



SHORE CAPITAL



# PUMA VCT II PLC

INTERIM REPORT 2006

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# Chairman's Statement

## Highlights

- Undiluted net asset value per share of 110.24p, a 5.0% increase from year-end.
- Fully diluted net asset value of 108.19p, an increase of 4.0%.
- Strong performance of alternative asset investments during the period.
- Deal flow of larger qualifying investments in pipeline.

## Introduction

During the six months to 30 June 2006, the Company's net asset value grew by 5.0%, in excess of targets. This was accomplished from investments in qualifying companies selected as being on the whole lower risk whilst making alternative asset investments intended to provide an absolute return with low volatility. Although the rate of new qualifying investments in the first half of this year was lower than expected, the flow of potential new deals is currently strong and we expect a significant upturn in activity before the year-end.

## Net asset value

2006 has begun well with the Company's net asset value up 5.0% to 110.24p. The diluted net asset value is up 4.0% to 108.19p after accruing for potential performance fees. The increase is largely due to the Investment Manager's focus on maximising the returns of its hedge fund portfolio and other non-qualifying listed investments.

The total return for the six month period to 30 June 2006 was 4.18p, comprising a

revenue return of 0.20p and a capital return of 3.98p.

## Dividends

Your Board is not proposing a dividend for the period. When the portfolio is more fully established the Directors intend to distribute a large element of the available income and, if appropriate, realised capital gains.

## Qualifying investments

During the six months a total of £196,000 was invested in the following companies:

- Clarity Commerce Solutions Plc (£98,000) is an AIM quoted provider of software and IT support services based in Basingstoke.
- Interactive World Plc (£70,000) is an AIM quoted distributor of digital media content to customers of major UK mobile network operators and users of leading UK internet search engines based in Barking.
- Debts.co.uk Plc (£28,000) is an AIM quoted personal debt consolidator based in Chesterfield.

## Chairman's Statement continued

The Investment Managers have been selective about investing into qualifying companies on AIM because they believed that new issues available to VCTs in the first five months of this year were generally over-valued and in many cases by poor quality companies. Since then, the small cap market has retrenched bringing valuations down to a more reasonable level. This should provide a better environment from which to invest in qualifying companies.

The qualifying portfolio now consists of six investments and represents approximately 17% of assets as at 30 June 2006. With some larger qualifying investments to be made in the near-term, your Board is confident the requirement for at least 70% to be invested in qualifying companies after three years will be met within the timescale.

### **Non-qualifying investments**

The Investment Manager's non-qualifying portfolio has performed strongly in the six months to 30 June 2006 producing the bulk of the Company's total return in this period. The Investment Manager continues to seek out hedge funds which meet the goal of absolute return and to construct a portfolio

with a low correlation of underlying funds and a consequent low volatility at the portfolio level. As the funding of qualifying investments increases, the hedge fund portfolio will be progressively liquidated to meet this need.

### **Outlook**

The Company's Investment Manager, Shore Capital, currently has a strong deal flow of interesting qualifying opportunities in private equity deals. The recent turbulence in equity markets has brought valuations down to a more realistic level which should provide interesting opportunities.

I look forward to reporting the progress of the Company with the next Annual Report for the year ended 31 December 2006. In the meantime, shareholders should note that the Company publishes its net asset value per share each month over the London Stock Exchange's electronic system.

**Sir Aubrey Brocklebank Bt**  
Chairman

26 September 2006

# Income Statement (unaudited)

For the six months ended 30 June 2006

	Note	Six months ended 30 June 2006			10 Dec 2004 to 30 Jun 2005			10 Dec 2004 to 30 Dec 2005		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments		–	479	479	–	25	25	–	620	620
Income		89	–	89	34	–	34	145	–	145
		<b>89</b>	<b>479</b>	<b>568</b>	<b>34</b>	<b>25</b>	<b>59</b>	<b>145</b>	<b>620</b>	<b>765</b>
Investment management fees	4	24	73	97	7	20	27	29	87	116
Performance fees		4	82	86	–	–	–	5	78	83
Other expenses		38	–	38	15	–	15	67	–	67
		<b>66</b>	<b>155</b>	<b>221</b>	<b>22</b>	<b>20</b>	<b>42</b>	<b>101</b>	<b>165</b>	<b>266</b>
<b>Return on ordinary activities before taxation</b>		<b>23</b>	<b>324</b>	<b>347</b>	<b>12</b>	<b>5</b>	<b>17</b>	<b>44</b>	<b>455</b>	<b>499</b>
Tax on return on ordinary activities capital		(6)	6	–	–	–	–	(13)	13	–
<b>Return on ordinary activities after tax attributable to equity shareholders</b>		<b>17</b>	<b>330</b>	<b>347</b>	<b>12</b>	<b>5</b>	<b>17</b>	<b>31</b>	<b>468</b>	<b>499</b>
<b>Return per Ordinary Share (pence)</b>	2	<b>0.20p</b>	<b>3.98p</b>	<b>4.18p</b>	0.14p	0.06p	0.20p	0.41p	6.26p	6.67p

The revenue column of this statement is the profit and loss of the Company. All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued in the period.

# Balance Sheet (unaudited)

As at 30 June 2006

	Note	As at 30 June 2006 £'000	As at 30 June 2005 £'000	As at 31 December 2005 £'000
<b>Fixed Assets</b>				
Investments	6	7,918	3,584	6,490
<b>Current Assets</b>				
Trades in advance		–	–	339
Debtors		65	2	14
Cash		1,256	4,755	1,965
		1,321	4,757	2,318
<b>Creditors – amounts falling due within one year</b>		<b>(89)</b>	<b>(190)</b>	<b>(92)</b>
<b>Net Current Assets</b>		<b>1,232</b>	<b>4,567</b>	<b>2,226</b>
<b>Total Assets less Current Liabilities</b>		<b>9,150</b>	<b>8,151</b>	<b>8,716</b>
<b>Creditors – amounts falling due after more than one year (including convertible debt)</b>		<b>(1)</b>	<b>(1)</b>	<b>(1)</b>
<b>Net Assets</b>		<b>9,149</b>	<b>8,150</b>	<b>8,715</b>
<b>Capital and Reserves</b>				
Called up share capital		83	83	83
Share premium account		–	8,050	–
Capital reserve – realised		65	(17)	(213)
Capital reserve – unrealised		733	22	681
Other reserve		170	–	83
Revenue reserve		8,098	12	8,081
<b>Equity Shareholders' Funds</b>		<b>9,149</b>	<b>8,150</b>	<b>8,715</b>
<b>Net Asset Value per Ordinary Share</b>	3	<b>110.24p</b>	98.20p	105.01p
<b>Diluted Net Asset Value per Ordinary Share</b>	3	<b>108.19p</b>	98.20p	104.01p

# Cash Flow Statement (unaudited)

For the six months ended 30 June 2006

	Six months ended 30 June 2006 £'000	10 Dec 2004 to 30 Jun 2005 £'000	10 Dec 2004 to 31 Dec 2005 £'000
<b>Operating activities</b>			
Return on ordinary activities before taxation	23	12	44
Investment management fee charged to capital	(73)	(20)	(87)
Performance fee to be effected through share-based payment	4	–	5
Foreign exchange (loss)/gain on cash	(17)	2	1
Increase in debtors	(51)	(2)	(14)
Decrease in creditors	(10)	190	76
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(124)</b>	<b>182</b>	<b>25</b>
<b>Capital expenditure and financial investment</b>			
Purchase of investments	(2,733)	(3,637)	(6,262)
Proceeds from sale of investments	1,580	122	561
Decrease/(increase) in trades in advance	339	–	(339)
Net realised gain/(loss) on forward foreign exchange contracts	229	(46)	(154)
<b>Net cash outflow from capital expenditure and financial investment</b>	<b>(585)</b>	<b>(3,561)</b>	<b>(6,194)</b>
<b>Financing</b>			
Proceeds received from issue of ordinary share capital	–	8,299	8,299
Expenses paid for issue of share capital	–	(166)	(166)
Proceeds received from issue of redeemable preference shares	–	–	50
Redemption of redeemable preference shares	–	–	(50)
Proceeds received from convertible loan notes	–	1	1
<b>Net cash inflow from financing</b>	<b>–</b>	<b>8,134</b>	<b>8,134</b>
<b>(Decrease)/increase in cash</b>	<b>(709)</b>	<b>4,755</b>	<b>1,965</b>
<b>Reconciliation of net cash flow to movement in net funds</b>			
(Decrease)/increase in cash for the period	(709)	4,755	1,965
Net cash at start of the period	1,965	–	–
<b>Net funds at the period end</b>	<b>1,256</b>	<b>4,755</b>	<b>1,965</b>

# Reconciliation of Movements in Shareholders' Funds (unaudited)

For the six months ended 30 June 2006

	Six months ended 30 June 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 £'000
Balance at 31 December 2005	83	–	(213)	681	83	8,081	8,715
Combined net return on ordinary activities after taxation	–	–	278	52	87	17	434
<b>Balance at 30 June 2006</b>	<b>83</b>	<b>–</b>	<b>65</b>	<b>733</b>	<b>170</b>	<b>8,098</b>	<b>9,149</b>
Period from 10 December 2004 to 30 June 2005							
Share issues in the period	83	8,216	–	–	–	–	8,299
Expenses of share issues	–	(166)	–	–	–	–	(166)
Combined net return on ordinary activities after taxation	–	–	(17)	22	–	12	17
Balance at 30 June 2005	83	8,050	(17)	22	–	12	8,150
Period from 10 December 2004 to 31 December 2005							
Share issues in the period	83	8,216	–	–	–	–	8,299
Expenses of share issues	–	(166)	–	–	–	–	(166)
Combined net return on ordinary activities after taxation	–	–	(213)	681	83	31	582
Capital reconstruction	–	(8,050)	–	–	–	8,050	–
Balance at 31 December 2005	83	–	(213)	681	83	8,081	8,715



# Notes to the Interim Report

For the six months ended 30 June 2006

- The financial statements have been prepared under the historical cost convention, modified to include the revaluation of fixed asset investments, and in accordance with applicable Accounting Standards and with the Statement of Recommended Practice, "Financial Statements of Investment Trust Companies" ("SORP") December 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 investment company status is revoked.

The Company is required to comply with a number of new UK Financial Reporting Standards (FRS), which now represent UK Generally Accepted Accounting Practice (UK GAAP), in presenting its financial statements for the year ending 31 December 2006. These Standards have been introduced as part of the process of aligning UK accounting principles with International Accounting Standards. The unaudited interim financial statements for the six months ended 30 June 2006 have been prepared in compliance with the new Standards. There is no change with respect to the accounting policies from those used in preparing the annual financial statements for the year ended 31 December 2005.

## 2. Return per Ordinary Share

The total return per share of 4.18p (30 June 2005 – 0.20p) is based on the profit for the period of £347,000 (30 June 2005 – £17,000) and the weighted average number of shares in issue as at 30 June 2006 of 8,299,300 (30 June 2005 – 8,299,300).

## 3. Net asset value per share

Period	Net assets	Shares in issue	Net Asset Value per share	
			Basic	Diluted
30 June 2006	£9,149,000	8,299,300	110.24p	108.19p
31 December 2005	£8,715,000	8,299,300	105.01p	104.01p
30 June 2005	£8,150,000	8,299,300	98.20p	98.20p

## 4. Management fees

The Company pays the Investment Manager an annual management fee of 2% (plus VAT) of the Company's net assets. The fee is payable quarterly in arrears. The annual management fee is allocated 75% to capital and 25% to revenue.

# Notes to the Interim Report continued

For the six months ended 30 June 2006

5. The financial information for the six months ended 30 June 2006 and the period ended 30 June 2005 has not been audited and does not comprise full financial statements within the meaning of Section 240 of the Companies Act 1985. The financial information for the period ended 31 December 2005 has been extracted from the company's full financial statements for the period then ended that have been delivered to the Registrar of Companies, and on which the report of the Auditors was unqualified. The interim financial statements have been prepared on the same basis as the annual financial statements.

## 6. Investment portfolio summary

	Cost £'000	Valuation £'000	Valuation as a % of Net Assets
<b>As at 30 June 2006</b>			
<b>Qualifying investments – unquoted</b>			
Cadbury House Hotel & Country Club plc – equity	49	67	1%
Cadbury House Hotel & Country Club plc – debt	440	655	7%
<b>Qualifying investments – quoted</b>			
Clarity Commerce Solutions plc	98	89	1%
Debts.co.uk plc	28	29	1%
Interactive World plc	70	78	1%
Patsystems plc	214	235	3%
@UK plc	285	380	3%
<b>Total qualifying investments</b>	<b>1,184</b>	<b>1,533</b>	<b>17%</b>
<b>Non-qualifying investments</b>			
Hedge fund portfolio – unquoted	1,048	1,148	13%
Hedge fund portfolio – quoted	3,430	3,754	41%
Other quoted investments	883	1,033	11%
Fixed interest security	451	450	5%
<b>Total non-qualifying investments</b>	<b>5,812</b>	<b>6,385</b>	<b>70%</b>
<b>Total investments</b>	<b>6,996</b>	<b>7,918</b>	<b>87%</b>
<b>Balance of portfolio</b>	<b>1,231</b>	<b>1,231</b>	<b>13%</b>
<b>Net Assets</b>	<b>8,227</b>	<b>9,149</b>	<b>100%</b>

# 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**

05317329

## **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  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

## **Administrator**

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

## **Auditors**

Baker Tilly  
2 Bloomsbury Street  
London WC1B 3ST

## **Sponsors and Solicitors**

Howard Kennedy  
19 Cavendish Square  
London W1A 2AW

## **Bankers**

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Western Branch  
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## **VCT Tax Adviser**

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## **Custodian**

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