



**SHORE CAPITAL**



# PUMA VCT II PLC

ANNUAL REPORT & ACCOUNTS 2005

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# Chairman's Statement

The first period of trading for Puma VCT II plc (the Company) has been a successful one. Although this period has largely been concerned with fund raising I am pleased to report that at the year-end the Company's net asset value per share ("NAV") stood at 105.01p. This is a rise of 7.01p (7.2%) since inception before the inclusion of performance fees.

Puma VCT II plc and Puma VCT plc jointly invest in proportion to their respective fundraisings.

## Venture capital investments

Three qualifying investments (Cadbury House, Patsystems and @UK) were successfully completed by the Company's year-end.

The Company jointly invested £1.2 million with Puma VCT plc in Cadbury House Hotel & Country Club. Cadbury House is a major venue for weddings, conferences and banqueting in the Bristol area with a well-established fitness centre on 14 acres of freehold grounds. Situated 10 minutes from Bristol International Airport, it is undergoing a major refurbishment to construct a new deluxe leisure and fitness centre, a 65 room hotel wing and to upgrade the existing banqueting facilities. It has planning permission to increase the number of rooms in the hotel to 65, from its original 50, which has had a significant impact on the value of the Company's investment in Cadbury House.

We have jointly invested £525,000 with Puma VCT plc in a qualifying AiM company, Patsystems plc, involved in the development, distribution and support of software enabling the electronic trading of financial products on global trading exchanges.

With Puma VCT plc, we have jointly invested £700,000 in pre-IPO financing into @UK plc. @UK provides an e-enablement service to suppliers of a number of Local Authorities throughout the UK, including suppliers to schools and central council departments. Just before year-end, @UK was listed on AiM which has resulted in the Company showing a large unrealised gain in its investment.

At 31 December 2005, the Company's qualifying portfolio had a total cost of £987,000. Despite being its first year, the qualifying portfolio was valued at £1,316,000 resulting in an unrealised gain of £329,000. Further details are set out in the Investment Manager's Report and the Ten Largest Investments on pages 2 to 7.

## Non-qualifying investments

The Investment Manager's aim is to generate an absolute return on non-qualifying investments on funds not invested in qualifying companies. We are extremely pleased with the appreciation of its non-qualifying portfolio, its value of £5,174,000 increasing from a cost of £4,731,000 resulting in unrealised gains of £443,000.

## Results and dividend

Gross revenue for the period was £145,000 and net revenue gain after taxation was £31,000. The Board does not propose a dividend for the period.

## Annual General Meeting

The Annual General Meeting of the Company will be held at Bond Street House, 14 Clifford Street, London, W1S 4JU on 26 May 2006 at 3:00pm. Notice of the Annual General Meeting and Form of Proxy are at the end of this document.

## Outlook

Opportunities, both for additional investments in qualifying companies and for appreciation of our existing portfolio, appear encouraging and we view the future with confidence.

**Sir Aubrey Brocklebank Bt**

Chairman

2 May 2006

# Investment Manager's Report

## Overall Performance

Following one of the most successful new VCT launches in the last tax year, the Company has delivered very strong returns with the net asset value per share of your Company having increased by 7.2 per cent. (6.1 per cent. net of performance fees) in the 8-9 months since launch. This compares very favourably to the FTSE AiM index which fell by 4 per cent. between 6 April 2005, the start of the tax year, and the end of December 2005. This performance puts the Company well on track to deliver the net 120 pence to investors targeted at launch, which would be a post-tax return of 14.9 per cent. p.a. on the 60 pence net cost to investors.

This strong performance has been achieved by a combination of gains in the qualifying portfolio and strong delivery from the manager's innovative approach to the non qualifying investments where the manager's Hedge Fund Strategy made a significant contribution out-performing their benchmark indices. The hedge fund returns have been achieved with low volatility (a normal measure of risk) in keeping with the manager's focus on relatively lower risk opportunities. The portfolio of hedge funds has continued to show excellent progress in 2006. Property related investments are also performing well for the non qualifying portfolio with investments in The Hotel Corporation and Orchid Developments Group Limited (Orchid) both showing large gains. The investment in Orchid has been realised since the year end at a profit of £21,000 (a 21 per cent. gain).

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

## Activity

The first 8-9 months saw three qualifying investments completed with £2.43m invested between the Company and Puma VCT plc. Despite high levels of IPO activity on the AiM market during the period since launch, only one of these investments was into an AiM quoted company (Patsystems plc) with the investment also being part of a secondary funding round rather than an IPO. This was because we had concerns about the valuations of many of the VCT qualifying AiM IPO's which



*The new leisure center at Cadbury House Hotel & Country Club plc.*

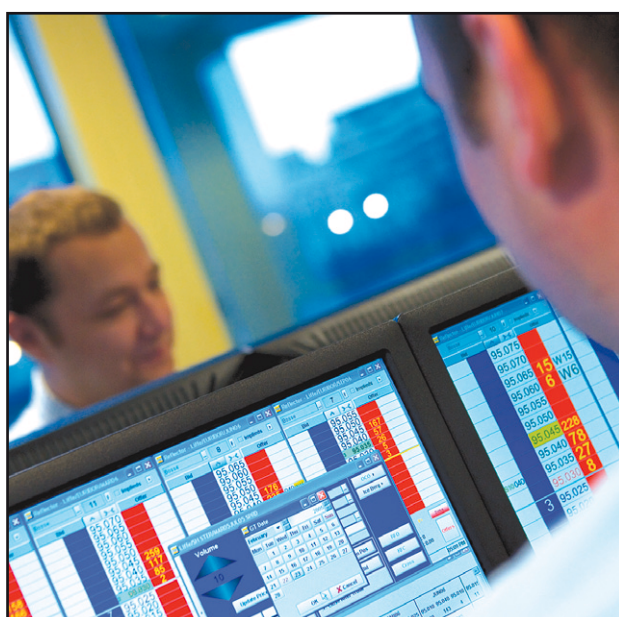
we considered to be high. Instead we focussed on identifying private companies which met our investment criteria including strong management, robust growth, a degree of asset backing and a sensible valuation. Of the three qualifying investments, two are already showing good gains.

The Company's first investment was in Cadbury House Hotel and Country Club plc ("Cadbury"), a major venue for weddings, conferences and dinner dances near Bristol. Originally constructed as a private residence in 1790, Cadbury sits in 14 acres of freehold property, located midway between Bristol and Weston-super-Mare. It also has a leisure and fitness facility with 1,600 members which is to be replaced with a new leisure complex as part of a major re-development of its 14 acre site including the construction of a hotel wing. Cadbury has successfully applied for consent to increase the size of the hotel within the same proposed building shell. An independent professional valuation shows that this should add considerably to the value of the development when complete, with a consequent increase in the value of the Company's investment.

The Company invested in @UK plc ("@UK") on a pre-IPO basis at a discount to the IPO price. Following its successful IPO in December 2005, the investment in @UK

is showing an uplift in value. @UK is the UK's leading developer and provider of software products which facilitate e-procurement between public sector bodies and their suppliers. @UK's proven technology enables a more efficient process for tendering, ordering, invoicing and purchase administration by moving these functions to their proprietary electronic platform. @UK's system has been selected by over 40 public sector bodies, including nearly half of the county councils in England. Several education authorities and NHS trusts have also employed @UK's technology. In addition, @UK was selected by central Government to participate in 'Zanzibar', an e-marketplace to be used by Government departments.

During August the Company invested in Patsystems ("Pats"), a provider of trading and exchange systems to the global derivatives markets. The company was floated at the beginning of 2000 and is now only one of a handful of companies which dominate this industry. Pats has recently turned cash flow positive for the first time and earnings quality is high with recurring revenues amounting to approximately 85% of total revenues. Although the share price performance has been muted since the investment was made, we feel that Pats is well placed to play a key role in the expected industry consolidation and in so doing, create further value for shareholders.



Patsystems plc.



@UK plc.

### Qualifying Portfolio Valuation Policy

The unquoted investment has been valued in accordance with the guidelines issued by the British Venture Capital Association.

Holdings in companies traded on AiM are valued on the basis of bid market prices on 30 December 2005.

### Outlook

The Company has performed very well in the 8-9 months since launch and we expect the portfolio of both qualifying and non qualifying investments to do well in the year ahead. The deal flow for 2006 looks strong. The Company has closed three further qualifying investments in 2006 totalling (between the two VCTs) £1.63 million. Further transactions are in negotiation. We will continue to seek to identify opportunities in the AIM/OFEX markets where we believe pricing entry levels will result in value to shareholders being delivered over time. We will also seek to structure investments in unquoted companies which provide both a measure of downside protection and exposure to equity upside.

### Shore Capital Limited

2 May 2006

# Investment Portfolio Summary

As at 31 December 2005

Investment	Valuation £'000	Original Cost £'000	Gain/(Loss) £'000	Valuation as % of NAV
<b>Qualifying Investments</b>				
Cadbury House Hotel and Country Club plc*	722	488	234	8.3%
Patsystems plc	189	214	(25)	2.2%
@UK plc	405	285	120	4.7%
	<b>1,316</b>	<b>987</b>	<b>329</b>	<b>15.2%</b>
<b>Non-Qualifying Investments</b>				
Caxton Global Investments Class E*	341	333	8	3.9%
Highbridge Capital Corp Class A*	351	324	27	4.0%
JPMF European Dynamic Long Short	259	228	31	3.0%
M-Invest*	451	392	59	5.2%
Paulson International Ltd*	451	429	22	5.2%
Pentagon Investment Capital International*	483	413	70	5.5%
Puma Absolute Return Fund Class B	1,318	1,199	119	15.1%
The Hotel Corporation plc	253	224	29	2.9%
Other hedge funds and equity investments	1,267	1,189	78	14.5%
	<b>5,174</b>	<b>4,731</b>	<b>443</b>	<b>59.3%</b>
Total investments	<b>6,490</b>	<b>5,718</b>	<b>772</b>	<b>74.5%</b>
Cash and other net assets	2,225	2,225	–	25.5%
	<b>8,715</b>	<b>7,943</b>	<b>772</b>	<b>100.0%</b>

\* unquoted

## Ten Largest Investments



### Cadbury House Hotel & Country Club plc

www.cadburyhouse.com

Cost (£'000):	488
Investment comprises:	
Ordinary shares (£'000):	48
Convertible Loan Stock (£'000)	440
Valuation method:	Directors' valuation
Valuation (£'000):	722
Source of financial data – Last audited accounts:	<sup>1</sup>
Turnover (£'000):	<sup>1</sup>
Profit before tax (£'000):	<sup>1</sup>
Retained profit (£'000):	<sup>1</sup>
Net assets (£'000):	<sup>1</sup>
Proportion of equity held:	3.2%

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

<sup>1</sup> This is Cadbury's first year of operations and hence there are no audited accounts to report.



www.uk-plc.net

Cost (£'000):	285
Investment comprises:	
Ordinary shares (£'000):	285
Valuation method:	Bid Market Price
Valuation (£'000):	405
Source of financial data –	
Last audited accounts:	31/12/05
Turnover (£'000):	1,454
Loss before tax (£'000):	(1,684)
Retained loss (£'000):	(3,245)
Net assets (£'000):	7,826
Proportion of equity held:	1.7%

@UK provides an e-enablement service to suppliers of a number of Local Authorities throughout the UK, including suppliers to schools and central council departments.

### patsystems

professional automated trading systems

www.patsystems.com

Cost (£'000):	189
Investment comprises:	
Ordinary shares (£'000):	189
Valuation method:	Bid Market Price
Valuation (£'000):	214
Source of financial data –	
Last audited accounts:	31/12/05
Turnover (£'000):	15,457
Loss before tax (£'000):	(777)
Retained loss (£'000):	(17,692)
Net assets (£'000):	4,771
Proportion of equity held:	0.9%

Patsystems plc is involved in the development, distribution and support of software enabling the electronic trading of financial products on global trading exchanges.

### Puma Absolute Return Fund Limited

Cost (£'000):	1,199
Investment comprises:	
Ordinary shares (£'000):	1,199
Valuation method:	NAV per share
Valuation (£'000):	1,318
Source of financial data –	
Last audited accounts:	30/04/05
Turnover (\$'000):	26
Profit before tax (\$'000):	2,852
Retained profit (\$'000):	n/a
Net assets (\$'000):	62,611
Proportion of equity held:	3.2%

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

## Ten Largest Investments continued

### Pentagon Investment Capital International

Cost (£'000):	413
Investment comprises:	
Ordinary shares (£'000):	413
Valuation method:	NAV per share
Valuation (£'000):	483
Source of financial data –	
Last audited accounts:	31/12/04
Turnover (\$'000):	9
Profit before tax (\$'000):	4,604
Retained profit (\$'000):	n/a
Net assets (\$'000):	70,378
Proportion of equity held:	1.4%

Pentagon Investment Capital International is a hedge fund with a statistical arbitrage investment strategy. This strategy profits from pricing inefficiencies that are identified through the use of mathematical models.

### M-Invest

Cost (£'000):	392
Investment comprises:	
Ordinary shares (£'000):	392
Valuation method:	NAV per share
Valuation (£'000):	451
Source of financial data –	
Last audited accounts:	31/12/04
Turnover (\$'000):	4,378
Profit before tax (\$'000):	22,599
Retained profit (\$'000):	n/a
Net assets (\$'000):	340,183
Proportion of equity held:	0.2%

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

### Paulson International Ltd

Cost (£'000):	429
Investment comprises:	
Ordinary shares (£'000):	429
Valuation method:	NAV per share
Valuation (£'000):	451
Source of financial data –	
Last audited accounts:	31/12/04
Turnover (\$'000):	25,431
Profit before tax (\$'000):	138,601
Retained profit (\$'000):	n/a
Net assets (\$'000):	1,392,281
Proportion of equity held:	0.03%

Paulson International Ltd is a hedge fund with an event driven investment strategy. This strategy focuses on equity and debt investing on the basis of likely events such as mergers, bankruptcies or spin-offs.

### Highbridge Capital Corp Class A

Cost (£'000):	324
Investment comprises:	
Ordinary shares (£'000):	324
Valuation method:	NAV per share
Valuation (£'000):	351
Source of financial data –	
Last audited accounts:	31/12/04
Turnover (\$'000):	1,031,219
Profit before tax (\$'000):	401,804
Retained profit (\$'000):	n/a
Net assets (\$'000):	6,155,438
Proportion of equity held:	0.01%

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



**Caxton Global Investments Class E**

Cost (£'000):	333
Investment comprises:	
Ordinary shares (£'000):	333
Valuation method:	NAV per share
Valuation (£'000):	341
Source of financial data –	
Last audited accounts:	31/12/04
Turnover (\$'000):	(716,735)
Profit before tax (\$'000):	659,997
Retained profit (\$'000):	n/a
Net assets (\$'000):	7,164,201
Proportion of equity held:	0.01%

Caxton Global Investments Class E is a hedge fund with a macro investment strategy. This strategy involves directional investing in major currencies, equity markets, government bonds and commodities based on fundamental views of the global economy.

**JPMF European Dynamic Long Short**

Cost (£'000):	228
Investment comprises:	
Ordinary shares (£'000):	228
Valuation method:	NAV per share
Valuation (£'000):	259
Source of financial data –	
Last audited accounts:	30/09/05
Turnover (€'000):	821
Profit before tax (€'000):	3,842
Retained profit (€'000):	n/a
Net assets (€'000):	26,124
Proportion of equity held:	0.8%

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

**The Hotel Corporation plc**

[www.paramount-hotels.co.uk](http://www.paramount-hotels.co.uk)

Cost (£'000):	224
Investment comprises:	
Ordinary shares (£'000):	224
Valuation method:	Bid Market Price
Valuation (£'000):	253
Source of financial data –	
Last audited accounts:	31/12/05
Turnover (£'000):	1,986
Profit before tax (£'000):	11,514
Retained profit (£'000):	16,062
Net assets (£'000):	51,101
Proportion of equity held:	0.5%

The Hotel Corporation plc invests in Dawnay Shore Hotels (DSH), which is a private equity vehicle. DSH owns and operates a group of four star British regional hotels.

## Directors' Biographies

### **Sir Aubrey Brocklebank Bt, ACA (Chairman) (54)**

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

### **David Michael Brock (55)**

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

### **Christopher John Ring, ACA (51)**

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

# Report of the Directors

The Directors present their first annual report and the audited financial statements of the Company for the period 5 November 2004 to 31 December 2005.

## Principal Activities and Status

The principal activity of the Company is the making of investments in qualifying holdings of shares or securities. The Company is an investment company within the meaning of Section 266 of the Companies Act 1985. The Company has been granted provisional approval by the Inland Revenue under Section 842AA of the Income and Corporation Taxes Act 1988 as a Venture Capital Trust for the period ended 31 December 2005. The Directors have managed, and continue to manage, the Company's affairs in such a manner as to comply with Section 842AA of the Income and Corporation Taxes Act 1988.

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

The Company's ordinary shares of 1p each have been listed on the Official List of the UK Listing Authority since 9 June 2005.

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

## Results and dividends

The results for the financial period are set out on page 15. The Directors do not propose a final dividend. It is the aim of the Directors to maximize tax free distributions to shareholders by way of dividends paid out of income received from investments and capital gains received following successful realisations.

## Issue of shares

During the period to 31 December 2005, the Company issued 8,299,100 Ordinary Shares by way of Offers for Subscription, raising a total of £8.13m, net of expenses.

The authorised and issued share capital of the Company is detailed in note 14 of these accounts.

## Directors

Alan Banes and Anthony Hunt were the initial Directors of the Company and resigned on 10 January 2005. The

following Directors of the Company were appointed 10 January 2005 and their beneficial interests in the ordinary shares of the Company were:

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

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

The Directors are also Directors of Puma VCT plc, a VCT to which Shore Capital Limited is also the Investment Manager. A T Brocklebank and C J Ring also have a beneficial interest in Puma VCT plc.

## Investment management, administration and performance fees

Shore Capital Limited (Shore Capital) is the Investment Manager to the Company. The principal terms of the Company's management agreement with Shore Capital Limited as applicable during the period ended 31 December 2005, are set out in note 3 of the financial statements.

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

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

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

## Report of the Directors continued

incentive structure provides a strong incentive for the Investment Manager to make distributions as high and as soon as possible.

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

The performance fee has been expensed in accordance with FRS 20 for share based payments (see note 4 and 13).

### VCT status monitoring

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

### Creditor payment policy

The Company's payment policy for the forthcoming year is to ensure settlement of suppliers' invoices in accordance with their standard terms. As at 31 December 2005 there were nil days' billing from the suppliers of services outstanding

### Substantial Shareholdings

As at 31 December 2005 and at the date of this report, the Company was not aware of any beneficial interest exceeding 3 per cent of any class of the issued share capital.

### Annual General Meeting

The Annual General Meeting of the Company will be held at Bond Street House, 14 Clifford Street, London, W1S 4JU on 26 May 2006 at 3.00pm. Notice of the Annual General Meeting and Form of Proxy are at the end of this document.

### Auditors

Baker Tilly have expressed their willingness to continue

in office as auditors and a resolution proposing their re-appointment will be submitted at the AGM.

### Statement of Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the total return for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for ensuring that the Directors' Report and other information included in the Annual Report is prepared in accordance with company law in the United Kingdom. They are also responsible for ensuring that the Annual Report includes information required by the Listing Rules of the Financial Services Authority.

By order of the Board

**Jonathan Paisner**  
Company Secretary  
2 May 2006

# Directors' Remuneration Report

This report is prepared in accordance with Schedule 7A of the Companies Act 1985. The Company's auditor is required to report on certain information contained within this report (see below). The auditor's opinion is included within the auditor's report on page 14.

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. The Company's Articles of Association limit fees payable to the Directors to £33,000 between Puma VCT II plc and Puma VCT plc in aggregate. Directors' fees payable during the year totalled £30,000 in aggregate of which £12,000 related to Puma VCT II plc as set out in note 5.

## Directors' Remuneration (audited)

The Directors received emoluments as detailed below:

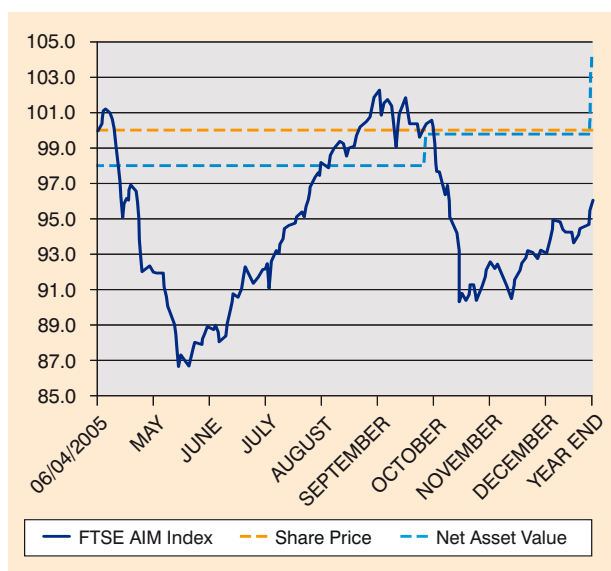
	Annual Fee £	2005 £'000 (audited)
Sir A T Brocklebank Bt, ACA (Chairman)	7	7
D M Brock	6	5
C J Ring, ACA	—	—
	13	12

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

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

## Performance Graph

The following chart represents the Company's performance over the reporting period since trading commenced and compares the reported Net Asset Value to a rebased FTSE AiM Index which has been chosen as a comparison as it best represents the spread of investments held by the Company. This has been rebased to 100 at 6 April 2005, the start of the tax year.



On behalf of the Board

**Sir Aubrey Brocklebank Bt**

Chairman

2 May 2006

# Corporate Governance

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

## The Board

The Company has a Board comprising three non-executive Directors. As all Directors are non-executive, the Board has not appointed a senior independent director. The Chairman is Sir Aubrey Brocklebank Bt. Biographical details of all Board members are shown on page 8.

The Directors were subject to re-election at the first AGM after their appointment. In accordance with the Combined Code, the Directors were re-elected during the year. The Directors will offer themselves for re-election at the Company's third AGM.

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

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

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

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

All Directors have access to the advice and services of the Company Secretary. The Company Secretary provides the Board with full information on the Company's assets and liabilities and other relevant information requested

by the Chairman, in advance of each Board meeting.

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

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

The Board reviewed Directors' remuneration during the year. Details of the specific levels of remuneration to each director are set out in the Directors' Remuneration Report on page 11, and this is subject to shareholder approval.

## Relations with shareholders

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

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

## Financial Reporting

The Directors' statement of responsibilities for preparing the accounts are set out in the Directors' Report on page 10, and a statement by the auditors about their reporting

responsibilities are set out in the Auditors' Report on page 14.

### Internal control

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

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

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

### Going Concern

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

### Compliance statement

The Listing Rules require the Board to report on compliance with the forty-eight Combined Code provisions throughout the accounting period. With the exception of the items outlined below, the Company has complied throughout the accounting period ended 31 December 2005 with the provisions set out in Section 1

of the Combined Code. Due to the special nature of the Company, the following provisions of the Combined Code have not been complied with:

- a) 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) New directors do not receive a full, formal and tailored induction on joining the Board. Such matters are addressed on an individual basis as they arise. Also the Company has no major shareholders so shareholders are not given the opportunity to meet any new non-executive directors at a specific meeting other than the annual general meeting.
- c) Due to the size of the Board, a formal performance evaluation of the Board, its committees and the individual directors has not been undertaken. Specific performance issues are dealt with as they arise.
- d) Due to the size of the Board, the Company did not have a formal nominations committee, audit committee or remuneration committee. Relevant matters were dealt with by the full Board.
- e) C J Ring is not an independent director as defined by the Combined Code issued in July 2003 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.
- f) On 20 January 2005, the non-executive Directors were appointed for a period of twelve months after which either party must give three calendar months' notice to end the contract. The recommendation is for fixed term renewable contracts.
- g) The Manual was in place throughout the year but the procedures therein were not formally reviewed by the Board until after the year and, as such, the Company has not complied with provision C.2.1 of the Combined Code.

# Independent Auditors' Report to the Shareholders of Puma VCT II plc

We have audited the financial statements which comprise the Statement of Total Return, the Balance Sheet, the Cash Flow Statement, and the related notes, and the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' Remuneration Report under the headings marked "audited".

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

## Respective responsibilities of Directors and auditors

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

Our responsibility is to audit the financial statements and the auditable part of the Directors' Remuneration Report in accordance with relevant legal and regulatory requirements, and International Standards on Auditing (United Kingdom and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the Directors' Remuneration Report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration is not disclosed.

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

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

## Basis of audit opinion

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

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

## Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Company at 31 December 2005 and of the return for the period then ended; and
- the financial statements and the auditable part of the Directors' Remuneration Report have been properly prepared in accordance with the Companies Act 1985.

## Baker Tilly

Chartered Accountants and Registered Auditors  
2 Bloomsbury Street  
London WC1B 3ST  
2 May 2006



# Statement of Total Return

(incorporating the revenue account\*) for the period ended 31 December 2005

			For the period 10 December 2004 to 31 December 2005	
	Note	Revenue £'000	Capital £'000	Total £'000
Gains on investments	9 (c)	–	620	620
Income	2	145	–	145
		<b>145</b>	<b>620</b>	<b>765</b>
Investment management fees	3	29	87	116
Performance fees	4	5	78	83
Other expenses	5	67	–	67
		<b>101</b>	<b>165</b>	<b>266</b>
<b>Return on ordinary activities before taxation</b>		44	455	499
Tax on return on ordinary activities	6	(13)	13	–
<b>Return on ordinary activities after tax attributable to equity shareholders</b>		<b>31</b>	<b>468</b>	<b>499</b>
<b>Return per Ordinary Share (pence)</b>	<b>7</b>	<b>0.41p</b>	<b>6.26p</b>	<b>6.67p</b>

All revenue and capital items in the above statement derive from continuing operations.

\* The revenue column of this statement is the profit and loss account of the Company.

The accompanying notes are an integral part of these financial statements.

# Balance Sheet

As at 31 December 2005

	Note	2005 £'000
<b>Fixed Assets</b>		
Investments	9	6,490
<b>Current Assets</b>		
Trades in advance	10	339
Debtors	11	14
Cash		1,965
		2,318
<b>Creditors – amounts falling due within one year</b>	12	(92)
<b>Net Current Assets</b>		2,226
<b>Total Assets less Current Liabilities</b>		8,716
<b>Creditors – amounts falling due after more than one year (including convertible debt)</b>	13	(1)
<b>Net Assets</b>		8,715
<b>Capital and Reserves</b>		
Called up share capital	14	83
Capital reserve – realised	15	(213)
Capital reserve – unrealised	15	681
Other reserve	15	83
Revenue reserve	15	8,081
<b>Equity Shareholders' Funds</b>		8,715
<b>Net Asset Value per Ordinary Share</b>	17	105.01
<b>Diluted Net Asset Value per Ordinary Share</b>	17	104.01

These financial statements were approved by the Board of Directors on 2 May 2006 and were signed on their behalf by:

**Sir Aubrey Brocklebank Bt**  
Chairman

The accompanying notes are an integral part of these financial statements.

# Cash Flow Statement

For the period ended 31 December 2005

	For the period 10 December 2004 to 31 December 2005
Note	£'000
<b>Operating activities</b>	
Return on ordinary activities before taxation	44
Investment management fee charged to capital	(87)
Performance fee to be effected through share-based payment	5
Foreign exchange gain on cash	1
Increase in debtors	(14)
Increase in creditors	76
<b>Net cash inflow from operating activities</b>	<b>25</b>
<b>Capital expenditure and financial investment</b>	
Purchase of investments	9 (b) (6,262)
Proceeds from sale of investments	9 (b) 561
Increase in trades in advance	(339)
Net realised loss on forward foreign exchange contracts	(154)
<b>Net cash outflow from capital expenditure and financial investment</b>	<b>(6,194)</b>
<b>Financing</b>	
Proceeds received from issue of ordinary share capital	8,299
Expenses paid for issue of share capital	15 (166)
Proceeds received from issue of redeemable preference shares	14 50
Redemption of redeemable preference shares	14 (50)
Proceeds received from convertible loan notes	1
<b>Net cash inflow from financing</b>	<b>8,134</b>
<b>Increase in cash for the period</b>	<b>1,965</b>
<b>Reconciliation of net cash flow to movement in net funds</b>	
Increase in cash for the period	1,965
Net funds at start of the period	–
<b>Net funds at end of the period</b>	<b>1,965</b>

The accompanying notes are an integral part of these financial statements.

# Notes to the Accounts

For the period ended 31 December 2005

## 1. Accounting Policies

The principal accounting policies are as follows:

### Basis of Accounting

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of fixed asset investments, and in accordance with applicable Accounting Standards and with the Statement of Recommended Practice, 'Financial Statements of Investment Trust Companies' ("SORP") issued in 2003. Although this SORP principally applies to Investment Trusts, many of the characteristics of Investment Trusts are shared by VCTs therefore the Company will continue to follow the SORP until its investment company status is revoked.

### Investments

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

Listed investments and investments traded on AiM are stated at bid price at the reporting date. Hedge funds, listed and unlisted, are valued at their respective Net Asset Value per share at the reporting date. Unlisted investments are stated at Directors' valuation with reference to the British Venture Capital Association ("BVCA") guidelines:

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

### Income

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

### Performance fees

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

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

At each balance sheet date, the Company estimates the number of shares that are expected to be issued based on its Net Asset Value per share. The Company recognises the impact of the change in shares to be issued in the Statement of Total Return 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 included within the cost of the investment or deducted from the disposal proceeds as appropriate, and;

## 1. Accounting Policies continued

### Expenses continued

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

### Taxation

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

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

### Foreign exchange

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

### Forwards/Hedging

The Company enters into forward contracts for the sale of foreign currencies in order to hedge its exposure to fluctuations in currency rates in respect of some of its investments. These forward contracts are retranslated at the rate prevailing at the balance sheet date. 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.

## 2. Income

	2005 £'000
<b>Income from investments</b>	
Loan stock interest	13
Dividend income	5
	18
<b>Other income</b>	
Bank deposit interest	127
	145

## 3. Investment Management Fees

	2005 £'000
Shore Capital Limited	116

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

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

# Notes to the Accounts continued

For the period ended 31 December 2005

## 4. Performance Fees

	2005 £'000
Shore Capital Limited	83

The performance fee has been expensed in accordance with FRS 20 Share-based Payment (see note 13).

## 5. Other Expenses

	2005 £'000
Administration – Shore Capital Fund Administration Services Limited	22
Directors' remuneration	12
Auditors' remuneration for audit	7
Insurance	3
Legal and professional fees	10
FSA, LSE and registrar fees	7
Other expenses	6
	<b>67</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 (plus VAT), payable quarterly in arrears.

The total fees paid or payable in respect of individual Directors for the period is detailed in the Director's Remuneration Report commencing on page 11. The Company had no employees (other than Directors) during the period.

## 6. Tax on Ordinary Activities

	2005 £'000
<b>(a) UK corporation tax charge for the year</b>	–
<b>(b) Factors affecting tax charge for the year</b>	
Return on ordinary activities before taxation	44
Tax charge calculated on return on ordinary activities before taxation at the applicable rate of 30%	13
Effects of:	
Non taxable UK dividend income	(2)
Performance fee expense	2
Capital expenses	(13)
	–

The profit and loss account shows the tax charge allocated to revenue and capital reserves.

No provision for deferred tax has been made in the current accounting period. The Company has not recognised a deferred tax asset of £43,000 arising as a result of having unutilised management expenses due to the fact that it is unlikely that they will be offset in the foreseeable future.

## 7. Return per Ordinary Share

	Revenue	Capital	Total
Return for the period	31,000	468,000	499,000
Weighted average number of shares	7,481,453	7,481,453	7,481,453
Return per Ordinary Share	0.41p	6.26p	6.67p

## 8. Dividends

	2005 £'000
Final dividend	–

The directors do not propose a final dividend.

## 9. Investments

	Historic Cost £'000	Market Value £'000
<b>(a) Summary</b>		
Qualifying venture capital investments	987	1,316
Hedge funds & listed equity investments	4,731	5,174
	<b>5,718</b>	<b>6,490</b>

	Venture capital investments	Hedge funds & equity investments	Total £'000
<b>(b) Movements in investments</b>			
Purchases at cost	987	5,275	6,262
Disposals – proceeds	–	(561)	(561)
– realised net gain on disposal	–	17	17
Net unrealised gains on revaluation of investments	329	443	772
Valuation at 31 December 2005	<b>1,316</b>	<b>5,174</b>	<b>6,490</b>
Book cost at 31 December 2005	987	4,731	5,718
Net unrealised gains at 31 December 2005	329	443	772
Valuation at 31 December 2005	<b>1,316</b>	<b>5,174</b>	<b>6,490</b>

### (c) Gains on investments

The gains on investments for the period shown in the Statement of Total Return on page 15 is analysed as follows:

	2005 £'000
Realised gains on disposal	17
Foreign exchange losses – realised	(156)
Foreign exchange gains – unrealised	143
Net unrealised gain on revaluation	616
	<b>620</b>

Included in the net unrealised gain on revaluation is a revaluation increase to the unquoted holding in Cadbury House Hotel & Country Club plc (Cadbury). The holding has been revalued to £722,000 from a cost of £488,000, representing an increase of £234,000 or 48% of cost. This revaluation was done with reference to an independent valuation of the property which included planning permission to increase the number of rooms in the hotel from its original plan of 50 to 65 rooms.

	Historic Cost £'000	Market Value £'000
<b>(d) Quoted and unquoted investments</b>		
Quoted investments	3,163	3,653
Unquoted investments	2,555	2,837
	<b>5,718</b>	<b>6,490</b>

# Notes to the Accounts continued

For the period ended 31 December 2005

## 10. Trades in advance

	2005 £'000
Trades in advance	339

Included in trades in advance are two payments to third party administrators for hedge funds purchased on 3 January, 2006.

## 11. Debtors

	2005 £'000
Prepayments and accrued income	14

Included in prepayments and accrued income is £13,000 of interest receivable after one year.

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

	2005 £'000
Unrealised loss on forward foreign exchange contracts	16
Accruals	76
	92

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

	2005 £'000
Loan Notes	1

On 21st January, 2005, the Company issued Loan Notes in the amount of £1,000 to a nominee on behalf of the Investment Manager's group and employees of and persons related to the investment management team. The Loan Notes accrue interest of 5% per annum.

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

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

No performance fee is currently payable as the Ordinary Shares have received no distributions to date. However, as the NAV is greater than £1, a performance fee has been expensed in accordance with FRS 20 Share-based Payment. Also, a diluted NAV per share has been calculated which reflects the impact of this conversion (see note 17).

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



**14. Called Up Share Capital**2005  
£'000**Authorised:**

25,000,000 ordinary shares of 1p each

250

**Allotted and fully paid:**

8,299,300 ordinary shares of 1p

83

The authorised share capital upon incorporation was £250,000 divided into 50,000 Redeemable Preference Shares of £1 each and 20,000,000 Ordinary Shares of 1p each, of which two Ordinary shares were issued, nil paid, to the subscribers to the Articles of Association.

Two Ordinary shares were issued, fully paid, to the subscribers on 10 December 2004. On 10 January 2005, the two subscriber shares were subdivided into 200 Ordinary shares of 1p each. On the same day 50,000 Redeemable Preference shares were issued to Shore Capital Limited, one quarter paid up, so as to enable the Company to obtain a certificate under Section 117 of the Companies Act 1985.

Between 5 April 2005 and 31 May 2005, 8,299,100 Ordinary shares of 1p each were issued at £1 per share pursuant to the offers for subscription to the public dated 21 January 2005. The aggregate consideration for the shares was £8,299,100 which excluded issue costs of £166,000.

On 3 June 2005 the 50,000 Redeemable Preference shares were paid up in full and then subsequently redeemed out of the proceeds of the offers. Upon redemption, the unissued share capital thereby created was sub-divided into and redesignated, as 5,000,000 Ordinary shares. Following this, the authorised share capital was £250,000 divided into 25,000,000 Ordinary shares of 1p each.

**15. Capital and Reserves**

	Share premium account £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Other reserve £'000	Revenue reserve £'000	Total 2005 £'000
Share issues in the period	8,216	–	–	–	–	8,216
Expenses of share issues	(166)	–	–	–	–	(166)
Net gains on realisation of investments	–	17	–	–	–	17
Foreign exchange losses realised	–	(156)	–	–	–	(156)
Net unrealised gain on revaluation of investments, forward foreign exchange contracts and cash	–	–	759	–	–	759
Management fees charged to capital	–	(87)	–	–	–	(87)
Performance fee charged to capital	–	–	(78)	–	–	(78)
Performance fee to be effected through share-based payment	–	–	–	83	–	83
Profit for the period	–	–	–	–	31	31
Taxation relief on capital expenses	–	13	–	–	–	13
Capital reconstruction	(8,050)	–	–	–	8,050	–
Balance at end of the period	–	(213)	681	83	8,081	8,632

On 6 July, 2005, the Company obtained court orders for a capital reconstruction whereby it cancelled its share premium account. The purpose of the reconstruction was to maximise its distributable reserves in order to afford the company greater flexibility going forward regarding dividends and potential share buy-backs.

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

# Notes to the Accounts continued

For the period ended 31 December 2005

## 16. Reconciliation of Movements in Equity Shareholders' Funds

	2005 £'000
Proceeds of share issues pursuant to the offers for subscription	8,299
Expenses of issue	(166)
Total return on ordinary activities after tax	499
Performance fee to be effected through share-based payment	83
	<b>8,715</b>

## 17. Net Asset Value per Ordinary Share

	2005	
	Basic	Diluted
Net assets	8,715,000	8,715,000
Number of shares	8,299,300	8,379,354
Net Assets Value per Ordinary Share (pence)	105.01	104.01p

### Calculation of number of shares

	2005	
	Basic	Diluted
Number of shares issued during the period	8,299,300	8,299,300
Dilutive effect of performance fee (see note 13)	–	80,054
At 31 December	8,299,300	8,379,354

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

## 18. Analysis of Changes in Net Funds

	2005 £'000
Beginning of period	–
Net cash inflow	1,965
As at year-end	<b>1,965</b>

## 19. Financial Instruments

The Company's financial instruments comprise its investment portfolio, forward foreign currency contracts and cash balances. Fixed Asset investments held are valued at Bid market prices, Net Asset Value, cost or in accordance with BVCA guidelines (see note 1). The fair value of all other financial assets and liabilities is represented by the carrying value in the Balance Sheet. Short term debtors and creditors are excluded from disclosure as allowed by FRS13.

### Management of risk

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

### Market price risk

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

## 19. Financial Instruments continued

### Liquidity risk

The funds raised since incorporation are currently used to fund the Company's interim objective of investing in quoted hedge funds and other equity investments. Approximately 58% of the funds raised since incorporation have now been utilised in this investment strategy. The only unquoted holding is a qualifying venture capital investment. By their nature, unquoted investments may not be readily realisable. The portfolio of quoted hedge funds and equities is held to offset the liquidity risk. As at the year end, the Company had no borrowings other than loan notes amounting to £1,000 (see note 13).

### 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 4.50% at 31 December 2005. An interest rate of 5.0% is receivable on the Cadbury House Hotel & Country Club plc fixed interest loan stock.

At the period end and throughout the period, the Company's only liability subject to interest rate risk were the Loan Notes of £1,000 at 5.0%, with a maturity of 4.0 years.

### Interest rate risk profile of financial assets

The Company's financial assets, other than one fixed interest loan stock investment, are floating rate. The following analysis sets out the interest rate risk of the Company's financial assets.

	Average interest rate	Average period until maturity	2005 £'000
Floating rate	4.5%		1,965
Fixed rate	5.0%	4.5 years	655
Non-interest bearing	–		6,188
			<b>8,808</b>

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

### Foreign currency risk

The reporting currency of the Company is Sterling. However, the Company holds a number of U.S. Dollar denominated hedge funds as well as U.S. Dollar cash accounts. As at the period end, the Sterling equivalent value of such foreign investments amounted to £3,215,000 representing 36.9% 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 retranslated at the rate prevailing at the balance sheet date and any change in value is taken to the capital account. Any profit or loss on unrealised forward contracts at year-end are recorded in the Capital Reserve – unrealised. As at the year end the balance sheet value of forward contracts was £3,174,000.

## 20. Contingencies, Guarantees and Financial Commitments

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

## 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 C J Ring is a director, to provide investment management services. During the year £116,000 was due in respect of investment management fees.

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 £22,000 was due in respect these services.

# 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 26 May 2006 at 3.00 p.m. for the following purposes:

## Ordinary Business

- 1 To approve and adopt the Accounts for the year ended 31 December 2005, together with the reports of the Directors and Auditors thereon.
- 2 To re-elect Sir Aubrey Brocklebank 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-appoint Baker Tilly as Auditors of the Company and to authorise the Directors to determine their remuneration.

BY ORDER OF THE BOARD

**Jonathan Paisner**  
Company Secretary

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

Dated: 2 May 2006

## Notes:

- 1 A member who is entitled to attend and vote at this Meeting may appoint one or more proxies to attend and, on a poll, vote on his/her behalf. Such a proxy need not be a member of the Company.
- 2 To be valid, a Form of Proxy must be lodged with the Company's Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU at least 48 hours before the Meeting. A Form of Proxy for use by shareholders is enclosed with this Report on page 27. Completion of the Form of Proxy will not prevent a shareholder from attending the Meeting and voting in person.
- 3 The Register of Directors' Interests, together with the Directors' letters of appointment, and a copy of the Company's Articles of Association will be available for inspection during usual business hours on any weekday (Saturdays and Public Holidays excluded) at the registered office of the Company until the date of the Annual General Meeting and at the place of the Meeting for 15 minutes prior to and until the termination of the Meeting.
- 4 Resolution 2: Information about the Director who is proposed by the Board for re-election at the Meeting is shown on page 8 of the Annual Report and Accounts 2005.
- 5 In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the Company's register of members not later than 48 hours before the time of the Meeting or, if the Meeting is adjourned, shareholders entered on the Company's register of members not later than 48 hours before the time fixed for the adjourned Meeting shall be entitled to attend and vote at the Meeting.

# Form of Proxy

For use at the Annual General Meeting convened for 26 May 2006 at 3.00 p.m. at Bond Street House, 14 Clifford Street, London W1S 4JU

I/We \_\_\_\_\_

(BLOCK CAPITALS PLEASE)

of \_\_\_\_\_

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

\_\_\_\_\_ as my/our proxy and to attend and vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 26 May 2006 and at any adjournment thereof. My/our proxy is to vote as indicated below in respect of the Resolutions set out in the Notice of Annual General Meeting (see Note 3)

## Ordinary Resolutions

- 1 To approve and adopt the Report and Accounts
- 2 To re-elect Sir Aubrey Brocklebank
- 3 To re-appoint Baker Tilly as Auditors and to authorise the Directors to determine their remuneration

FOR	AGAINST

Dated \_\_\_\_\_

Signed or sealed (see Note 4)

## Notes:

- 1 If a member wishes to appoint as a proxy a person other than the Chairman of the Meeting, the name of the other person should be inserted in block capitals in the space provided. A proxy need not be a member of the Company but must attend the Meeting in person.
- 2 Any alteration or deletion must be signed or initialled.
- 3 A member should indicate by marking the box headed either FOR or AGAINST with an 'X' to show how he wishes his vote to be cast in respect of each of the resolutions set out in the Notice of Annual General Meeting. Unless so instructed, the proxy will vote or abstain as he thinks fit. The proxy will act at his discretion in relation to any other business arising at the Meeting (including any resolution to amend a resolution or to adjourn the Meeting).
- 4 In the case of a corporation this form of proxy should be given under its seal or signed on its behalf by an attorney or duly authorised officer. In the case of joint holders the form of proxy should be signed by the senior holder and the names of all joint holders should be shown.
- 5 Use of this form of proxy does not preclude a member from attending the Meeting and voting in person.
- 6 To be valid, this form of proxy must be lodged together with the power of attorney or other authority (if any) under which it is signed, or a notarily certified copy of such power or authority, at the Company's Registrars, Capita Registrars (Proxies), PO Box 25, Beckenham, Kent BR3 4BR, not less than 48 hours before the Meeting or any adjournment thereof or, in the case of a poll, not less than 48 hours before the time appointed for taking the poll.



THIRD FOLD AND TUCK IN

**BUSINESS REPLY SERVICE**  
Licence No. MB122



**Capita Registrars (Proxies)**

PO Box 25  
Beckenham  
Kent  
BR3 4BR

SECOND FOLD

FIRST FOLD



# Officers and Professional Advisers

**Directors** (all non-executive)

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

**Secretary**

J S Paisner

**Registered Number**

05279077

**Registered Office**

Bond Street House  
14 Clifford Street  
London W1S 4JU

**Investment Manager**

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

**Registrar**

Capita Registrars  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

**Administrator**

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

**Auditors**

Baker Tilly  
2 Bloomsbury Street  
London WC1B 3ST

**Sponsors and Solicitors**

Howard Kennedy  
19 Cavendish Square  
London W1A 2AW

**Bankers**

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

Bank of Scotland  
New Ueberior House  
11 Earl Grey Street  
Edinburgh EH3 9BN

**VCT Tax Adviser**

PricewaterhouseCoopers LLP  
1 Embankment Place  
London WC2N 6RH

**Custodian**

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

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

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