:	NAV per share
Valuation (£'000):	609
Source of financial data –	
Last audited accounts:	¹
Turnover (\$'000):	¹
Profit before tax(\$'000):	¹
Retained profit (\$'000):	¹
Net assets (\$'000):	¹
Proportion of equity held:	0.3%

The AlphaGen Regulus Fund Limited is a hedge fund with an equity market neutral strategy. It has stock selection strategies that are implemented to maintain an even balance between longs and shorts, and hence immunise the portfolio from market fluctuations.

¹ This is the fund's first year of operations and hence there are no audited accounts to report.

Blackrock European Opportunities

Cost (£'000):	600
Investment comprises:	
Ordinary shares (£'000):	600
Valuation method:	NAV per share
Valuation (£'000):	634
Source of financial data –	
Last audited accounts:	¹
Turnover (€'000):	¹
Profit before tax (€'000):	¹
Retained profit (€'000):	¹
Net assets (€'000):	¹
Proportion of equity held:	0.9%

Black Rock European Opportunities is a hedge fund with a long/short equity investment strategy. It benefits from stock selection strategies to profit from rising share prices on the long picks and falling share prices from shorts. Market exposure is variable.

¹ This is the fund's first year of operations and hence there are no audited accounts to report.

Officers and Professional Advisers

Directors (all non-executive)

Sir A T Brocklebank Bt, ACA
(Chairman)
D M Brock
C J Ring, ACA

Secretary

J S Paisner

Registered Number

05594989

Registered Office

Bond Street House
14 Clifford Street
London W1S 4JU

Investment Manager

Shore Capital Limited
Bond Street House
14 Clifford Street
London W1S 4JU

Registrar

Capita Registrars
The Registry
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Beckenham
Kent BR3 4TU

Administrator

Shore Capital Fund Administration
Services Limited
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London W1S 4JU

Auditors

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Chartered Accountants
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London WC1B 3ST

Sponsors and Solicitors

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19 Cavendish Square
London W1A 2AW

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London W1R 9FD

Bank of Scotland
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11 Earl Grey Street
Edinburgh EH3 9BN

VCT Tax Adviser

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Custodian

Pershing Securities Limited
Capstan House
One Clove Crescent
East India Dock
London E14 2BH

Directors' Biographies

Sir Aubrey Brocklebank Bt, ACA (Chairman) (55)

Sir Aubrey worked for Guinness Mahon from 1981 to 1986, initially in its corporate finance department before assisting in the establishment of a specialist development capital department. From 1986 to 1990 he was a director of Venture Founders Limited, managing a £12 million venture capital fund, which had been raised to invest in early stage ventures. He managed the Avon Enterprise Fund (a venture capital fund of circa £4.5 million investing in approximately 20 companies) from 1990 until all investments had been realised in 1997. He is on the board of eight other VCTs, the AIM Distribution Trust plc (as chairman), Keydata AIM VCT plc and Keydata AIM VCT II plc (both as chairman), Close Second AIM VCT plc and Pennine 6 VCT plc (both as a non-executive director), Puma VCT plc, Puma VCT II plc and Puma VCT IV plc (as chairman). He is and has also been a director of a number of companies, some of which are, or have been, quoted on AiM.

David Michael Brock (57)

David was, until July 1997, a main board director of MFI Furniture Group plc and managing director of MFI International Limited having been involved at a senior level in both MFI's management buy out and its subsequent flotation. He started his career at Marks and Spencer Group plc. He is currently chairman of Jane Norman (Holdings) Ltd, Phase Eight Ltd, Episys Limited, Ossain Retail Group plc, Elderstreet VCT plc and Americana International Limited and a non-executive director of Blackstar Investors plc.

Christopher John Ring, ACA (52)

Chris joined Shore Capital in 2002 from NatWest Stockbrokers Limited of which he was managing director between 1999 and 2001. After qualifying as an accountant with Coopers & Lybrand (now part of PricewaterhouseCoopers), he held senior positions at various stockbrokers firms, including Scrimgeour Kemp Gee (now Citicorp) between 1980 and 1988 and Wise Speke between 1988 and 1996. Throughout this time his focus was on managing private client funds, including the appraisal and investment of a wide range of new issues many of which were AiM quoted. Within the Shore Capital Group, Chris is responsible for both the private client portfolio and hedge fund management activities.

Report of the Directors

The Directors present their first annual report and the audited financial statements of the Company for the period from incorporation on 17 October 2005 to 31 December 2006

Principal Activities and Status

The principal activity of the Company is the making of investments in qualifying holdings of shares or securities. The Company is an investment company within the meaning of Section 266 of the Companies Act 1985. The Company has been granted provisional approval by the Inland Revenue under Section 842AA of the Income and Corporation Taxes Act 1988 as a Venture Capital Trust for the period ended 31 December 2006. The Directors have managed, and continue to manage, the Company's affairs in such a manner as to comply with Section 842AA of the Income and Corporation Taxes Act 1988.

The Company has no employees (other than the Directors).

The Company's ordinary shares of 1p each have been listed on the Official List of the UK Listing Authority since 19 May 2006.

The Company's business during the period is reviewed in the Chairman's Statement and the Investment Manager's Report.

Results and dividends

The results for the financial period are set out on page 19. The Directors do not propose a final dividend. It is the aim of the Directors to maximise tax free distributions to shareholders by way of dividends paid out of income received from investments and capital gains received following successful realisations.

Business Review and Developments

The Company's business review and developments are set out in the Chairman's Statement and the Investment Manager's Report.

The principle risks facing the company relate to its investment activities and include market price, interest

rate and liquidity. An explanation of these risks and how they are managed are contained in note 18 to the financial statements. Additional risks faced by the company are as follows:

Investment Policy – Inappropriate stock selection leading to underperformance in absolute and relative terms is a risk which the Investment Manager mitigates by reviewing performance throughout the year and formally at Board meetings. There is also a regular review of the investment mandate and long term investment strategy by the Board and monitoring of whether the Company should change their investment strategy.

Regulatory Risk – the Company operates in a complex regulatory environment and faces a number of related risks. A breach of section 842AA of the Income and Corporation Tax Act 1988 could result in the Company being subject to capital gains on the sale of investments. A breach of the VCT Regulations could result in the loss of VCT status and consequent loss of tax relief currently available to shareholders. Serious breach of other regulations, such as the UKLA Listing rules and the Companies Act 1985 could lead to suspension from the Stock Exchange. The board receives quarterly reports in order to monitor compliance with regulations.

Issue of shares

During the period to 31 December 2006, the Company issued 19,512,692 Ordinary Shares by way of Offers for Subscription, raising a total of £19.12m, net of expenses.

The authorised and issued share capital of the Company is detailed in note 13 of these accounts

Directors

Michael Harris and Richard James Honeybourne were the initial Directors of the Company and resigned on 30 November 2005. The following Directors of the Company were appointed on 30 November 2005 and their beneficial interests in the ordinary shares of the Company on incorporation and at 31 December 2006 were as follows:

	31 December 2006	1p ordinary shares 17 October 2005
Sir A T Brocklebank Bt, ACA (Chairman)	10,000	–
D M Brock	5,000	–
C J Ring, ACA	50,000	–

All of the Directors' share interests shown above were held beneficially. No options over the share capital of the Company have been granted to the Directors. There have been no changes in the holdings of the Directors since the year end.

The Directors are also Directors of Puma VCT plc, Puma VCT II plc and Puma VCT IV plc, VCTs to which Shore Capital Limited is also the Investment Manager.

Investment management, administration and performance fees

Shore Capital Limited (Shore Capital) is the Investment Manager to the Company. The principal terms of the Company's management agreement with Shore Capital Limited as applicable during the period ended 31 December 2006, are set out in note 3 of the financial statements.

Shore Capital Fund Administration Services Limited provides administrative services to the Company for an aggregate annual fee of 0.35 per cent. of the Net Asset Value of the Fund (plus VAT), payable quarterly in arrears

The annual running costs of the Company, for the year, are subject to a cap of 3.5 per cent. of the Company's net assets.

Shore Capital and members of the investment management team will be entitled to a performance related incentive of 20 per cent. of the aggregate excess on any amounts realised by the Company in excess of £1 per Ordinary Share, and Shareholders will be entitled to the balance. This incentive will only be payable once the holders of Ordinary Shares have received distributions of

£1 per share (whether capital or income). The performance incentive structure provides a strong incentive for the Investment Manager to make distributions as high and as soon as possible.

The performance incentive has been satisfied through the issue of Loan Notes to a nominee on behalf of the Investment Manager's group and employees of and persons related to the investment management team. In the event that distributions attributable to the Ordinary Shares of £1 per share have been made the Loan Notes will convert into sufficient Ordinary Shares to represent 20 per cent of the enlarged number of Ordinary Shares

The performance fee has been expensed in accordance with FRS 20 for share based payments (see note 4 and 12).

VCT status monitoring

The Company has appointed Pricewaterhouse-Coopers LLP to advise it on compliance with VCT requirements, including evaluation of investment opportunities, as appropriate, and regular review of the portfolio. Although PricewaterhouseCoopers LLP work closely with the Investment Manager, they report directly to the Board.

Creditor payment policy

The Company's payment policy for the forthcoming year is to ensure settlement of suppliers' invoices in accordance with their standard terms. As at 31 December 2006 there were nil days' billing from the suppliers of services outstanding.

Financial Instruments

The material risks arising from the Company's financial instruments are investment, currency and interest rate risk. The Board reviews and agrees policies for managing each of these risks and these are summarised in note 18. These policies have remained unchanged since the beginning of the financial year. As a venture capital trust, it is the Company's specific business to evaluate and control the investment risk in its portfolio.

Report of the Directors continued

Substantial Shareholdings

As at 31 December 2006 and at the date of this report, the Company was not aware of any beneficial interest exceeding 3 per cent of any class of the issued share capital.

Annual General Meeting

The Annual General Meeting of the Company will be held at Bond Street House, 14 Clifford Street, London, W1S 4JU on 17 May 2007. Notice of the Annual General Meeting and Form of Proxy have been sent separately.

Auditors

The Directors, having been notified of the cessation of the partnership known as Baker Tilly, resolved that Baker Tilly UK Audit LLP be appointed as successor auditor with effect from 1 April 2007, in accordance with the provisions of the Companies Act 1989, s26(5). Baker Tilly UK Audit LLP has indicated its willingness to continue in office.

Statement as to Disclosure of Information to Auditors

The Directors in office at the date of the report have confirmed, as far as they are aware, that there is no relevant information of which the auditors are unaware. Each of the Directors have conformed that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

Statement of Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

By order of the Board
Jonathan Paisner
 Company Secretary

3 May 2007

Directors' Remuneration Report

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

The Board as a whole considers Directors' remuneration and, as such, a Remuneration Committee has not been established. The Board's policy is that the remuneration of non-executive Directors should reflect time spent and the responsibilities borne by the Directors on the Company's affairs and should be sufficient to enable candidates of high calibre to be recruited. Directors' fees payable during the year totalled £14,000 (including VAT) as set out in note 5.

Directors' Remuneration (audited)

The Directors received emoluments as detailed below:

	Unaudited Current Annual Fee £	Audited 2006 £
Sir A T Brocklebank Bt, ACA (Chairman)	7,500	7,500
D M Brock	6,000	6,000
C J Ring, ACA	–	–
	13,500	13,500

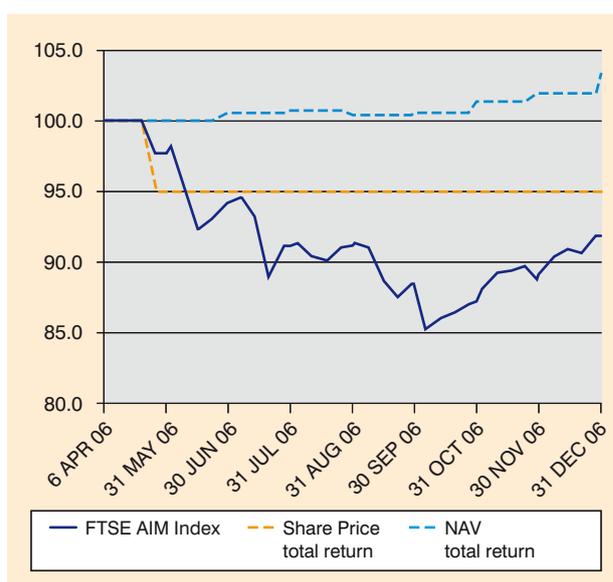
The remuneration levels for the forthcoming year are expected to be at the annual levels shown in the table above.

Directors' and Officers liability insurance cover is held by the Company in respect of the Directors.

On 5 December 2005, the non-executive Directors were appointed for a period of twelve months after which either party must give three calendar months' notice to end the contract.

Performance Graph

The following chart represents the Company's performance over the reporting period since trading commenced and compares the rebased Net Asset Value to a rebased FTSE AIM Index which has been chosen as a comparison as it best represents the spread of investments held by the Company. This has been rebased to 100 at 6 April 2006, the start of the tax year.



On behalf of the Board

Sir Aubrey Brocklebank Bt

Chairman

3 May 2007

Corporate Governance

The Directors support the relevant principles of the new Combined Code issued in July 2003, being the principles of good governance and the code of best practice, as set out in Section 1 of the FRC Combined Code.

The Board

The Company has a Board comprising three non-executive Directors. All of the Directors are independent as defined by the Combined Code issue in July 2003 except for Chris Ring as a result of his holding a Directorship of the Investment Manager. The Board considers that all Directors have sufficient experience to be able to exercise proper judgement within the meaning of the Combined Code. The Board has appointed Sir Aubrey Brocklebank as the senior independent Director. The Chairman is Sir Aubrey Brocklebank Bt. Biographical details of all Board members are shown on page 11.

The Directors are subject to re-election at the first AGM after their appointment. The Directors will offer themselves for re-election at or before the Company's third AGM.

Full Board meetings take place quarterly and additional meetings are held as required to address specific issues. These include considering recommendations from the Investment Manager, making all decisions concerning the acquisition or disposal of qualifying investments, and reviewing, periodically, the terms of engagement of all third party advisers (including investment managers and administrators). The board has a formal schedule of matters specifically reserved for its decision.

The attendance of individual Directors at full Board meetings during the year were as follows:

	Scheduled Board meetings
Sir A T Brocklebank Bt	3/3
D M Brock	3/3
C J Ring	3/3

The Board has also established procedures whereby Directors wishing to do so in the furtherance of their duties may take independent professional advice at the Company's expense.

All Directors have access to the advice and services of the Company Secretary. The Company Secretary provides the Board with full information on the Company's assets and liabilities and other relevant information requested by the Chairman, in advance of each Board meeting.

The Board has not appointed a nominations committee, audit committee or remuneration committee as they consider the Board to be small and it comprises wholly non-executive Directors. Appointments of new Directors, audit matters and remuneration are dealt with by the full Board.

During the year the Board reviewed the independence of the external auditors and recommended that they be re-appointed. The Directors receive written confirmation each year of the auditors' independence. They also considered the need for an internal audit function and concluded that this function would not be an appropriate control for a venture capital trust.

The Board reviewed Directors' remuneration during the year. Details of the specific levels of remuneration to each director are set out in the Directors' Remuneration Report on page 15, and this is subject to shareholder approval.

Relations with shareholders

Shareholders have the opportunity to meet the Board at the AGM. The Board is also happy to respond to any written queries made by shareholders during the course of the year, or to meet with major shareholders if so requested. In addition to the formal business of the AGM, representatives of the management team and the Board are available to answer any questions a shareholder may have.

Separate resolutions are proposed at the AGM on each substantially separate issue. The Registrars collate proxy votes and the results (together with the proxy forms) are forwarded to the Company Secretary immediately prior to the AGM. In order to comply with the Combined Code, proxy votes are announced at the AGM, following each vote on a show of hands, except in the event of a poll being called. The notice of the next AGM and proxy form have been posted separately to these financial statements.

Financial Reporting

The Directors' statement of responsibilities for preparing the accounts are set out in the Directors' Report on page 12, and a statement by the auditors about their reporting responsibilities are set out in the Auditors' Report on page 18.

Internal control

The Company has adopted an Internal Control Manual ("Manual"), which has been compiled in order to comply with the Combined Code. The Manual is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, which it achieves by detailing the perceived risks and controls to mitigate them. The Board is responsible for ensuring that the procedures to be followed by the advisers and themselves are in place, and review the effectiveness of the Manual on an annual basis to ensure that the controls remain relevant and were in operation throughout the year. The Board will implement additional controls when new risks are perceived and update the Manual as appropriate.

Although the Board are ultimately responsible for safeguarding the assets of the Company, the Board has delegated, through written agreements, the day-to-day operation of the Company to the following advisers:

Administration	Shore Capital Fund Administration Services Limited
Investment Management	Shore Capital Limited

Going Concern

The Directors confirm that they are satisfied that the Company has adequate resources to continue in business for the foreseeable future. For this reason they believe that the Company continues to be a going concern and that it is appropriate to continue to apply the going concern basis in preparing the financial statements.

Compliance statement

The Listing Rules require the Board to report on compliance with the forty-eight Combined Code provisions throughout the accounting period. With the exception of the items outlined below, the Company has complied throughout the accounting period ended 31

December 2006 with the provisions set out in Section 1 of the Combined Code. Due to the special nature of the Company, the following provisions of the Combined Code have not been complied with:

- a) Provision A1-3 – Due to the size of the Board, they feel it unnecessary to formalise procedures to appraise the Chairman's performance, as the Board deem it appropriate to address matters as they arise.
- b) Provision A5-1 – New directors do not receive a full, formal and tailored induction on joining the Board. Such matters are addressed on an individual basis as they arise. Also the Company has no major shareholders so shareholders are not given the opportunity to meet any new non-executive directors at a specific meeting other than the annual general meeting.
- c) Provision A6-1 – Due to the size of the Board, a formal performance evaluation of the Board, its committees and the individual Directors has not been undertaken. Specific performance issues are dealt with as they arise.
- d) Provision A4-1, B-1, C3-1 to C3-7 – Due to the size of the Board, the Company did not have a formal nominations committee, audit committee or remuneration committee. As a consequence of the Company not having an audit committee provisions C3-1 to C3-7 of the Combined Code have not been complied with. The Directors do not consider it necessary to appoint an audit committee as the board consists of entirely of 3 non-executive Directors as recommended by C3-1 of the Combined Code. The Directors consider that the role and responsibility of the audit committee as set-out in provisions C3-1 to C3-7 have been adopted by the full board. Relevant matters were dealt with by the full Board.
- e) Provision A7-2 – On 5 December 2005, the non-executive Directors were appointed for a period of twelve months after which either party must give three calendar months' notice to end the contract. The recommendation is for fixed term renewable contracts.

Independent Auditors' Report to the Members of Puma VCT III plc

We have audited the financial statements on pages 19 to 32. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective responsibilities of Directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and that part of the Directors' Remuneration Report that is described as having been audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, and whether the financial statements and the part of the Directors' Remuneration Report that is described as having been audited 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 and Investment Manager's Report that is cross referenced from the Business Review section of the Directors' Report.

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

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

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Report of the Directors, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Investment Manager's Report, the Investment Portfolio Summary, Largest Investments, Directors' Biographies and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any 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 company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs at 31 December 2006 and of its return for the period then ended
- the financial statements and the part of the Directors' Remuneration Report that is described as having been audited 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.

Baker Tilly UK Audit LLP

Registered Auditor and Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

3 May 2007

Income Statement

For the period ended 31 December 2006

		For the period 17 October 2005 to 31 December 2006		
	Note	Revenue £'000	Capital £'000	Total £'000
Gains on investments	9(c)	–	661	661
Income	2	507	–	507
		507	661	1,168
Investment management fees	3	94	280	374
Performance fees	4	22	35	57
Other expenses	5	121	–	121
		237	315	552
Return on ordinary activities before taxation		270	346	616
Tax on return on ordinary activities	6(b)	(51)	51	–
Return on ordinary activities after tax attributable to equity shareholders		219	397	616
Basic and diluted return per Ordinary Share (pence)	7	1.27p	2.30p	3.57p

All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued in the period.

No separate Statement of Total Recognised Gains and Losses is presented as all gains and losses are included in the Income Statement.

The accompanying notes on pages 23 to 32 are an integral part of these financial statements.

Balance Sheet

As at 31 December 2006

	Note	As at 31 December 2006 £'000
Fixed Assets		
Investments	9(a)	15,227
Current Assets		
Debtors	10	34
Cash at bank and in hand		4,841
		4,875
Creditors: amounts falling due within one year	11	(306)
Net Current Assets		4,569
Total Assets less Current Liabilities		19,796
Creditors: amounts falling due after more than one year (including convertible debt)	12	(1)
Net Assets		19,795
Capital and Reserves		
Called up share capital	13	195
Capital reserve – realised	14	288
Capital reserve – unrealised	14	109
Other reserve	14	57
Revenue reserve	14	19,146
Equity Shareholders' Funds		19,795
Net Asset Value Per Ordinary Share	15	101.45p
Diluted Net Asset Value Per Ordinary Share	15	101.16p

These financial statements were approved and authorised for issue by the Board of Directors on 3 May 2007 and were signed on their behalf by:

Sir Aubrey Brocklebank Bt

Chairman

3 May 2007

The accompanying notes on pages 23 to 32 are an integral part of these financial statements.

Cash Flow Statement

For the period ended 31 December 2006

	Note	For the period 17 October 2005 to 31 December 2006 £'000
Operating activities		
Investment income received		473
Investment management fees paid		(145)
Cash paid to Directors		(11)
Foreign exchange gain on cash		(6)
Other cash payments		(51)
Net cash (outflow)/inflow from operating activities	16	260
Capital expenditure and financial investment		
Purchase of investments	9(b)	(16,686)
Proceeds from sale of investments	9(b)	1,608
Acquisition costs		(11)
Net realised gain on forward foreign exchange contracts		547
Net cash outflow from capital expenditure and financial investment		(14,542)
Financing		
Proceeds received from issue of ordinary share capital		19,512
Expenses paid for issue of share capital	14	(390)
Proceeds received from issue of redeemable preference shares		13
Redemption of redeemable preference shares		(13)
Proceeds received from issue of convertible loan notes		1
Net cash inflow from financing		19,123
Cash inflow in the year		4,841
Reconciliation of net cash flow to movement in net funds		
Increase in cash for the period		4,841
Net cash at start of the period		–
Net funds at 31 December 2006		4,481

The accompanying notes on pages 23 to 32 are an integral part of these financial statements.

Reconciliation of Movements in Shareholders' Funds

For the period ended 31 December 2006

	Called up share capital £'000	Share premium account £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Other reserve £'000	Revenue reserve £'000	Total for the period ended 31 December Total £'000
Shares issued in the period	195	19,317	–	–	–	–	19,512
Expenses of share issues	–	(390)	–	–	–	–	(390)
Capital reconstruction	–	(18,927)	–	–	–	18,927	–
Total recognised gains for the year	–	–	288	109	57	219	673
At 31 December 2006	195	–	288	109	57	19,146	19,795

The accompanying notes on pages 23 to 32 are an integral part of these financial statements.

Notes to the Accounts

For the period ended 31 December 2005

1. Accounting Policies

Basis of Accounting

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of fixed asset investments, and in accordance with UK Generally Accepted Accounting Practice ("UK GAAP") and with the Statement of Recommended Practice, 'Financial Statements of Investment Trust Companies' ("SORP") revised in 2005. Although this SORP principally applies to Investment Trusts, many of the characteristics of Investment Trusts are shared by VCTs therefore the Company will continue to follow the SORP until its investment company status is revoked.

Income Statement

In order to better reflect the activities of a Venture Capital Trust and in accordance with guidance issued by the Association of Investment Companies ("AIC"), supplementary information which analyses the income statement between items of a revenue and capital nature has been presented alongside the income statement. The net revenue is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in Section 842 Income and Corporation Taxes Act 1988.

Investments

Realised surpluses or deficits on the disposal of investments are taken to realised capital reserves, and unrealised surpluses and deficits on the revaluation of investment are taken to unrealised capital reserves.

All investments have been designated as fair value through profit or loss, and recognized on the trade date and are initially measured at cost. Thereafter the investments are measured at subsequent reporting dates at fair value. Listed investments and investments traded on AiM are stated at bid price at the reporting date. Hedge funds, listed and unlisted, are valued at their respective Net Asset Value per share at the reporting date. Unlisted investments are stated at Directors' valuation with reference to the International Private Equity and Venture Capital Valuation Guidelines ("IPEVC"):

- Investments which have been made within the last twelve months are valued at cost except where the company's performance against plan is significantly different from expectations on which the investment was made in which case a change in its valuation is made as appropriate.
- Where a company is in the early stage of development, it will normally continue to be held at cost on the basis described above.
- Where a company is well established after one year from the date of investment the shares may be valued by applying a suitable price-earnings ratio to that company's historical post tax earnings. The ratio used is based on a comparable listed company or sector but discounted to reflect lack of marketability. Alternative methods of valuation will include cost, provision against cost or net asset value where such factors apply that make one of these methods more appropriate.

Income

Dividends receivable on listed equity shares are brought into account on the ex-dividend date. Dividends receivable on unlisted equity shares are brought into account when the Company's right to receive payment is established and there is no reasonable doubt that payment will be received. Interest receivable is recognised on an accruals basis

Notes to the Accounts continued

For the year ended 31 December 2006

1. Accounting Policies continued

Performance fees

Upon its inception, the Company negotiated performance fees payable to Shore Capital at 20 per cent. of the aggregate excess on any amounts realised by the Company in excess of £1 per Ordinary Share. This incentive will only be payable once the holders of Ordinary Shares have received distributions of £1 per share. The payment of this performance fee will be effected through an equity-settled share-based payment.

FRS 20 Share-based Payment requires the recognition of an expense in respect of share-based payments in exchange for goods or services. Entities are required to measure the goods or services received at their fair value, unless that fair value cannot be estimated reliably in which case that fair value should be estimated by reference to the fair value of the equity instruments granted. The fair value of the share-based payment is calculated by reference to the fair value of the performance fees accrued at the balance sheet date.

At each balance sheet date, the Company estimates the number of shares that are expected to be issued based on its Net Asset Value per share. The Company recognises the impact of the change in shares to be issued in the Income Statement with a corresponding adjustment to equity.

Expenses

All expenses (inclusive of VAT) are accounted for on an accruals basis. Expenses are charged wholly to revenue, with the exception of:

- expenses incidental to the acquisition or disposal of an investment are charged through the realised capital reserve, and;
- the investment management fee, 75% of which has been charged to the realised capital reserve to reflect an element which is, in the directors' opinion, attributable to the maintenance or enhancement of the value of the Company's investments.
- The performance fee which is allocated proportionally to revenue and capital based on their respective contributions to the Net Asset Value.

Taxation

Corporation tax is applied to profits chargeable to corporation tax, if any, at the applicable rate for the year.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more, or right to pay less, tax in future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the Company's taxable profits and its results as stated in the financial statements which are capable of reversal in one or more subsequent periods. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign exchange

Transactions denominated in foreign currencies are translated into Sterling at the rates ruling at the dates that they occurred. Assets and liabilities denominated in a foreign currency are translated at the appropriate foreign exchange rate ruling at the balance sheet date. Translation differences are recorded as unrealised foreign exchange losses or gains in the Income Statement.

Forwards/Hedging

The Company enters into forward contracts for the sale of foreign currencies in order to hedge its exposure to fluctuations in currency rates in respect of some of its investments. These forward contracts are recorded at fair value through profit and loss. Any foreign exchange gain or loss is recorded by the Company in the Capital Reserve – unrealised until settled. Once realised, the gain or loss is taken to the Capital Reserve – realised.

Reporting period

The 2006 figures represent the period from 17 October 2005 to 31 December 2006.

2. Income

	2006 £'000
Income from investments	
Loan stock interest	149
Dividend income	20
Investment fee rebate	32
	<hr/> 201
Other income	
Bank deposit interest	306
Total income	<hr/> 507 <hr/>

The Company has invested in Puma Absolute Return Fund which is also managed by Shore Capital. An arrangement is in place to avoid the double charging of management and performance fees. The Company has included investment fee rebates in income.

3. Investment Management Fees

	2006 £'000
Shore Capital Limited	374
	<hr/>

Shore Capital Limited (Shore Capital) has been appointed as the Investment Manager of the Company for an initial period of five years, which can be terminated by not less than twelve months' notice, given at any time by either party, on or after the fifth anniversary. Under the terms of this agreement Shore Capital will be paid an annual fee of 2.0 per cent. (exclusive of VAT) of the Net Asset Value of the relevant Company payable quarterly in arrears.

4. Performance Fees

	2006 £'000
Shore Capital Limited	57
	<hr/>

The performance fee has been expensed in accordance with FRS 20 Share-based Payment (see note 12).

5. Other Expenses

	2006 £'000
Administration – Shore Capital Fund Administration Services Limited	67
Directors' remuneration	14
Auditors' remuneration for statutory audit	11
Insurance	3
Legal and professional fees	13
FSA, LSE and registrar fees	9
Custody charges	1
Other expenses	3
	<hr/> 121 <hr/>

Shore Capital Fund Administration Services Limited provides administrative services to the Company for an aggregate annual fee of 0.35 per cent. of the Net Asset Value of the Fund (plus VAT), payable quarterly in arrears.

The total fees paid or payable in respect of individual Directors for the period is detailed in the Director's Remuneration Report commencing on page 15. The Company had no employees (other than Directors) during the period.

Notes to the Accounts continued

For the year ended 31 December 2006

6. Tax on Ordinary Activities

	2006 £'000
(a) UK corporation tax charge for the year	–
(b) Factors affecting tax charge for the year	
Revenue return on ordinary activities before taxation	270
Tax charge calculated on return on ordinary activities before taxation at the applicable rate of 19%	51
Effects of:	
Non taxable UK dividend income	(4)
Performance fee expense	4
Capital expenses	(51)
	–

The income statement shows the tax charge allocated to revenue and capital.

Capital returns are not included as VCTs are exempt from tax on realised capital gains.

No provision for deferred tax has been made in the current accounting period. No deferred tax assets have been recognised as the timing of their recovery cannot be foreseen with any certainty. Due to the Company's status as a Venture Capital Trust and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments. Taxable losses available for carry forward total £9,000.

7. Basic and diluted return per Ordinary Share

	For the period 17 October 2005 to 31 December 2006		
	Revenue	Capital	Total
Return for the period	219,000	397,000	616,000
Weighted average number of shares	17,235,558	17,235,558	17,235,558
Return per Ordinary Share	1.27p	2.30p	3.57p

The total return per ordinary share is the sum of the revenue return and capital return.

The Company was incorporated on 17 October 2005 but did not commence its investment trade until after the first allotment of the investors' Ordinary Shares on 23 January 2006. Therefore the weighted average number of shares has been calculated from 23 January 2006 to provide a comparable return per Ordinary Share for future periods.

8. Dividends

The directors do not propose a final dividend.

9. Investments

	Historic Cost £'000	Market Value £'000
(a) Summary		
Qualifying venture capital investments	2,551	2,578
Hedge funds & listed equity investments	12,506	12,649
	15,057	15,227

	Venture capital investments	Hedge funds & equity investments	Total £'000
(b) Movements in investments			
Purchase at cost	2,649	14,037	16,686
Disposals – proceeds	(108)	(1,500)	(1,608)
– realised net (losses)/gain on disposal	10	(31)	(21)
Net unrealised gains on revaluation of investments	27	143	170
Valuation at 31 December 2006	2,578	12,649	15,227
Book cost at 31 December 2006	2,551	12,506	15,057
Net unrealised gains at 31 December 2006	27	143	170
Valuation at 31 December 2006	2,578	12,649	15,227

(c) Gains on investments

The gains on investments for the period shown in the Income Statement on page 19 is analysed as follows:

	2006 £'000
Realised gains on disposal	22
Acquisition costs	(11)
Foreign exchange gains – realised	506
Foreign exchange losses – unrealised	(529)
Net unrealised gains on revaluation	673
	661

	Historic Cost £'000	Market Value £'000
(d) Quoted and unquoted investments		
Qualifying investments	13,400	13,570
Unquoted investments	1,657	1,657
	15,057	15,227

10. Debtors

	2006 £'000
Prepayments and accrued income	34

Notes to the Accounts continued

For the year ended 31 December 2006

11. Creditors – amounts falling due within one year

	2006 £'000
Unrealised loss on forward foreign exchange contracts	18
Accruals	288
	306

Included in creditors is the fair value of the forward foreign exchange contracts held to hedge the Company's foreign denominated assets (see Note 18).

	2006 Assets £'000	2006 Liabilities £'000
Forward foreign exchange contracts – \$ USD	–	21
Forward foreign exchange contracts – € EUR	3	–
	3	21

12. Creditors – amounts falling due after more than one year (including convertible debt)

	2006 £'000
Loan Notes	1

On 28 December, 2005, the Company issued Loan Notes in the amount of £1,000 to a nominee on behalf of the Investment Manager's group and employees of and persons related to the investment management team. The Loan Notes accrue interest of 5% per annum.

Shore Capital and members of the investment management team will be entitled to a performance related incentive of 20 per cent. of the aggregate excess on any amounts realised by the Company in excess of £1 per Ordinary Share, and Shareholders will be entitled to the balance. This incentive will only be payable once the holders of Ordinary Shares have received distributions of £1 per share (whether capital or income). The performance incentive structure provides a strong incentive for the Investment Manager to make distributions as high and as soon as possible.

In the event that distributions to the holders of Ordinary Shares totalling £1 per share have been made the Loan Notes will convert into sufficient Ordinary Shares to represent 20 per cent of the enlarged number of Ordinary Shares.

No performance fee is currently payable as the Ordinary Shares have received no distributions to date. However, as the NAV is greater than £1, a performance fee has been expensed in accordance with FRS 20 Share-based Payment. Also, a diluted NAV per share has been calculated which reflects the impact of this conversion (see note 16).

The amount of the performance fee has been calculated as 20 per cent of the excess of the net asset value over £1 per issued share. This amount has been charged as an expense in the Income Statement and credited to other reserve within Equity Shareholder's Funds.

13. Called Up Share Capital

2006
£'000

Authorised:

35,000,000 ordinary shares of 1p each

350

Allotted and fully paid:

19,512,692 ordinary shares of 1p each

195

The authorised share capital upon incorporation was £50,000 divided into 50,000 Ordinary Shares of £1 each, of which two Ordinary shares were issued, nil paid, to the subscribers on 17 October 2005.

On 23 November 2005, the 50,000 existing issued and unissued Ordinary shares were subdivided into 5,000,000 Ordinary shares of 1p each. On the same date the authorised share capital was increased by £300,000 by the creation of 25,000,000 new Ordinary shares of 1p each and 50,000 Redeemable Preference shares of £1 each. The 50,000 Redeemable Preference shares were issued to Shore Capital Trading Limited, one quarter paid up, so as to enable the Company to obtain a certificate under Section 117 of the Companies Act 1985.

Between 23 January 2006 and 5 April 2006, 19,512,492 Ordinary shares of 1p each were issued at £1 per share pursuant to the offers for subscription to the public dated 6 December 2006. The aggregate consideration for the shares was £19,512,492 which excluded issue costs of £390,250.

On 7 June 2006 the 50,000 Redeemable Preference shares were paid up in full and then subsequently redeemed out of the proceeds of the offers. Upon redemption, the unissued share capital thereby created was sub-divided into and redesignated, as 5,000,000 Ordinary shares. Following this, the authorised share capital was £35,000 divided into 35,000,000 Ordinary shares of 1p each.

14. Capital and Reserves

	Share premium account £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Other reserve £'000	Revenue reserve £'000	Total 2006 £'000
Share issues in the period	19,317	–	–	–	–	19,317
Expenses of share issues	(390)	–	–	–	–	(390)
Net gains on realisation of investments	–	22	–	–	–	21
Foreign exchange losses realised	–	506	–	–	–	506
Net unrealised gain on revaluation of investments, forward foreign exchange contracts and cash	–	–	144	–	–	144
Acquisition costs	–	(11)	–	–	–	(11)
Management fees charged to capital	–	(280)	–	–	–	(280)
Performance fee charged to capital	–	–	(35)	–	–	(35)
Performance fee to be effected through share-based payment	–	–	–	57	–	57
Retained net revenue for the period	–	–	–	–	219	219
Taxation relief on capital expenses	–	51	–	–	–	52
Capital reconstruction	(18,927)	–	–	–	18,927	–
Balance at 31 December 2006	–	288	109	57	19,146	19,600

On 31 July 2006, the Company obtained court orders for a capital reconstruction whereby it cancelled its share premium account. The purpose of the reconstruction was to maximise its distributable reserves in order to afford the company greater flexibility going forward regarding dividends and potential share buy-backs.

The other reserve represents the cumulative amount of performance fees which have been expensed since the Company's inception. Upon realisation or reversal of the performance fees, the other reserve will be reduced to nil with a corresponding entry within equity.

Notes to the Accounts continued

For the year ended 31 December 2006

15. Net Asset Value per Ordinary Share

	2006	
	Basic	Diluted
Net assets	19,795,000	19,795,000
Number of Ordinary Shares	19,512,692	19,568,660
Net Assets Value per Ordinary Share (pence)	101.45p	101.16p

Calculation of number of shares

	2006	
	Basic	Diluted
Net of Ordinary Shares issued during the period	19,512,692	19,512,692
Dilutive effect of performance fee (see note 12)	–	55,968
At 31 December 2006	19,512,692	19,568,660

There is a dilution impact from the future issuance of additional shares to effect the performance fee payable to the Investment Manager.

16. Reconciliation of total return before capital expenditure and financing and costs to net cash inflow from operating activities

	2006 £'000
Total return before taxation	616
Gains on investments	(661)
Increase in debtors	(34)
Increase in creditors	288
Foreign exchange loss on cash	(6)
Performance fee to be effected through share-based payment	57
Net cash inflow from operating activities	260

17. Analysis of Changes in Net Funds

	2006 £'000
Beginning of period	–
Net cash inflow	4,841
As at year-end	4,841

18. Financial Instruments

The Company's financial instruments comprise its investment portfolio, forward foreign currency contracts and cash balances. Fixed Asset investments held are valued at Bid market prices, Net Asset Value, cost or in accordance with IPEVC guidelines (see note 1). The fair value of all other financial assets and liabilities is represented by the carrying value in the Balance Sheet.

Management of risk

The main risk the Company faces from its financial instruments are (i) market price risk, being the risk that the value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or currency movements, (ii) liquidity risk, and (iii) interest rate risk. The Board regularly reviews and agrees policies for managing each of these risks. The Investment Manager's policy for managing these risks are summarised below and have been applied throughout the period. The numerical disclosures exclude short-term debtors and creditors.

Credit risk

The Manager evaluates credit risk on loan stock instruments prior to investment, and as part of its ongoing monitoring of investments. The loan stock instruments have a first or second charge over the assets of the investee company.

Market price risk

Market price risk arises mainly from uncertainty about future prices of financial instruments used in the Company's operations. It represents the potential loss the Company might suffer through holding market positions or unquoted investments in the face of price movements, mitigated by stock selection. The Investment Manager actively monitors market prices throughout the year and reports to the Board, which meets regularly in order to consider investment strategy.

Liquidity risk

The funds raised since incorporation are currently used to fund the Company's interim objective of investing in quoted hedge funds and other equity investments. Approximately 64% of the Net Asset Value are utilised in this investment strategy. The only unquoted holdings are two qualifying venture capital investments. By their nature, unquoted investments may not be readily realisable. The portfolio of quoted hedge funds and equities is held to offset the liquidity risk. As at the year end, the Company had no borrowings other than loan notes amounting to £1,000 (see note 12).

Fair value interest rate risk

The benchmark that determines the interest paid or received on the current account is the Bank of England base rate, which was 5.25% at 31 December 2006. An interest rate of 7% is receivable on the Cadbury House Hotel & Country Club plc fixed interest loan stock and an interest rate of 9.0% is receivable on the Stocklight Ltd fixed interest loan stock. All of the loan stock investments are unquoted and hence not subject to market movements as a result of interest rate movements.

At the period end and throughout the period, the Company's only liability subject to interest rate risk were the Loan Notes of £1,000 at 5.0% (see note 12).

Cash flow interest rate risk

The Company has exposure to interest rate movements primarily through its cash deposit which tracks the Bank of England base rate.

Notes to the Accounts continued

For the year ended 31 December 2006

18. Financial Instruments continued

Interest rate risk profile of financial assets

The Company's financial assets, other than the fixed interest loan stock investments noted above and non-interest bearing investments, are floating rate. The following analysis sets out the interest rate risk of the Company's financial assets.

	Average interest rate	Period until maturity	2006 £'000
Floating rate	5.2%		4,841
Fixed rate	7.0%	5 years	700
Fixed rate	9.0%	5 years	591
Non-interest bearing	–		13,970
			20,102

The non-interest bearing assets include investments in hedge funds and equity instruments that have no fixed dividend or interest rate.

Foreign currency risk

The reporting currency of the Company is Sterling. However, the Company holds a number of U.S. Dollar denominated hedge funds and Euro denominated investments as well as U.S. Dollar and Euro cash accounts. As at the period end, the Sterling equivalent value of such foreign investments amounted to £6,853,000 representing 35% of the Company's net assets as at that date.

The Group enters into forward contracts for the sale of foreign currencies in order to hedge its exposure to fluctuations in currency rates in respect of these holdings. These forward contracts are recorded at fair value through profit and loss and any change in value is taken to the capital account. Any profit or loss on unrealised forward contracts at year-end are recorded in the Capital Reserve – unrealised. The notional principal amounts of the outstanding forward foreign currency exchange contracts at 31 December 2006 were £6,041,000.

19. Contingencies, Guarantees and Financial Commitments

There were no commitments, contingencies or guarantees of the Company at the year-end.

20. Controlling Party and Related Party Transactions

In the opinion of the Directors there is no immediate or ultimate controlling party.

The Company has appointed Shore Capital Limited, a company of which C J Ring is a director, to provide investment management services. During the year £374,000 was due in respect of investment management fees. The balance owing to Shore Capital Limited at year-end was £227,000.

The Company has appointed Shore Capital Fund Administration Services Limited, a related company to Shore Capital Limited, to provide accounting, secretarial and administrative services. During the year £67,000 was due in respect of these services. The balance owing to Shore Capital Fund Administration Services Limited at year-end was £41,000.

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Notice of Extraordinary General Meeting

Notice is hereby given that an Extraordinary General Meeting of the Company will be held at Bond Street House, 14 Clifford Street, London W1S 4JU on 13 June 2007 at 2.40 pm (or as soon thereafter as the Extraordinary General Meeting of Puma VCT II plc called for 2.35 pm on 13 June 2007 shall have been concluded) to consider and, if thought fit, to pass the following resolutions:

Ordinary Resolutions

- 1 To approve and adopt the Accounts for the year ended 31 December 2006, together with the reports of the Directors and Auditors thereon.
- 2 To approve the policy set out in the Remuneration Report on page 15 in the Annual Report and Accounts 2006.

BY ORDER OF THE BOARD

Jonathan Paisner
Company Secretary

Registered Office:
Bond Street House
14 Clifford Street
London W1S 4JU

Dated: 3 May 2007

Notes:

- 1 Notice of the Annual General Meeting was given to shareholders on 23 April 2007. This notice included two resolutions relating to the Company's Report and Accounts. Because of a delay in the publication of these accounts, in accordance with section 238 Companies Act 1985, Ordinary Resolutions 1 and 2 above are to be considered and, if thought fit, passed, at this Meeting and not at the company's Annual General Meeting which will be held on 17 May 2007. However, the Directors will be pleased to respond to shareholders' queries on the Report and Accounts at the Annual General Meeting.
- 2 A member who is entitled to attend and vote at this Meeting may appoint one or more proxies to attend and, on a poll, vote on his/her behalf. Such a proxy need not be a member of the Company.
- 3 To be valid, a Form of Proxy must be lodged with the Company's Registrars, by post at Proxy Processing Centre, Telford Road, Bicester OX26 4LD or by hand at Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU at least 48 hours before the Meeting. A Form of Proxy for use by shareholders is enclosed with this Report on page 35. Completion of the Form of Proxy will not prevent a shareholder from attending the Meeting and voting in person.
- 4 In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the Company's register of members not later than 48 hours before the time of the Meeting or, if the Meeting is adjourned, shareholders entered on the Company's register of members not later than 48 hours before the time fixed for the adjourned Meeting shall be entitled to attend and vote at the Meeting.

Form of Proxy – VCT III PLC

For use at the Extraordinary General Meeting of Puma VCT III plc convened for 13 June 2007 at 2.40 pm (or as soon thereafter as the Extraordinary General Meeting of Puma VCT II plc called for 2.35 pm on 13 June 2007 shall have been concluded) at Bond Street House, 14 Clifford Street, London W1S 4JU

I/We _____

(BLOCK CAPITALS PLEASE)

of _____

being (a) member(s) of the Company hereby appoint the Chairman of the Meeting (see Note 1) or

_____ as my/our proxy and to attend and vote for me/us on my/our behalf at the Extraordinary General Meeting of the Company to be held on 13 June 2007 and at any adjournment thereof. My/our proxy is to vote as indicated below in respect of the Resolutions set out in the Notice of Extraordinary General Meeting (see Note 3)

Ordinary Resolutions

FOR

AGAINST

1 To approve and adopt the Report and Accounts

2 To approve the policy set out in the Remuneration Report

Dated _____

Signed or sealed (see Note 4) _____

Notes:

- 1 If a member wishes to appoint as a proxy a person other than the Chairman of the Meeting, the name of the other person should be inserted in block capitals in the space provided. A proxy need not be a member of the Company but must attend the Meeting in person.
- 2 Any alteration or deletion must be signed or initialled.
- 3 A member should indicate by marking the box headed either FOR or AGAINST with an 'X' to show how he wishes his vote to be cast in respect of each of the resolutions set out in the Notice of Extraordinary General Meeting. Unless so instructed, the proxy will vote or abstain as he thinks fit. The proxy will act at his discretion in relation to any other business arising at the Meeting (including any resolution to amend a resolution or to adjourn the Meeting).
- 4 In the case of a corporation this form of proxy should be given under its seal or signed on its behalf by an attorney or duly authorised officer. In the case of joint holders the form of proxy should be signed by the senior holder and the names of all joint holders should be shown.
- 5 Use of this form of proxy does not preclude a member from attending the Meeting and voting in person.
- 6 To be valid, this form of proxy must be lodged together with the power of attorney or other authority (if any) under which it is signed, or a notorially certified copy of such power or authority, at the Company's Registrars, by post at Proxy Processing Centre, Telford Road, Bicester OX26 4LD or by hand at Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not less than 48 hours before the Meeting or any adjournment thereof or, in the case of a poll, not less than 48 hours before the time appointed for taking the poll.



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Business Reply
Licence Number
RRHB-RSXJ-GKCY



**Proxy Processing Centre
Telford Road
Bicester
OX26 4LD**

SECOND FOLD

FIRST FOLD



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