



**SHORE CAPITAL**



# PUMA VCT III PLC

ANNUAL REPORT & ACCOUNTS 2011

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## Highlights

- Successful disposals and realisations during the year enabling a substantial return of capital.
- Dividends of 36p paid during the year, with a further 1.5p paid out in May 2011 – these bring total dividends since launch to 48.5p.
- Fully diluted NAV per share was 57.66p at year end. This represents a 1.7 per cent increase for the year after adjusting for the dividends paid in the year.
- As envisaged in the original Prospectus, resolutions will be put forward for a winding up of the VCT at the end of its planned life.

“I am pleased to report another successful year for the VCT in which it achieved major progress in fulfilling its objectives. A large element of the unquoted qualifying investments was realised successfully and the process of returning capital to investors advanced significantly, with a further 36p of dividends paid out for this year.

In accordance with the 2006 Prospectus, the Board expects to convene a general meeting in the autumn to wind up the Company and return the balance of the capital in an orderly way, with further substantial distributions by the end of 2011.”



*Cadbury House, one of the businesses which the VCT funded.*

# Chairman's Statement

## Introduction

I am pleased to report upon a successful year for the VCT in which it achieved major progress in fulfilling its objectives. The VCT was launched and began investing in Spring 2006, with a planned life of five years. In this, its fifth year, a large element of the unquoted qualifying investments was realised successfully and the process of returning capital to investors advanced significantly.

## The investment environment

During the year the Company held a mixed portfolio of secured loans and equity in qualifying unquoted companies and qualifying AiM stocks, together with property related stocks and absolute return funds. 2010/11 was a volatile year for equity markets; despite rallies at the start of the year, a sharp correction in May 2010 reminded investors that the developed world was still recovering from the full effects of the financial crisis.

Backed by a surge in commodity prices, resource-related small stocks performed well, with the AiM all share up 42 per cent for the year; however UK-related stocks of the kind accessible to VCTs saw little of this upside as liquidity measures implemented by governments failed to filter through to the consumer. A reduction in corporation tax for small companies should allow these companies to improve their net earnings but liquidity still remains an issue.

As discussed above, the VCT made significant realisations during the year. The proceeds funded significant dividends of 36 pence during the year. Together with dividends paid to shareholders in

previous years, total cash returned to shareholders who initially received higher rate tax relief is now 88.5 pence, comprising 48.5 pence in dividends and 40 pence in tax relief.

Residual net assets at the year-end were 57.66 pence per share. This NAV, together with dividends paid, showed a 1.7 per cent increase in the year. Most elements of the portfolio contributed to this return; in particular the Company's hedge funds (which did well), bonds and bond funds (which also performed well during the year and were realised by the year end), and the qualifying loans.

## Venture capital and other qualifying investments

During the year the Company realised several of its unquoted qualifying holdings in anticipation of the expected wind-up timetable of the VCT whilst maintaining its minimum qualifying investment percentage of 70 per cent. The realisations included returns of capital from Forward Internet Group Limited ("Forward"), Bond Contracting Limited ("Bond") and Telford Homes plc. These were respectively a partial return of capital, a near total redemption, and in the case of Telford Homes, a full redemption from its investment, which generated a total return of 8.76 per cent per annum. Forward and Bond are discussed further in the Investment Manager's report.

Four other qualifying unquoted holdings entered into a limited liability partnership together. The limited partnership project is also discussed in the Investment Manager's report.

Anticipating the winding-up of the VCT, the Investment Manager has continued to sell the AiM listed qualifying holdings. This has been and continues to be carefully managed to balance the need to return good value on these stocks with the slow trading volumes of turbulent markets.

#### **Non-qualifying investments**

The Company's absolute return positions all performed well in the year. Since investment in December 2006, the BlackRock UK Emerging Companies Fund has returned 88 per cent for the Company, representing capital appreciation of £700,000. In March 2010, the Company invested £250,000 into Bluebay Macro, a global macro hedge fund, which returned 18 per cent to the end of the period.

I am pleased to report that non-qualifying holdings realised during the year generated income of £34,000 plus gains of £147,000 on an investment cost of £6,500,000, a total return of 2.8 per cent over the year.

#### **Results and dividends**

The VCT generated a total return after tax of £314,000, equating to a return per share of 1.61 pence from the combination of a recovering market and gains from successful realisations. The Board does not propose a final dividend, but anticipates further dividends as the assets are realised.

#### **Annual General Meeting and Proposal to Wind-Up the VCT**

The Annual General Meeting of the VCT will be held at Bond Street House, 14 Clifford Street, London, W1S 4JU on 25th August 2011 at 2pm. Notice of the Annual General Meeting and Form of Proxy will be inserted within the annual accounts.

The Company has now just passed its fifth year. In accordance with the plans set out in the Company's 2006 Prospectus, the Board expects to convene a general meeting of the Company in the autumn of this year, at which resolutions will be proposed to place the Company into members' solvent liquidation. If these are passed, liquidators will be appointed and the Company will seek to de-list from the London Stock Exchange.

Once such resolutions have been passed by shareholders, for a maximum period of three years the VCT is permitted to depart from the 70 per cent qualifying rule whilst retaining its status of tax free distribution to UK taxpayers. The intention is to return the balance of the capital in an orderly way, with disposals timed appropriately to enable further substantial distributions by the end of 2011.

#### **David Brock**

Chairman  
30 June 2011

# Investment Manager's Report

## Overall Performance

In its fifth year, the Company took good strides towards achieving its objectives, by maintaining its qualifying status and returning capital to shareholders through the realisation of a number of its qualifying investments. 2010 was a mixed year for equity markets. Further quantitative easing and continued low interest rates had positive affects but growth was slower than predicted in the developed world reflecting concerns over sovereign wealth and stagnant labour and housing markets in both the UK and USA.

The Company returned 36 pence per share to shareholders in the year and has since paid out a further 1.5 pence in May 2011, bringing total cash returned to shareholders to 48.5 pence per share and leaving a residual NAV of 57.66 pence per share at the year end. This has been achieved despite the dramatic turbulence of the five year period in which the VCT has operated.

## Qualifying Investments – unquoted

As discussed in the Chairman's statement, the unquoted qualifying portfolio performed well during the year, with a number of realisations and strong financial performance.

The VCT had invested a total of £2.02 million in two companies which were subsequently acquired by Forward Internet Group Limited (formerly Traffic Broker Limited) ("Forward"). I am pleased to report on a very successful year for Forward. Forward more than doubled its turnover in 2010 and enjoyed strong growth in turnover and profitability, with net assets of £19.8m and £10.8m of cash at 31 December 2010. The Company received a partial redemption of its loan to Forward of £500,000 in June 2010, received a further £500,000 in May 2011 and expects to receive



*Various businesses within the Forward Internet Group.*

the balance on schedule. The return on this Investment is running at 6.42 per cent per annum.

In January 2010 Bond Contracting Limited successfully completed its contract to construct a 141 bed hotel on the outskirts of Winchester and the hotel was sold to an operator of a number of Holiday Inns. Bond Contracting repaid the loan notes held by the fund and paid a substantial dividend to the VCT. As a result, we now have only a small equity holding remaining which, following the entry of Bond Contracting into members' voluntary liquidation, should be realised later this year.

Bruton Services Limited, Kingly Services Limited, Pollen Services Limited and Saville Services Limited (into which the VCT invested £1 million respectively), entered into a limited liability partnership (the "LLP") in February 2011 for the purpose of pooling their respective resources. Since formation, the LLP has agreed terms, subject to contract, on an opportunity to provide contracting services over the coming months of c.£2 million and is in discussions regarding a second opportunity of c.£6m.



*The Holiday Inn Hotel in Winchester, built by Bond Contracting Limited.*

### Qualifying Investments – quoted

The Company made no additional qualifying investments into AiM quoted companies during the year, concentrating on the maximum realisation of value from its remaining positions. Liquidity remains the issue in these stocks despite some encouraging results. Slower than expected economic growth continues in the UK as the coalition government has introduced higher taxes and spending cuts in an effort to reduce the budget deficit.

As at the year end, the Company held positions in Vertu Motors plc (“Vertu”), Sports Media Group plc (“Sports Media”) and Clarity Commerce Solutions plc (“Clarity”). After year end, the Company has realised its holding in Vertu while regrettably, Sports Media is now of zero value. Clarity is a global supplier of end to end software solutions for the entertainment, hospitality and leisure sectors. Clarity has a good business and a trade sale is a possible exit. We will continue to monitor the position closely, with a view to an optimal realisation when the opportunity arises.

The Company remained fully qualified for the period as set out within the HMRC VCT guidelines.

### Non-qualifying investments

During the year the non-qualifying portfolio contributed positively to overall performance. We traded out of our positions in single name bonds and bond funds, in order to take profit for the Company and reduce risk following gains in a number of these positions. Trading in these positions was active during the year; by way of example, the Company took a position in Man Group in February 2010 and sold it in August 2010, generating an IRR of 19.09 per cent and a total return of 9.07 per cent.

In March 2010, we added one hedge fund position, Bluebay Macro. The fund is a global macro hedge fund which utilises a flexible mandate and highly active investment approach in an attempt to capitalise on trends across global markets. As indicated in the Chairman’s statement, the fund has performed well since our investment, with a return of 21 per cent to date.



*The Holiday Inn Hotel in Winchester, built by Bond Contracting Limited.*

We retain a position in BlackRock UK Emerging Companies Fund, an equity fund which has delivered positive returns in all market environments and in the Puma Absolute Return Fund, a Fund of Funds which gives the Company exposure to a portfolio of diversified hedge funds with reduced volatility. Both produced positive returns.

### Investment Strategy

We continue to focus on improving the liquidity of the portfolio wherever possible whilst maintaining an appropriate risk adjusted return. The successful realisations and subsequent distributions to shareholders this year combined with the returns achieved have proved this strategy so far. The objective remains to achieve an orderly winding up of the VCT’s assets at the end of its life, subject to shareholder approval.

### Shore Capital Limited

30 June 2011

# Investment Portfolio Summary

As at 28 February 2011

Investment		Valuation £'000	Original Cost £'000	Gain/(Loss) £'000	Valuation as % of NAV
<b>Qualifying Investments – Unquoted</b>					
Bond Contracting Limited	***	8	394	(386)	0%
Bruton Services Limited		981	1,000	(19)	9%
Forward Internet Group Limited (formerly Traffic Broker Limited)		1,500	1,500	–	13%
Kingly Services Limited		981	1,000	(19)	9%
Pollen Services Limited		981	1,000	(19)	9%
Saville Services Limited		981	1,000	(19)	9%
<b>Qualifying Investments – Quoted</b>					
Clarity Commerce Solutions plc		110	230	(120)	1%
Sport Media Group plc	****	7	493	(486)	0%
Vertu Motors plc		223	500	(277)	2%
<b>Total Qualifying Investments</b>		<b>5,772</b>	<b>7,117</b>	<b>(1,345)</b>	<b>52%</b>
<b>Non – Qualifying Investments – Unquoted</b>					
BlueBay Macro	**	295	250	45	3%
INVU		250	250	–	2%
<b>Non – Qualifying Investments – Quoted</b>					
Blackrock UK Emerging Cos Hedge Fund Limited	*	1,498	799	699	13%
Puma Absolute Return Fund Limited	*	1,042	923	119	9%
St Peter Port Capital Limited		504	700	(196)	4%
The Hotel Corporation plc		292	423	(131)	3%
<b>Total Non – Qualifying Investments</b>		<b>3,881</b>	<b>3,345</b>	<b>536</b>	<b>34%</b>
Total investments		9,653	10,462	(809)	86%
Net current assets and liabilities		1,598	1,598	–	14%
<b>Net assets</b>		<b>11,251</b>	<b>12,060</b>	<b>(809)</b>	<b>100%</b>

Of the investments held at 28 February 2011 66 per cent (2010 – 73 per cent) are incorporated in England and Wales, 29 per cent (2010 – 22 per cent) in the Cayman Islands, 0 per cent (2010 – 3 per cent) in Europe and 5 per cent (2010 – 3 per cent) the rest of the world. Percentages have been calculated on the valuation of the assets at the reporting date.

All quoted investments are listed on AiM with the exception of those noted below:

- \* Listed on the Irish Stock Exchange.
- \*\* Traded directly through investment manager of the investee fund.
- \*\*\* During the year Bond Contracting appointed liquidators beginning orderly winding up procedures. In December 2010 a large proportion of the capital was distributed by the liquidators (see note 9(e)) leaving a small balance.
- \*\*\*\* Carrying value at year end, subsequently written down to zero.

At the period end the Company held £1,042,000 (6%) of Class B units of the Puma Absolute Return Fund Limited (PARF). The Investment Manager of PARF is also Shore Capital Ltd. The Company receives a full rebate of management and performance fees charged through PARF to avoid the double charging of fees.

A detailed analysis of the loan stock holdings is provided in note 18 on page 36.

Bruton, Kingly, Pollen and Saville Services Limited are wholly owned and Bond Contracting Limited is majority owned by VCTs managed by Shore Capital Limited, Graham Shore is a Director of all of these companies.

## Significant Investments

### Bond Contracting Limited

Cost (£'000):	394
Investment comprises:	
Ordinary shares (£'000):	394
Debt (£'000):	–
Valuation method:	Net Assets
Valuation (£'000):	8
Income received by the Company from this holding in the year (£'000):	–
Source of financial data –	
Last filed accounts:	30/04/10
Turnover (£'000):	8,631
Loss before tax (£'000):	(749)
Retained Loss (£'000):	(1000)
Net assets (£'000):	999
Earnings per share (p)	(0.00)
Dividends per share (p)	6.67
Proportion of equity held:	20%

Bond Contracting Limited (Bond) entered into a contract to construct a 141 bedroom hotel near Winchester. Having secured planning permission construction began in October 2008 and was completed and the hotel sold in the first quarter of 2010. Voting rights are pari passu to the equity held.

### Bruton Services Limited

Cost (£'000):	1,000
Investment comprises:	
Ordinary shares (£'000):	250
Debt (£'000):	750
Valuation method:	Net Assets
Valuation (£'000):	981
Income received by the Company from this holding in the year (£'000):	19
Source of financial data –	
Last audited accounts:	28/02/10
Turnover (£'000):	–
Loss before tax (£'000):	(24)
Retained Loss (£'000):	(24)
Net assets (£'000):	476
Earnings per share (p)	–
Dividends per share (p)	–
Proportion of equity held:	50%

Bruton Services Limited was incorporated in February 2009 and has been actively pursuing opportunities for significant qualifying business. On 23 February 2011 Bruton entered into a limited liability partnership with Saville, Kingly and Pollen Services Limited for the purposes of combining their respective resources going forward. Voting rights are pari passu to the equity held.

### Forward Internet Group Limited (formerly Traffic Broker Limited)

Cost (£'000):	1,500
Investment comprises:	
Ordinary shares (£'000):	300
Debt (£'000):	1,200
Valuation method:	Price of recent investment
Valuation (£'000):	1,500
Income received by the Company from this holding in the year (£'000):	117
Source of financial data –	
Last filed accounts:	31/12/09
Turnover (£'000):	72,304
Profit before tax (£'000):	11,319
Retained Profit (£'000):	8,154
Net assets (£'000):	12,052
Earnings per share (p)	9.06
Dividends per share (p)	6.67
Proportion of equity held:	4%

Forward Internet Group Limited (formerly Traffic Broker Limited) is an agency specialising in paid online search and affiliate marketing. The company has grown to become an award-winning agency specialising in fully integrated online solutions and continues to innovate in the online advertising space. Voting rights are pari passu to the equity held.

### Kingly Services Limited

Cost (£'000):	1,000
Investment comprises:	
Ordinary shares (£'000):	250
Debt (£'000):	750
Valuation method:	Net Assets
Valuation (£'000):	981
Income received by the Company from this holding in the year (£'000):	19
Source of financial data –	
Last audited accounts:	28/02/10
Turnover (£'000):	–
Loss before tax (£'000):	(24)
Retained Loss (£'000):	(24)
Net assets (£'000):	476
Earnings per share (p)	–
Dividends per share (p)	–
Proportion of equity held:	50%

Kingly Services Limited was incorporated in February 2009 and has been actively pursuing opportunities for significant qualifying business. On 23 February 2011 Kingly entered into a limited liability partnership with Saville, Bruton and Pollen Services Limited for the purposes of combining their respective resources going forward. Voting rights are pari passu to the equity held.

## Significant Investments continued

### Pollen Services Limited

Cost (£'000):	1,000
Investment comprises:	
Ordinary shares (£'000):	250
Debt (£'000):	750
Valuation method:	Net Assets
Valuation (£'000):	981
Income received by the Company from this holding in the year (£'000):	19
Source of financial data –	
Last audited accounts:	28/02/10
Turnover (£'000):	–
Loss before tax (£'000):	(24)
Retained Loss (£'000):	(24)
Net assets (£'000):	476
Earnings per share (p)	–
Dividends per share (p)	–
Proportion of equity held:	50%

Pollen Services Limited was incorporated in February 2009 and has been actively pursuing opportunities for significant qualifying business. On 23 February 2011 Pollen entered into a limited liability partnership with Saville, Bruton and Kingly Services Limited for the purposes of combining their respective resources going forward. Voting rights are *pari passu* to the equity held.

### Puma Absolute Return Fund Limited

Cost (£'000):	923
Investment comprises:	
Class B shares (£'000):	923
Debt (£'000):	–
Valuation method:	NAV per share
Valuation (£'000):	1,042
Income received by the Company from this holding in the year (£'000):	–
Source of financial data –	
Last audited accounts:	30/04/10
Turnover (\$'000):	5,268
Profit before tax (\$'000):	4,599
Retained Profit (\$'000):	4,599
Net assets (\$'000):	38,238
Earnings per share (p)	n/a
Dividends per share (p)	–
Proportion of equity held:	6%

Puma Absolute Return Fund Limited (PARF) is an absolute return fund managed by Shore Capital, investing across a range of third party investment managers. It diversifies its portfolio across a number of different investment styles. Management fees charged to PARF by Shore Capital Limited in respect of funds invested by a Puma VCT in PARF are rebated to that VCT to avoid double charging.

### Saville Services Limited

Cost (£'000):	1,000
Investment comprises:	
Ordinary shares (£'000):	250
Debt (£'000):	750
Valuation method:	Net Assets
Valuation (£'000):	981
Income received by the Company from this holding in the year (£'000):	19
Source of financial data –	
Last audited accounts:	28/02/10
Turnover (£'000):	–
Loss before tax (£'000):	(24)
Retained Loss (£'000):	(24)
Net assets (£'000):	476
Earnings per share (p)	–
Dividends per share (p)	–
Proportion of equity held:	50%

Saville Services Limited was incorporated in February 2009 and has been actively pursuing opportunities for significant qualifying business. On 23 February 2011 Saville entered into a limited liability partnership with Pollen, Bruton and Kingly Services Limited for the purposes of combining their respective resources going forward. Voting rights are *pari passu* to the equity held.

## Directors' Biographies

### **David Michael Brock (Chairman) (61)**

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) Limited, Episys Limited and Elderstreet VCT plc.

### **Graham Shore (55)**

Graham is a former partner of Touche Ross (now Deloitte LLP) and was responsible for the London practice advising the telecommunications and new media industries. At Touche Ross he undertook strategic and economic assignments for a wide range of clients including appraisals of venture capital opportunities. In 1990, Graham joined Shore Capital as Managing Director, and has been involved in managing the Puma VCTs and other venture capital funds managed by Shore Capital including evaluating new deals for the funds and representing the funds with investee companies. Graham has been involved with AIM since its inception as both a corporate financier and investor and with private equity for more than 20 years. He is a director of the other Puma VCTs and St. Peter Port Capital Limited.

### **Christopher Ring (57)**

Chris is a Senior Investment Director at Investec Wealth and Investment (formerly Rensburg Sheppards Investment Management) where he manages a number of private client portfolios. Prior to joining Rensburg Sheppards in 2008, Chris was managing director of private client broking and investment management at Shore Capital Limited, the Company's Investment Manager. He joined Shore Capital in 2002 from NatWest Stockbrokers Limited where 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.

# Report of the Directors

The Directors present their annual report and the audited financial statements of the Company for the year to 28 February 2011.

## Principal Activities and Status

The principal activity of the Company is the making of investments in qualifying and non-qualifying holdings of shares or securities. The Company is an investment company within the meaning of Section 833 of the Companies Act 2006. The Company was granted provisional approval by the Inland Revenue under Section 274 of the Income and Corporation Taxes Act 2007 as a Venture Capital Trust. The Directors have managed, and continue to manage, the Company's affairs in such a manner as to comply with Section 274 of the Income and Corporation Taxes Act 2007.

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.

## Investment Policy

Puma VCT III plc seeks to achieve its overall investment objective (of proactively managing the assets of the fund with an emphasis on realising gains in the medium term) to maximise distributions from capital gains and income generated by the Company's assets. It intends to do so whilst maintaining its qualifying status as a VCT, by pursuing the following Investment Policy:

### Asset Mix

The Company may invest in a mix of qualifying and non-qualifying assets. The qualifying investments may be quoted on AiM/OFEX/Irish Stock Exchange or be unquoted companies. The Company may invest in a diversified portfolio of growth oriented qualifying companies which seek to raise new capital on flotation or by way of a secondary issue. The Company has the ability to structure deals to invest in private companies with an asset-backed focus to reduce potential capital loss. Since 29 February 2009, the Company must have had in excess of 70% of its assets invested in qualifying investments as defined for VCT purposes.

The portfolio of non-qualifying investments will be managed with the intention of generating a positive return. Subject to the Investment Manager's view from time to time of desirable asset allocation it will comprise quoted and unquoted investments (direct or indirect) in cash or cash equivalents, bonds, equities, vehicles investing in property and a portfolio of hedge funds.

A full text of the Company's investment policy can be found within the Company's prospectus at [www.shorecap.co.uk](http://www.shorecap.co.uk).

## Principal risks and uncertainties

The principal risks facing the company relate to its investment activities and include market price risk, interest rate risk, credit risk, foreign currency risk and liquidity risk. An explanation of

these risks and how they are managed is contained in note 18 to the financial statements. Additional risks faced by the company are as follows:

*Investment Risk* – Inappropriate stock selection leading to underperformance in absolute and relative terms is a risk which the Investment Manager and the Board 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 its investment strategy.

*Regulatory Risk* – the Company operates in a complex regulatory environment and faces a number of related risks. A breach of s274 of the Income Tax Act 2007 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 2006 could lead to suspension from the Stock Exchange. The board receives quarterly reports in order to monitor compliance with regulations.

## Risk Management

The Company's asset mix includes a large proportion of the Company's assets held in unquoted investments. These investments are not publicly traded and there is not a liquid market for them, and therefore these investments may be difficult to realise. The Company may also find it difficult to realise some of the quoted investments held in its portfolio in the current market conditions.

The Company manages its investment risk within the restrictions of maintaining its qualifying VCT status by using the following methods:

- the active monitoring of its investments by the Investment Manager and the Board;
- seeking Board representation associated with each investment, if possible;
- seeking to hold larger investment stakes by co-investing with other companies managed by the Investment Manager, so as to gain more influence over the investment;
- ensuring a spread of investments is achieved.

## Gearing

The Company has the authority to borrow up to 25% of the amount received on the issued share capital but there are currently no plans to take advantage of this authority.

## Results and dividends

The results for the financial year are set out on page 19. There were four interim dividends paid out during the year as the Company realised some of its qualifying holdings, 7p

was paid on 28 May 2010, 10p on 23 June 2010, 7p on 17 September 2010 and a further 12p on 31 December 2010. The Directors do not propose a final dividend (2010 – nil). 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 Future Developments

The Company's business review and developments are set out in the Chairman's Statement and the Investment Manager's Report on pages 2 to 5.

### Key performance indicators

At each board meeting, the Directors consider a number of performance measures to assess the Company's success in meeting its objectives. The Board believes the Company's key performance indicators are movement in NAV, Total Return and dividends payable per share. The Board considers that the Company has no non financial key performance indicators. In addition, the Board considers the Company's compliance with the Venture Capital Trust Regulations to ensure that it will maintain its VCT status. The performance of the Company's portfolios and specific investments is discussed in the Chairman's Statement and Investment Managers Report on pages 2 to 5.

### Environmental and social policy

As a VCT the Company is a pure investment company and therefore has no trading activities. Due to this the Company does not have a policy on either environmental or social and community issues.

### Capital Structure

The authorised and issued share capital of the Company is detailed in note 13 of these accounts. During the year ended 28 February 2011, the Company issued no new shares.

### Share capital, rights attaching to the shares and restrictions on voting and transfer

Ordinary shares are freely transferable in both certificated and non-certificated form and can be transferred by means of the CREST system. There are no restrictions on the transfer of any fully paid up share.

With respect to voting rights the shares rank pari passu as to rights to attend and vote at any general meeting of the Company. The Companies' major shareholders do not have differing voting rights.

Full details of the rights and restrictions attached to the share capital as required by the Takeover Directive are contained within the Company's prospectus which can be found at [www.shorecap.co.uk](http://www.shorecap.co.uk).

### Repurchase of Ordinary shares

Although the Ordinary Shares are traded on the London

Stock Exchange, there is likely to be an illiquid market and in such circumstances Shareholders may find it difficult to sell their Ordinary Shares in the market. In order to try to improve the liquidity in the Ordinary Shares, the Board may establish a buy back policy whereby the Company will purchase Ordinary Shares for cancellation. However there are currently no plans to establish such a policy.

### Directors

During the year Sir Aubrey Brocklebank tendered his resignation from the Board of the Company with effect from Wednesday, 15 September 2010 in order to comply with Listing Rule 15.2.11 once the transitional provisions set out in LR TR1.2-3 expire. Aubrey continues as Chairman of Puma VCT IV plc, which shares a parallel investment strategy with the Company. The Company wishes to thank Aubrey for his contribution to the Company during his period as Chairman and wishes him well for the future.

The Board of the Company is pleased to announce that Chris Ring has been appointed as a non-executive director. Chris was previously a director of the Company, Puma VCT plc, Puma VCT II plc and Puma VCT IV plc until 27 June 2008 while he was a director of Shore Capital Limited, the Company's Investment Manager.

The Directors of the Company during the year and their beneficial interests in the issued ordinary shares of the Company at 1 March 2010 and 28 February 2011 were as follows:

	1p ordinary shares	
	28 February 2011	28 February 2010
Sir A T Brocklebank Bt, ACA – resigned 15 September 2010	5,000	5,000
D M Brock (Chairman)	5,000	5,000
Chris Ring – appointed 15 September 2010	50,000	50,000
Graham Shore	170,000	170,000

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.

Graham Shore is also a director of Puma VCT plc, Puma VCT II plc, Puma VCT IV plc, Puma VCT V plc, Puma High Income VCT plc and Puma VCT VII, VCTs to which Shore Capital Limited is also the Investment Manager.

## Report of the Directors continued

### Investment management, administration and performance fees

The Company has delegated the investment management of the portfolio to Shore Capital Limited (Shore Capital). The principal terms of the Company's management agreement with Shore Capital as applicable during the year ended 28 February 2011, are set out in note 3 of the financial statements.

The Company has delegated company secretarial and other accounting and administrative support to Shore Capital Fund Administration Services Limited for an aggregate annual fee of 0.35 per cent of the Net Asset Value of the Fund at each quarter end, 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 at the year end.

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 exercisable 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 ensure that the Company performs well, enabling the Board to approve 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 notes 1 and 4).

It is the Directors opinion that the continued appointment of the Investment Manager, Shore Capital, on the terms agreed is in the best interest of the shareholders as a whole. The Investment Manager has a proven track record in VCT management and currently manages over £60 million of VCT funds and has a strong network within the industry.

### VCT status monitoring

The Company has appointed PricewaterhouseCoopers 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.

Compliance with the VCT regulations (as described in the Investment Policy) for the year under review is summarised in the table below.

### 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 28 February 2011 and 28 February 2010 there were nil days' billing from the suppliers of services outstanding.

### Going concern

After making enquiries the Directors believe that it is appropriate to continue to apply the going concern basis in preparing the financial statements. This is appropriate as cash reserves are significantly greater than the anticipated average annual running costs of the Company. Given the nature of the assets held it is considered that these can be realised with sufficient ease to provide any additional cash which may be required to enable the Company to meet its liabilities as they fall due for payment. The directors have considered a period of 12 months from the date of this report for the purposes of determining the company's going concern status which has been assessed in accordance with the guidance issued by the Financial Reporting Council.

#### Position at 28 Feb 2011

1. The Company holds at least 70% of its investments in qualifying companies,	<b>78.54%</b>
2. At least 30% of the Company's qualifying investments are held in "eligible shares";	<b>44.17%</b>
3. No investment constitutes more than 15% of the Company's portfolio at time of investment;	<b>Complied</b>
4. The Company's income for each financial year is derived wholly or mainly from shares and securities;	<b>92.06%</b>
5. The Company distributes sufficient revenue dividends to ensure that not more than 15% of the income from shares and securities in any one year is retained; and	<b>Complied</b>
6. A maximum unit size of £1 million in each VCT qualifying investment (per tax year).	<b>Complied</b>

### Financial Instruments

The material risks arising from the Company's financial instruments are market price risk, credit risk, liquidity risk, foreign exchange risk 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.

### Substantial Shareholdings

As at 28 February 2011 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.

### Third Party Indemnity Provision for Directors

Qualifying third party indemnity provision was in place for the benefit of all directors of the Company.

### Annual General Meeting

The Annual General Meeting of the Company will be held at Bond Street House, 14 Clifford Street, London, W1S 4JU on 25 August 2011 at 2pm. Notice of the Annual General Meeting and Form of Proxy are inserted within this document.

### Auditor

The Directors resolved that Baker Tilly UK Audit LLP be re-appointed as auditor in accordance with the provisions of the Companies Act 2006, s489. Baker Tilly UK Audit LLP has indicated its willingness to continue in office.

### Statement as to Disclosure of Information to Auditor

The Directors in office at the date of this report have confirmed that, as far as they are aware, there is no relevant information of which the auditor is unaware. Each of the Directors have confirmed 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 Report of the Directors', the Directors' Remuneration Report, the separate Corporate Governance Statement and the financial statements in accordance with applicable law and regulations.

Company law and the Disclosure and Transparency Rules require 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). Under company law the directors must not approve the financial statements unless they are satisfied that they 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:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and estimates that are reasonable and prudent;
- c. state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- d. 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. 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.

Each of the directors, whose names and functions are listed in the Directors Biography on page 11 confirms that, to the best of each persons' knowledge:

- a. the financial statements, prepared in accordance with United Kingdom Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and profit of the company; and
- b. the Chairman's Statement, Investment Manager's Report and Report of the Directors commencing on page 2 include a fair review of the development and performance of the business and the position of the company together with a description of the principal risks and uncertainties that it faces.

### Electronic publication

The financial statements are published on [www.shorecap.co.uk](http://www.shorecap.co.uk), a website maintained by the investment manager, Shore Capital. Legislation in the United Kingdom regulating the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

The directors are responsible for ensuring the Report of the Directors and other information included in the Annual Report includes information required by the Listing Rules of the Financial Services Authority.

By order of the Board

### Eliot Kaye

Company Secretary  
30 June 2011

# Directors' Remuneration Report

This report is prepared in accordance with Schedule 420-422 of the Companies Act 2006. A resolution to approve this report will be put to the members at the Annual General Meeting to be held on 25 August 2011.

## Directors' Remuneration Policy

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 £22,000 (including social security costs) as set out in note 5.

The Directors' contracts are discussed in point (g) in the Corporate Governance Statement on page 17.

## Directors' Remuneration

The Directors received emoluments as detailed below:

	Unaudited Current Annual Fee	Audited 2011	Audited 2010
	£	£	£
Sir A T Brocklebank Bt, ACA – resigned 15 September 2010	–	5,625	7,500
D M Brock (Chairman)	18,000	9,000	6,000
C Ring – appointed 15 September 2010	15,000	5,200	–
Graham Shore *	–	–	–
	<b>33,000</b>	<b>19,825</b>	<b>13,500</b>

\* No fees have been paid to Graham Shore, reflecting his position as an executive director of the Investment Manager, Shore Capital Limited.

These are the total emoluments; there is no pension or share option scheme.

Brief biographical notes on the directors are given on page 9.

## 2012 Remuneration

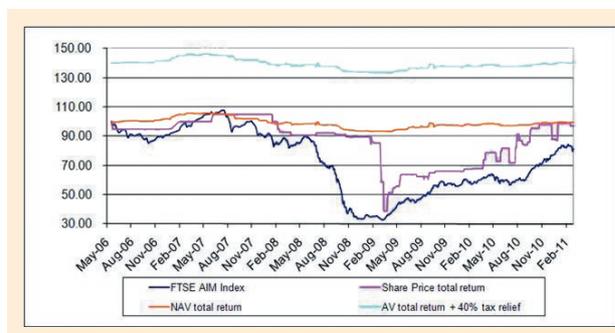
The remuneration levels for the forthcoming year are expected to be at the annual levels shown in the table above. The Directors shall be paid by the Company all travelling, hotel and other expenses they may incur in attending meetings of the Directors or general meetings or otherwise in connection with the discharge of their duties.

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

All Directors including Chris Ring 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 since trading commenced and compares the rebased Net Asset Value to a rebased FTSE AiM Allshare 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 effective start of operations for the Company.



On behalf of the Board

## David Brock

Chairman  
30 June 2011

# Corporate Governance Statement

The Directors support the relevant principles of the Combined Code issued in June 2008 and published on the Financial Reporting Council's Website ([www.frc.org.uk](http://www.frc.org.uk)), being the principles of good governance and the code of best practice, as set out in Section 1 of the FRC Combined Code. Due to the VCT being a limited life vehicle some areas of the Code have not been complied with, these are set out in the Compliance Statement below.

## The Board

The Company has a Board comprising three non-executive Directors. All of the Directors are independent as defined by the Combined Code except for Graham Shore 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 had appointed Sir Aubrey Brocklebank as the senior independent Director who was also the Chairman, during the year Sir Aubrey retired and the board voted David Brock to replace him as the senior independent Director and Chairman. Biographical details of all Board members are shown on page 9.

Chris Ring is to retire at the forthcoming Annual General Meeting and, being eligible, offer himself for re-election. The remainder of the Board believe that he has made valuable contributions since his appointment and remains committed to his role. The Board therefore recommends that shareholders re-elect Chris Ring at the forthcoming AGM. The Board did not use an external search consultant to search for candidates or advertise this position.

Full Board meetings take place quarterly and additional meetings are held as required to address specific issues. The board has a formal schedule of matters specifically reserved for its decision. These include:

- considering recommendations from the Investment Manager,
- making all decisions concerning the acquisition or disposal of qualifying investments,
- reviewing, annually, the terms of engagement of all third party advisers (including investment managers and administrators),
- performing the role of Audit Committee (including reviewing the Company's published financial statements, reviewing internal control and risk management systems and monitoring the external Auditors independence, objectivity and the effectiveness of the audit process).

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

### Scheduled Board meetings

Sir A T Brocklebank Bt – resigned on 15 September 2010	2/4
D M Brock	4/4
Chris Ring – appointed on 15 September 2010	2/4
G B Shore	4/4

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 Directors' remuneration are dealt with by the full Board.

During the year the Board reviewed the independence of the external auditor and recommended that they be re-appointed. The Directors receive written confirmation each year of the auditor's 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 14, and this is subject to shareholder approval.

### Relations with shareholders

Shareholders have the opportunity to meet representatives of the Investment Management team and 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 shareholders if so requested. In addition to the formal business of the AGM, representatives of the Investment Management team and the Board are available to answer any questions a shareholder may have.

## Corporate Governance Statement continued

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 are at the end of this document.

### Financial Reporting

The Directors' statement of responsibilities for preparing the accounts is set out in the Report of the Directors on page 13, and a statement by the auditors about their reporting responsibilities is set out in the Auditor's 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 is 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

Shore Capital Limited identifies the investment opportunities for the consideration of the Board who ultimately make the decision whether to proceed with that opportunity. Shore Capital Limited monitors the portfolio of investments and makes recommendations to the Board in terms of suggested disposals and further acquisitions.

Shore Capital Fund Administration Services Limited is engaged to carry out the accounting function and manages the retention of physical custody of the documents of title relating to unquoted investments through a custodian. Quoted investments are held in Crest. Shore Capital Fund Administration Services Limited regularly reconciles the client asset register with the physical documents.

The Directors confirm that they have established a continuing process throughout the year and up to the date of this report for identifying, evaluating and managing the significant

potential risks faced by the Company, and have reviewed the effectiveness of the internal control systems. As part of this process, an annual review of the internal control systems is carried out in accordance with the Financial Reporting Council guidelines for internal control.

Internal control systems include: production and review of monthly bank and management accounts. All outflows made from the VCT's accounts require the authority of two signatories from Shore Capital, the Investment Manager. The VCT is subject to a full annual audit and the Investment Manager is subject to regular review by the Shore Capital Compliance Department.

### Going Concern

After making enquiries the Directors believe that it is appropriate to continue to apply the going concern basis in preparing the financial statements. This is appropriate as cash reserves are significantly greater than the anticipated average running costs of the Company. Given the nature of the assets held it is considered that these can be realised with sufficient ease to provide any additional cash which may be required to enable the Company to meet its liabilities as they fall due for payment. The directors have considered a period of 12 months from the date of this report for the purposes of determining the company's going concern status which has been assessed in accordance with the guidance issued by the Financial Reporting Council.

### Compliance statement

The Listing Rules require the Board to report on compliance with the forty-eight Combined Code provisions throughout the accounting year. With the exception of the items outlined below, the Company has complied throughout the accounting year ended 28 February 2011 with the provisions set out in Section 1 of the Combined Code. Due to the special nature of the Company being a VCT, 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 A3-3 – Due to the size of the board, the role of Chairman and senior independent Director are both performed by David Brock (replacing Aubrey Brocklebank during the year). The recommendation is for the senior independent Director and Chairman to be separate positions on the Board.
- c) Provision A5-1 – New directors do not receive a full, formal and tailored induction on joining the Board because 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.

- d) 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.
- e) Provisions C3-1 to C3-6 – Due to the size of the Board, the Company did not have a formal audit committee. The Directors do not consider it necessary to appoint an audit committee as the majority of the Board consist of independent non-executive Directors. The Directors consider that the role and responsibility of the audit committee as set-out in provisions C3-1 to C3-6 have been adopted by the full board. Relevant matters were dealt with by the full Board.
- f) Provisions A4-1 to A4-3 & A4-6, B2-1 to B2-2, – Due to the size of the Board and because there are no executive directors or senior management, the Company did not have a formal nominations committee, or remuneration committee. During the year one board member has resigned and another has been appointed, changes to the Directors remuneration are detailed on page 14.
- g) Provision A7-2 – On 5 December 2005 (27 June 2008 for G Shore and 15 September 2010 for C Ring), the 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 of the Combined Code is for fixed term renewable contracts. This is deemed unnecessary by the Board because all Directors are subject to re-election at the first AGM and from that point forward by rotation at least every three years.

# Independent Auditor's Report to the Members of Puma VCT III plc

We have audited the financial statements on pages 19 to 38. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As more fully explained in the Directors' Responsibilities Statement set out on page 13, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

## Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 28 February 2011 and of its total return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Report of the Directors' for the financial year for which the financial statements are

prepared is consistent with the financial statements.

- the information given in the Corporate Governance Statement set out on pages 15 to 17 in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules Sourcebook issued by the Financial Services Authority (information about internal control and risk management systems in relation to financial reporting process and about share capital structures) is consistent with the financial statements.

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

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 12, in relation to going concern;
- the part of the Corporate Governance Statement on pages 15 to 17 relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

## Richard White (Senior Statutory Auditor)

For and on behalf of BAKER TILLY UK AUDIT LLP,  
Statutory Auditor  
Chartered Accountants  
25 Farringdon Street  
London EC4A 4AB

30 June 2011

# Income Statement

For the year ended 28 February 2011

	Note	For the year to 28 February 2011			For the year to 28 February 2010		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains on investments	9 (c)	–	312	312	–	663	663
Income	2	404	–	404	610	–	610
		<b>404</b>	<b>312</b>	<b>716</b>	610	663	1,273
Investment management fees	3	66	198	264	63	188	251
Performance fees	4	–	–	–	–	–	–
Other expenses	5	134	–	134	105	–	105
		<b>200</b>	<b>198</b>	<b>398</b>	168	188	356
<b>Return on ordinary activities before taxation</b>		<b>204</b>	<b>114</b>	<b>318</b>	442	475	917
Tax on ordinary activities	6	(43)	39	(4)	(84)	40	(44)
<b>Return after taxation attributable to equity shareholders</b>		<b>161</b>	<b>153</b>	<b>314</b>	358	515	873
<b>Basic and diluted return/(loss) per Ordinary Share (pence)</b>	7	<b>0.83p</b>	<b>0.78p</b>	<b>1.61p</b>	1.83p	2.64p	4.47p

The total column represents the profit and loss account and the revenue and capital columns are supplementary information.

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

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 38 are an integral part of the financial statements.

# Balance Sheet

As at 28 February 2011

	Note	As at 28 February 2011 £'000	As at 28 February 2010 £'000
<b>Fixed Assets</b>			
Investments	9(a)	9,635	14,845
<b>Current Assets</b>			
Debtors	10	82	301
Cash at bank and in hand		1,698	2,983
		1,780	3,284
<b>Creditors - amounts falling due within one year</b>	11	<b>(181)</b>	(166)
<b>Net Current Assets</b>		<b>1,599</b>	3,118
<b>Total Assets less Current Liabilities</b>		<b>11,252</b>	17,963
<b>Creditors - amounts falling due after more than one year (including convertible debt)</b>	12	<b>(1)</b>	(1)
<b>Net Assets</b>		<b>11,251</b>	17,962
<b>Capital and Reserves</b>			
Called up share capital	13	195	195
Capital reserve – realised	14	(846)	(1,037)
Capital reserve – unrealised	14	(800)	(762)
Revenue reserve	14	12,702	19,566
<b>Equity Shareholders' Funds</b>		<b>11,251</b>	17,962
<b>Basic and Diluted Net Asset Value per Ordinary Share</b>	15	<b>57.66p</b>	92.05p

The financial statements were approved and authorised for issue by the Board of Directors on 30 June 2011 and were signed on their behalf by:

**David Brock**  
Chairman  
30 June 2011

The accompanying notes on pages 23 to 38 are an integral part of the financial statements.

# Cash Flow Statement

For the year ended 28 February 2011

	Note	For the year to 28 February 2011 £'000	For the year to 28 February 2010 £'000
<b>Operating activities</b>			
Interest income received		424	719
Dividend income received		19	21
Investment management fees paid		(174)	(377)
Directors fees paid		(19)	(14)
Foreign exchange on cash		4	(1)
Other expenses paid		(31)	(76)
<b>Net cash inflow from operating activities</b>	16	<b>223</b>	272
<b>Equity dividend paid</b>		<b>(7,025)</b>	(488)
<b>Taxation paid</b>		<b>(49)</b>	(37)
<b>Capital expenditure and financial investment</b>			
Purchase of investments		(1,377)	(3,311)
Proceeds from sale of investments		6,948	6,295
Net realised gain on forward foreign exchange contracts		2	18
Transaction costs		(7)	(21)
<b>Net cash inflow from capital expenditure and financial investment</b>		<b>5,566</b>	2,981
<b>Cash (outflow)/inflow in the year</b>		<b>(1,285)</b>	2,728
<b>Reconciliation of net cash flow to movement in net funds</b>			
(Decrease)/increase in cash for the year		(1,285)	2,728
Net funds at start of the year		2,983	255
<b>Net funds at the year</b>		<b>1,698</b>	2,983

The accompanying notes on pages 23 to 38 are an integral part of the financial statements.

# Reconciliation of Movements in Shareholders' Funds

For the year ended 28 February 2011

	For the year to 28 February 2011				
	Called up share capital £'000	Capital reserve- realised £'000	Capital reserve- unrealised £'000	Revenue reserve £'000	Total £'000
At 1 March 2010	195	(1,037)	(762)	19,566	17,962
Return/(loss) after taxation attributable to equity shareholders	–	191	(38)	161	314
Equity dividend paid	–	–	–	(7,025)	(7,025)
<b>At 28 February 2011</b>	<b>195</b>	<b>(846)</b>	<b>(800)</b>	<b>12,702</b>	<b>11,251</b>

	For the period to 28 February 2010				
	Called up share capital £'000	Capital reserve- realised £'000	Capital reserve- unrealised £'000	Revenue reserve £'000	Total £'000
At 1 March 2009	195	(559)	(1,755)	19,696	17,577
Return/(loss) after taxation attributable to equity shareholders	–	(478)	993	358	873
Equity dividend paid	–	–	–	(488)	(488)
<b>At 28 February 2010</b>	<b>195</b>	<b>(1,037)</b>	<b>(762)</b>	<b>19,566</b>	<b>17,962</b>

The accompanying notes on pages 23 to 38 are an integral part of the financial statements.

# Notes to the Accounts

For the year ended 28 February 2011

## 1. Accounting Policies

### Basis of Accounting

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of investments held at fair value, and in accordance with UK Generally Accepted Accounting Practice ("UK GAAP") and the Statement of Recommended Practice, 'Financial Statements of Investment Trust Companies and Venture Capital Trusts ("SORP") revised in 2009.

### 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 of £161,000 (2010 - £358,000) as per the Income Statement on page 19 is the measure that the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in s274 of the Income Tax Act 2007.

### Investments

All investments have been designated as fair value through profit or loss, and are initially measured at cost which is the best estimate of fair value. A financial asset is designated in this category if acquired to be both managed and its performance is evaluated on a fair value basis with a view to selling after a period of time in accordance with a documented risk management or investment strategy. All investments held by the Company have been managed in accordance to the investment policy set out on page 5. 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 are valued at their respective quoted Net Asset Values 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") and in accordance with FRS26 "Financial Instruments: Recognition and measurement":

- Investments which have been made within the last twelve months or the investee company is in the early stage of development will usually be valued at the price of recent investment except where the company's performance against plan is significantly different from expectations on which the investment was made in which case a different valuation methodology will be adopted.
- Investments 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 include net asset value where such factors apply that make this or alternative methods more appropriate.

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.

It is not the Company's policy to exercise either significant or controlling influence over investee companies. Therefore the results of the companies are not incorporated into the revenue account except to the extent of any income accrued. This is in accordance with the SORP that does not require portfolio investments to be accounted for using the equity method.

### Cash at bank and in hand

Cash at bank and in hand comprises of cash on hand and demand deposits.

### Equity instruments

Equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities. Equity instruments issued by the company are recorded at proceeds received net of issue costs.

### 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 wholly as a revenue item on an accruals basis.

### Performance fees

Upon its inception, the Company negotiated performance fees payable to the Investment Manager, Shore Capital Limited 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 exercisable 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.

# Notes to the Accounts continued

For the year ended 28 February 2011

## 1. Accounting Policies (continued)

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 that fair value by reference to the excess of the net asset value, adjusted for dividends paid, over £1 per share in issue at the balance sheet date. 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 which are charged to capital; and
- the investment management fee, 75 per cent of which has been charged to capital to reflect an element which is, in the directors' opinion, attributable to the maintenance or enhancement of the value of the Company's investments in accordance with the boards expected long-term split of return; and
- the performance fee which is allocated proportionally to revenue and capital based on the 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. The tax effect of different items of income/gain and expenditure/loss is allocated between capital and revenue return on the marginal basis as recommended by the SORP.

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 taxable 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 years. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the years 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 and taken to the Income Statement.

### Forward contracts and 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.

### Reserves

Realised losses and gains on investments and foreign exchange transactions, transaction costs, the capital element of the management fee and taxation are taken through the Income Statement and recognised in the Capital Reserve – Realised on the Balance sheet. Unrealised losses and gains on investments and foreign exchange transactions and the capital element of the performance fee are also taken through the Income Statement and recognised in the Capital Reserve – Unrealised. The performance fee to be effected through share-based payment is taken to the Other Reserve and the total revenue gain or loss on the Income Statement is taken to the Revenue Reserve.

## 1. Accounting Policies (continued)

### Debtors

Debtors include accrued income which is recognised at amortised cost, equivalent to the fair value of the expected balance receivable.

### Dividends

Dividends payable are recognised as distributions in the financial statements when the Company's liability to make payment has been established. The liability is established when the dividends proposed by the Board are approved by the Shareholders.

## 2. Income

	Year to 28 February 2011 £'000	Year to 28 February 2010 £'000
<b>Income from investments</b>		
Loan stock interest	351	543
Dividend income	19	21
Investment fee rebate	–	19
Other income	–	17
	<b>370</b>	<b>600</b>
<b>Other income</b>		
Bank deposit interest	34	2
Interest on VAT recovered	-	8
<b>Total income</b>	<b>404</b>	<b>610</b>

## 3. Investment Management Fees

	Year to 28 February 2011 £'000	Year to 28 February 2010 £'000
Shore Capital Limited	286	379
Investment fee rebate	(22)	–
VAT recovered	–	(128)
	<b>264</b>	<b>251</b>

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. The board is satisfied with the performance of the Investment Manager. Under the terms of this agreement Shore Capital will be paid an annual fee of 2 per cent of the Net Asset Value payable quarterly in arrears calculated on the relevant quarter end NAV of the Company. These fees are capped, the Investment Manager has agreed to reduce its fee (if necessary to nothing) to contain total annual costs (excluding performance fee) to within 3.5 per cent of Net Asset Value. Total annual costs this year were 2.8% of the year end Net Asset Value (2010 – 2%).

# Notes to the Accounts continued

For the year ended 28 February 2011

## 4. Performance Fees

	Year to 28 February 2011 £'000	Year to 28 February 2010 £'000
Shore Capital Limited	–	–

## 5. Other expenses

	Year to 28 February 2011 £'000	Year to 28 February 2010 £'000
Administration - Shore Capital Fund Administration Services Limited	50	44
Directors' remuneration	20	14
Social security costs	2	–
Auditor's remuneration for statutory audit	13	14
Insurance	2	2
Legal and professional fees	24	9
FSA, LSE and registrar fees	16	16
Custody charges	1	–
Other expenses	6	6
	<b>134</b>	<b>105</b>

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, payable quarterly in arrears.

The total fees paid or payable (excluding VAT and employers NIC) in respect of individual Directors for the year are detailed in the Directors' Remuneration Report commencing on page 14. The Company had no employees (other than Directors) during the year. The average number of non-executive Directors during the year was 3 (2010 – 3).

## 6. Tax on Ordinary Activities

	Year to 28 February 2011 £'000	Year to 28 February 2010 £'000
UK corporation tax charged to revenue reserve	(43)	(84)
UK corporation tax credited to capital reserve	39	40
<b>(a) UK corporation tax charge for the year/period</b>	<b>(4)</b>	<b>(44)</b>
<b>(b) Factors affecting tax charge for the year/period</b>		
Total return on ordinary activities before taxation	318	917
Tax charge calculated on total return/loss on ordinary activities before taxation at the applicable rate of 21% (2010 – 21%)	67	193
<b>Effects of:</b>		
Non taxable UK dividend income	(4)	(8)
Tax charge relating to prior period	4	–
Non taxable Capital income	(24)	(102)
Capital expenses in year	(39)	(39)
<b>Total current tax charge</b>	<b>4</b>	<b>44</b>

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 subject that they comply and continue to comply with the VCT regulations.

No provision for deferred tax has been made in the current accounting period although the Company has a deferred tax asset of £3,000 (2010 – Nil) arising from excess management charges of £14,000 (2010 – Nil). 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.

## 7. Basic and diluted return per Ordinary Share

	Year ended 28 February 2011			Period ended 28 February 2010		
	Revenue	Capital	Total	Revenue	Capital	Total
Return for the year	161,000	153,000	314,000	358,000	515,000	873,000
Weighted average number of shares	19,512,692	19,512,692	19,512,692	19,512,692	19,512,692	19,512,692
Return/loss per Ordinary Share	0.83p	0.78p	1.61p	1.83p	2.64p	4.47p

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

# Notes to the Accounts continued

For the year ended 28 February 2011

## 8. Dividends

	Year ended 28 February 2011 £'000	Period ended 28 February 2010 £'000
<b>Paid in year</b>		
2009 Final revenue dividend	–	488
May 2010 interim dividend	1,366	–
June 2010 interim dividend	1,951	–
September 2010 interim dividend	1,366	–
December 2010 interim dividend	2,342	–
	<b>7,025</b>	488

Post year end, the directors approved interim dividends of 7p, paid on 23 March 2011, and 1.5p, paid on 24 May 2011, these have not been included as a liability in these statements. The directors do not propose a final dividend (2010 final – Nil).

## 9. Investments

(a) Summary	Historic Cost as at 28 February 2011 £'000	Market Value as at 28 February 2011 £'000	Historic Cost as at 28 February 2010 £'000	Market Value as at 28 February 2010 £'000
Qualifying venture capital investments	7,117	5,772	10,678	9,699
Non - qualifying investments	3,345	3,881	4,916	5,146
	<b>10,462</b>	<b>9,653</b>	15,594	14,845

(b) Movements in investments	Venture capital investments £'000	Hedge funds & equity investments £'000	Total £'000
Opening book cost at 28 February 2010	10,678	4,916	15,594
Unrealised (losses)/gains at 28 February 2010	(979)	230	(749)
Valuation at 28 February 2010	9,699	5,146	14,845
Purchases at cost	–	1,377	1,377
Disposals - proceeds	(3,853)	(3,095)	(6,948)
- realised net gains on disposal	292	147	439
Reversal of unrealised (losses)/gains on investments b/fwd	(63)	(102)	(165)
Unrealised (losses)/gains on revaluation of investments at year end	(303)	408	105
Valuation at 28 February 2011	5,772	3,881	9,653
Book cost at 28 February 2011	7,117	3,345	10,462
Net unrealised (losses)/gains at 28 February 2011	(1,345)	536	(809)
Valuation at 28 February 2011	5,772	3,881	9,653

## 9. Investments (continued)

### (c) Gains/(losses) on investments

The gains/(losses) on investments for the year shown in the Income Statement on page 19 is analysed as follows:

	Year to 28 February 2011 £'000	Year to 28 February 2010 £'000
Realised gains/(losses) on disposal	362	(399)
Foreign exchange (losses)/ gains - realised	(5)	90
Foreign exchange losses - unrealised on forward foreign exchange contracts	-	(9)
Transaction costs	(7)	(21)
Foreign exchange losses - unrealised on investments	-	(109)
Net unrealised (losses)/ gains on revaluation in respect of investments held at the year	(38)	1,111
	<b>312</b>	<b>663</b>

	Historic Cost as at 28 February 2011 £'000	Market Value as at 28 February 2011 £'000	Historic Cost as at 28 February 2010 £'000	Market Value as at 28 February 2010 £'000
<b>(d) Quoted and unquoted investments</b>				
Quoted investments	4,068	3,676	6,516	5,987
Unquoted investments	6,394	5,977	9,078	8,858
	<b>10,462</b>	<b>9,653</b>	15,594	14,845

	Net disposal proceeds £'000	Cost £'000	Market Value as at 28 February 2010 £'000
<b>(e) Disposals of unquoted investments in the year</b>			
Stocklight Ltd	1,076	985	985
Forward internet Group Ltd (part redemption of loan notes)	500	500	2,000
Bond Contracting Ltd (part redemption)	189	394	194
	1,765	1,879	3,179

It is not the Company's policy to exercise either significant or controlling influence over investee companies.

## 10. Debtors

	2011 £'000	2010 £'000
Prepayments and accrued income	82	301
	<b>82</b>	<b>301</b>

# Notes to the Accounts continued

For the year ended 28 February 2011

## 11. Creditors – amounts falling due within one year

	2011 £'000	2010 £'000
Fair value of forward foreign exchange contracts	–	(9)
Accrued management and administration costs	<b>(181)</b>	(157)
	<b>(181)</b>	(166)

Included in creditors above is the fair value of the forward foreign exchange contracts held to hedge the Company's foreign currency denominated assets (see Note 1).

	2011 £'000		2010 £'000	
	Assets	Liabilities	Assets	Liabilities
Forward foreign exchange contracts – \$ USD	–	–	–	(9)
	–	–	–	(9)

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

	2011 £'000	2010 £'000
Loan Notes	<b>(1)</b>	(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 cent 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 to be effected through the issue of shares in the Company 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 ensure that the Company performs well, enabling the Board to approve 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 not received enough distributions to date. However, when the total return is greater than £1, a performance fee will be expensed in accordance with FRS 20 Share-based Payment. Also, a diluted NAV per share will be calculated to reflect the impact of this conversion (see page 27).

**13. Called Up Share Capital**

	2011 £'000	2010 £'000
<b>Authorised:</b>		
35,000,000 ordinary shares of 1p each (2010: 35,000,000)	<b>350</b>	350

**Allotted and fully paid:**

19,512,692 ordinary shares of 1p each (2010: 19,512,692)	<b>195</b>	195
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The Company did not issue any shares during the year ended 28 February 2011.

**14. Capital and Reserves**

	Capital reserve- realised £'000	Capital reserve- unrealised £'000	Revenue reserve £'000	Total £'000
<b>At 1 March 2010</b>	<b>(1,037)</b>	<b>(762)</b>	<b>19,566</b>	<b>17,767</b>
Net gains on realisation of investments	359	–	–	359
Foreign exchange loss realised	(5)	–	–	(5)
Net unrealised loss on revaluation of investments, forward foreign exchange contracts and cash	–	(38)	–	(38)
Transaction costs	(7)	–	–	(7)
Management fees charged to capital	(198)	–	–	(198)
Retained net revenue for the year	–	–	161	161
Taxation relief on capital expenses	42	–	–	42
Equity dividend paid	–	–	(7,025)	(7,025)
<b>Balance at 28 February 2011</b>	<b>(846)</b>	<b>(800)</b>	<b>12,702</b>	<b>11,056</b>

Distributable reserves comprise: Capital reserve–realised, Capital reserve unrealised and the Revenue reserve. At the year end there were £11,056,000 (2010 – £17,767,000) of reserves available for distribution. The Capital reserve–realised shows gains/(losses) that have been realised in the year due to the sale of investments and related costs. The Capital reserve–unrealised shows the gains/(losses) on investments still held by the company not yet realised by an asset sale.

# Notes to the Accounts continued

For the year ended 28 February 2011

## 15. Net Asset Value per Ordinary Share

	2011		2010	
	Basic	Diluted	Basic	Diluted
Net assets (£)	<b>11,251,000</b>	<b>11,251,000</b>	17,962,000	17,962,000
Number of Ordinary Shares	<b>19,512,692</b>	<b>19,512,692</b>	19,512,692	19,512,692
Net Assets Value per Ordinary Share (p)	<b>57.66p</b>	<b>57.66p</b>	92.05p	92.05p

## 16. Reconciliation of total return on ordinary activities before taxation to net cash inflow from operating activities

	2011 £'000	2010 £'000
Total return before taxation	<b>318</b>	917
Gains on investments	<b>(312)</b>	(663)
Decrease in debtors	<b>145</b>	3
Increase in creditors	<b>69</b>	16
Foreign exchange loss/(gain) on cash	<b>3</b>	(1)
Net cash inflow from operating activities	<b>223</b>	272

## 17. Analysis of Changes in Net Funds

	2011 £'000	2010 £'000
Beginning of year	<b>2,983</b>	255
Net cash (outflow)/inflow	<b>(1,285)</b>	2,728
As at year end	<b>1,698</b>	2,983

## 18. Financial Instruments

The Company's financial instruments comprise its investments, cash balances, debtors and certain creditors. Fixed Asset investments held are valued at Bid market prices, Net Asset Value, discounted cash flow or at the price of recent investment in accordance with IPEVC guidelines (see note 1). The fair value of all of the Company's financial assets and liabilities is approximated by the carrying value in the Balance Sheet. The Company held the following categories of financial instruments, all of which are included in the balance sheet at fair value at 28 February 2011:

	2011 £'000	2010 £'000
<b>Assets at fair value through profit or loss</b>		
Investments managed through Shore Capital Limited	9,653	14,845
<b>Loans and receivables</b>		
Cash at bank and in hand	1,698	2,983
Interest, dividends and other receivables	82	301
<b>Other financial liabilities</b>		
Financial liabilities measured at amortised cost	(182)	(167)
	<b>11,251</b>	<b>17,962</b>

### Management of risk

The main risks the Company faces from its financial instruments in the current and prior year are 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, liquidity risk, Credit risk, foreign currency risk and interest rate risk. The Board regularly reviews and agrees policies for managing each of these risks. The Board's policies for managing these risks are summarised below and have been applied throughout the year.

### Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Investment Manager monitors counterparty risk which is monitored on an ongoing basis. The carrying amounts of financial assets best represents the maximum credit risk exposure at the balance sheet date. The Company's financial assets maximum exposure to credit risk is as follows:

	2011 £'000	2010 £'000
Investments in fixed interest instruments	1,450	4,775
Investments in floating rate instruments	3,000	3,000
Cash and cash equivalents	1,698	2,983
Interest, dividends and other receivables	82	301
	<b>6,230</b>	<b>11,059</b>

The Investment 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. Credit risk arising on fixed interest instruments is mitigated by close involvement with the management of the investee companies along with review of their trading results and the quality of the asset backing of the financial instruments.

Credit risk arising on floating rate instruments is mitigated by investing into vehicles upon which the Investment Manager, Shore Capital Limited, has board representation.

All the quoted assets and €1,058,000 of the total cash balance of €1,698,000 of the Company are held by Pershing Securities Limited, the Company's custodian and a company regulated by the Financial Services Authority. The cash balances are held on accounts segregated from the assets of the custodian with third party international banks. Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to securities held by the custodian to be delayed or limited. The Board monitors the Company's risk by reviewing the custodian's internal control reports.

# Notes to the Accounts continued

For the year ended 28 February 2011

## 18. Financial Instruments (continued)

Substantially all of the Company's remaining cash and cash equivalents are held by the Company is held by a large double AA- rated U.K. bank. Bankruptcy or insolvency of the bank may cause the Company's rights with respect to the receipt of cash held to be delayed or limited. The Board monitors the Company's risk by reviewing regularly the financial position of the bank and should it deteriorate significantly the Investment Manager will, on instruction of the Board, move the cash holdings to another bank.

### Market price risk

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

The Company's strategy on the management of investment risk is driven by the Company's investment policy as outlined in the Report of the Directors on page 10. The management of market price risk is part of the investment management process. The portfolio is managed with an awareness of the effects of adverse price movements through detailed and continuing analysis, with an objective of maximising overall returns to shareholders.

Investments in unquoted investments pose higher price risk than quoted investments. Some of that risk can be mitigated by close involvement with the management of the investee companies along with review of their trading results to produce a conservative and accurate valuation.

Investments in AiM traded companies, by their nature, involve a higher degree of risk than investments in the main market. Some of that risk can be mitigated by diversifying the portfolio across business sectors and asset classes. The Company's overall market positions are monitored by the Board on a quarterly basis.

Investments in hedge funds can have a perception of high market price risk. The Company's strategy in respect of hedge funds is to invest in funds that have underlying positions that are liquid and independently marked-to-market.

12 per cent of the Company's investments are in equities traded on AiM, listed on the London Stock Exchange or other similar exchanges, 26 per cent are unquoted hedge funds. 3 per cent of the Company's investments are unquoted hedge funds and 59 per cent are unquoted equity and loan note investments.

The table below outlines the individual impact valuation of the investments of a 5 per cent change to quoted stocks, quoted hedge funds and unquoted investments. The change outlines the potential increase or decrease in net assets attributable to the Company's shareholders and the total return for the year.

		<b>2011</b>	<b>2010</b>
		<b>£'000</b>	<b>£'000</b>
Quoted equities	+/-	<b>57</b>	81
Quoted bonds and bond funds	+/-	-	38
Quoted hedge funds	+/-	<b>127</b>	180
Unquoted hedge funds	+/-	<b>15</b>	-
Unquoted investments	+/-	<b>284</b>	443
		<b>483</b>	742

## 18. Financial Instruments (continued)

### Liquidity risk

The unquoted holdings consisted of four equity investments and seven loan notes. By their nature, unquoted investments may not be readily realisable, the board considers exit strategies for these investments throughout the period for which they are held. The portfolio of quoted hedge funds and equities is held to offset the liquidity risk associated with unquoted investments. As at the year end, the Company had no borrowings other than loan notes amounting to £1,000 (see note 12).

The Company's financial instruments include investments in AiM-traded companies, which by their nature, involve a higher degree of risk than investments in the main market. As a result, the Company may not be able to liquidate quickly some of these investments at an amount close to their fair value in order to meet its liquidity requirements.

The Company's hedge funds are considered to be readily realisable as they are redeemable at monthly stated NAVs.

The Company's liquidity risk associated with investments is managed on an ongoing basis by the Investment Manager in conjunction with the Directors and in accordance with policies and procedures in place as described in the Report of the Directors. The Company's overall liquidity risks are monitored on a quarterly basis by the Board.

The Company maintains sufficient investments in cash and readily realisable securities to pay accounts payable and accrued expenses. At 28 February 2011 these investments were valued at £5,669,000 (2010: £8,781,000).

### 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 0.5 per cent at 28 February 2011. All of the loan stock investments are unquoted and hence not subject to market movements as a result of interest rate movements.

At the year end and throughout the year, the Company's only liability subject to fair value interest rate risk were the Loan Notes of £1,000 at 5.0 per cent (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, the loan notes held with Bruton, Kingly, Pollen and Saville Services are also subject to movements in the base rate. During the year, the Company earned interest income from cash with its custodian, Pershing Securities Limited.

The benchmark that determines the interest paid or received on the current account is the Bank of England base rate, which was 0.5 per cent at 28 February 2011.

# Notes to the Accounts continued

For the year ended 28 February 2011

## 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	2011 £'000	2010 £'000
Cash at bank	Floating rate *	0.9%		<b>1,698</b>	2,983
Bruton Services loan note	Floating rate	2.5%	8 years	<b>750</b>	750
Kingly Services loan note	Floating rate	2.5%	8 years	<b>750</b>	750
Pollen Services loan note	Floating rate	2.5%	8 years	<b>750</b>	750
Saville Services loan note	Floating rate	2.5%	8 years	<b>750</b>	750
Forward Internet Group loan note	Fixed rate	8.125%	8 years	<b>1,200</b>	2,000
Invu Ltd	Fixed rate	8%	3 months	<b>250</b>	–
Telford Homes loan note	Redeemed	8.88%		–	1,888
Stocklight loan stock	Redeemed	9%		–	591
Stocklight loan stock D units	Redeemed	13.33%		–	296
Balance of assets	Non-interest bearing			<b>5,285</b>	7,371
* Benchmark rate is Bank of England base rate, 0.5% at the year end				<b>11,433</b>	18,129

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

An increase of 1 point in UK base rate as at the reporting date would have increased the net assets attributable to the Company's shareholders and decreased the total return for the year by £61,000 (2010: increased the net assets and profit by £69,000). A decrease of 1 per cent would have had an equal but opposite effect.

None of the loan stocks held by the Company are convertible.

### Foreign currency risk

The reporting currency of the Company is Sterling. However, the Company holds two U.S. Dollar denominated investments as well as U.S. Dollar and Euro cash accounts. As at the year end, the Sterling equivalent value of such foreign investments amounted to £nil (2010 – £437,000) representing 0 per cent (2010 – 2 per cent) 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. Loss on unrealised forward contracts at year-end was £nil (2010 – profit of £9,000) and are recorded in the Capital Reserve – unrealised. The notional principal amounts of the outstanding forward foreign currency exchange contracts at 28 February 2011 were £nil (2010 – £434,000).

## 18. Financial Instruments (continued)

### Fair value hierarchy

Fair values have been measured at the end of the reporting period as follows:

Financial assets at fair value through profit and loss	Level 1 'Quoted prices'	Level 2 'Observable inputs'	Level 3 'Unobservable inputs'	Total
<b>As at 1 March 2010</b>	<b>5,444</b>	<b>543</b>	<b>8,858</b>	<b>14,845</b>
Purchases at cost	877	250	250	1,377
Disposals proceeds	(2,966)	(538)	(3,444)	(6,948)
Realised net gains on disposal	166	11	262	439
Unrealised gains/(losses) on revaluation of investments at year end	155	30	(245)	(60)
<b>As at 28 February 2011</b>	<b>3,676</b>	<b>296</b>	<b>5,681</b>	<b>9,653</b>

Financial assets and liabilities measured at fair value are disclosed using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurements, as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical asset or liabilities ('quoted prices');
- Level 2 – Inputs (other than quoted prices in active markets for identical assets or liabilities) that are directly or indirectly observable for the asset or liability ('observable inputs'); or
- Level 3 – Inputs that are not based on observable market data ('unobservable inputs').

The Level 3 investments have been valued at the price of recent investment, Net Asset Value or discounted cash flow based on post year end redemptions in line with the Company's accounting policies and IPEVC guidelines.

## 19. Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and to provide an adequate return to shareholders by allocating its capital to assets commensurate with the level of risk.

By its nature, the Company has an amount of capital, at least 70% (as measured under the tax legislation) of which is and must be, and remain, invested in the relatively high risk asset class of small UK companies within three years of that capital being subscribed.

The Company accordingly has limited scope to manage its capital structure in the light of changes in economic conditions and the risk characteristics of the underlying assets. Subject to this overall constraint upon changing the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets if so required to maintain a level of liquidity to remain a going concern.

The Board has the opportunity to consider levels of gearing, however, there are no current plans to do so. It regards the net assets of the Company as the Company's capital, as the level of liabilities is small and the management of it is not directly related to managing the return to shareholders. There has been no change in this approach from the previous year.

## 20. Contingencies, Guarantees and Financial Commitments

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

# Notes to the Accounts continued

For the year ended 28 February 2011

## 21. 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 Graham Shore is a director, to provide investment management services. During the year £264,000 (2010 – £251,000) was due in respect of investment management fees. The balance owing to Shore Capital Limited at year-end was £43,000 (2010 - £58,000).

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 £50,000 (2010 - £44,000) was due in respect of these services. The balance owing to Shore Capital Fund Administration Services Limited at year-end was £8,000 (2010 - £10,000).

At the year-end the Company owed £30,034 (2010 - nil) to Puma VCT plc, £20,622 (2010 - nil) to Puma VCT II plc and £48,471 (2010 - nil) to Puma VCT IV plc due to redemption proceeds from a collective investment having been paid in total into the Company. These were paid out to the respective VCTs on 7 March 2011.

# Puma VCT III plc

## Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at Bond Street House, 14 Clifford Street, London W1S 4JU on 25 August 2011 at 2 p.m. for the following purposes:

### Ordinary Business

- 1 To approve and adopt the Accounts for the financial period ended 28 February 2011, together with the reports of the Directors and Auditors thereon.
- 2 To re-elect Christopher Ring as a director who retires pursuant to article 117 of the Company's Articles of Association and, being eligible, offers himself for re-election.
- 3 To re-elect David Brock as a director who retires pursuant to article 118 of the Company's Articles of Association and, being eligible, offers himself for re-election.
- 4 To re-appoint Baker Tilly as Auditors of the Company and to authorise the Directors to determine their remuneration.
- 5 To approve the policy set out in the Remuneration Report in the Annual Report and Accounts 2011.

### BY ORDER OF THE BOARD

#### Elliot Kaye

Company Secretary

Dated: 29 July 2011

#### Registered Office:

Bond Street House  
14 Clifford Street  
London W1S 4JU

Information regarding the Annual General Meeting, including the information required by section 311A of the CA 2006, is available from: [www.shorecap.co.uk/puma-vct-information/](http://www.shorecap.co.uk/puma-vct-information/).

### Notes:

- (a) Any member of the Company entitled to attend and vote at the Annual General Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the Annual General Meeting in order to represent his appointor. A member entitled to attend and vote at the Annual General Meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person. If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in these Notes. Please read Note (h) below. Under section 319A of the CA 2006, the Company must answer any question a member asks relating to the business being dealt with at the Annual General Meeting unless:
- answering the question would interfere unduly with the preparation for the Annual General Meeting or involve the disclosure of confidential information;
  - the answer has already been given on a website in the form of an answer to a question; or
  - it is undesirable in the interests of the Company or the good order of the Annual General Meeting that the question be answered.
- (b) To be valid, a Form of Proxy and the power of attorney or other written authority, if any, under which it is signed or an office or notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority, must be delivered to the Company's registrars, SLC Registrars, Thames House, Portsmouth Road, Esher, Surrey KT10 9AD or electronically at [pumav@davidvenus.com](mailto:pumav@davidvenus.com), in each case not less than 48 hours (excluding weekends and public holidays) before the time appointed for holding the Annual General Meeting or adjourned meeting at which the person named in the Form of Proxy proposes to vote. In the case of a poll taken more than 48 hours (excluding weekends and public holidays) after it is demanded, the document(s) must be delivered as aforesaid not less than 24 hours (excluding weekends and public holidays) before the time appointed for taking the poll, or where the poll is taken not more than 48 hours (excluding weekends and public holidays) after it was demanded, be delivered at the meeting at which the demand is made.

# Puma VCT III plc

## Notice of Annual General Meeting continued

- (c) In order to revoke a proxy instruction a member will need to inform the Company using one of the following methods:
- by sending a signed hard copy notice clearly stating the intention to revoke the proxy appointment to the Company's registrars, SLC Registrars, Thames House, Portsmouth Road, Esher, Surrey KT10 9AD. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.
  - by sending an e-mail to [pumav@davidvenus.com](mailto:pumav@davidvenus.com).
- In either case, the revocation notice must be received by the Company's registrars, SLC Registrars, Thames House, Portsmouth Road, Esher, Surrey KT10 9AD before the Annual General Meeting or the holding of a poll subsequently thereto. If a member attempts to revoke his or her proxy appointment but the revocation is received after the time specified then, subject to Note (d) directly below, the proxy appointment will remain valid.
- (d) Completion and return of a Form of Proxy will not preclude a member of the Company from attending and voting in person. If a member appoints a proxy and that member attends the Annual General Meeting in person, the proxy appointment will automatically be terminated.
- (e) Copies of the Directors' Letters of Appointment, the Register of Directors' interests in the Shares of the Company kept and a copy of the current Articles of Association will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturday and Public Holidays excluded) from the date of this notice, until the end of the Annual General Meeting and at the place of the Annual General Meeting for at least 15 minutes prior to and during the Annual General Meeting.
- (f) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those holders of the Company's shares registered on the Register of Members of the Company as at 6 pm on 23 August 2011 or, in the event that the Annual General Meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the said Annual General Meeting in respect of such shares registered in their name at the relevant time. Changes to entries on the Register of Members after 6 pm on 23 August 2011 or, in the event that the Annual General Meeting is adjourned, on the Register of Members less than 48 hours before the time of any adjourned meeting, shall be disregarded in determining the right of any person to attend and vote at the Annual General Meeting.
- (g) As at 29 July 2011, the Company's issued share capital comprised 19,512,692 Ordinary Shares. The total number of voting rights in the Company as at 29 July 2011 is 19,512,692. The website referred to above will include information on the number of shares and voting rights.
- (h) If you are a person who has been nominated under section 146 of the CA 2006 to enjoy information rights ("Nominated Person"):
- You may have a right under an agreement between you and the member of the Company who has nominated you to have information rights ("Relevant Member") to be appointed or to have someone else appointed as a proxy for the Annual General Meeting;
  - If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights;
  - Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.
- (i) A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.
- (j) A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, the proxy will vote or abstain from voting at his or her discretion. The proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Annual General Meeting.
- (k) Except as provided above, members who have general queries about the General Meeting should call the Company's registrars SLC Registrars, Thames House, Portsmouth Road, Esher, Surrey KT10 9AD on 01372 467308 (no other methods of communication will be accepted).
- (l) Members may not use any electronic address provided either in this notice of Annual General Meeting, or any related documents (including the Chairman's letter and proxy form), to communicate with the Company for any purposes other than those expressly stated.
- (m) Resolution 2 - 3: Information about the Directors who are proposed by the Board for re-election at the Annual General Meeting is shown in the Annual Report and Accounts 2011.

# Officers and Professional Advisers

## Directors

D M Brock  
(Chairman and senior independent director)

Sir A T Brocklebank, ACA  
– resigned 15 September 2010

C Ring  
– appointed 15 September 2010

G B Shore

All of the directors are non-executive

## Secretary

E C Kaye

## 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

SLC Registrars  
Thames House  
Portsmouth Road  
Esher  
Surrey KT10 9AD

## Administrator

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

## Auditor

Baker Tilly UK Audit LLP  
Chartered Accountants  
25 Farringdon Street  
London EC4A 4AB

## Sponsors and Solicitors

Howard Kennedy  
19 Cavendish Square  
London W1A 2AW

## Bankers

The Royal Bank of Scotland plc  
Western Branch  
60 Conduit Street  
London W1R 9FD

## VCT Tax Advisor

PricewaterhouseCoopers LLP  
1 Embankment Place  
London WC2N 6RH

## Custodians

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

Puma VCT III plc  
Bond Street House  
14 Clifford Street  
London W1S 4JU  
[www.shorecap.co.uk](http://www.shorecap.co.uk)

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