



SHORE CAPITAL



PUMA VCT III PLC

ANNUAL REPORT & ACCOUNTS 2010

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Highlights

- Fully diluted NAV per share of 92.05p at year end. This represents a 5% increase for the year after adjusting for the dividends paid in the period.
- Successful disposals during the year enabling a substantial return of capital.
- Further interim dividend of 10p per share to be paid on 25 July 2010.
- Cumulative dividends since inception (including further interim) of 21p per ordinary share.

Sir Aubrey Brocklebank Bt, Chairman of Puma VCT III plc (“the Company”), said:

“I am pleased to report upon a successful year for the VCT in which it achieved major progress in fulfilling its objectives. Several significant unquoted qualifying investments were realised successfully and the interim dividend of 10p is a continuing part of the process of returning capital to investors. The VCT continues to progress the realisation of its portfolio and the Board anticipates commencing the winding up of the fund on schedule in the summer of 2011.”



Cadbury House Limited.

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. During this year, the fourth for the VCT which began investing in Spring 2006, several significant unquoted qualifying investments were realised successfully and the interim dividend of 10p is a continuing part of the process of returning capital to investors.

The investment environment

At the start of the year the fund held a mixed portfolio of secured loans and equity in qualifying unquoted companies and qualifying AiM stocks, together with property related stocks, bonds, bond funds and absolute return funds. This period marked a turning point in sentiment in the financial markets. The fear of immediate banking defaults receded, quantitative easing began to take effect and interest rates reached their current low level.

In this new environment the stock market began a strong recovery from its low, led by distressed blue chip financial stocks. However the similarly distressed small and micro-cap recovered only somewhat and very selectively and remained plagued by a lack of liquidity. Although the AiM index's recovery saw a rise of 72%, much of this was accounted for by a bounce-back of resource related stocks, a sector of little relevance to VCTs.

NAV per share at the year end was 92.05p, after dividends paid during the year of 2.5p. This represents a fully diluted return of 5% for the year after adjusting for dividends paid in the period. Most elements of the portfolio contributed to this return in particular

the Company's qualifying AiM quoted stocks (which benefited from the market recovery and the cautious approach taken by the Investment Manager), Bonds and bond funds (which also performed well during the year), and the qualifying loans.

Venture capital and other qualifying investments

During the year the Company has 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%.

At the end of November 2009 the Company fully realised its holding in Cadbury House Limited ("Cadbury"). Between 2006 and 2007 the Company invested £2.34 million into Cadbury's hotel and health club development project which was completed in 2009. Over this period this investment generated an IRR of 5.7%.

In December 2009, Albemarle Contracting Limited and Heddon Services Limited, companies into which the VCT had invested £1.02 and £1 million respectively, were acquired by Forward Internet Group Limited (formerly TrafficBroker Limited) ("Forward"), a rapidly growing and highly profitable London based internet search engine specialist. The Company received shares and secured loan notes in Forward in consideration for the securities it held in Albemarle and Heddon.

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 has repaid the loan notes held by the

fund and the VCT now has only a small equity holding remaining which should be realised later this year. The VCT had increased its holding in Bond by £1.18 million in the first half of 2009 taking the total holding to £2.2 million before the redemption of the loan notes.

In March 2010, just subsequent to the year end, Stocklight Limited (a rare book dealer and the parent company of Bloomsbury Auctions) repaid its loan notes and bought back the equity held by the VCT.

Non-qualifying investments

There have also been significant realisations of the non-qualifying portfolio during the year. As mentioned in the Interim Statement of the Company, the holdings in Puma Brandenburg Limited and the fixed rate loan to Lakan Investments Limited have been fully realised.

The VCT subscribed for shares in the Hotel Corporation plc during the year as discussed in the Company's Interim Report and, subsequent to the year end, invested £250,000 in secured loan notes of INVU plc alongside Puma VCT IV plc. These loan notes bear an attractive coupon and the term coincides with the expected term of the VCT.

Throughout the year the Investment Manager subscribed into a range of bonds and bond funds with the aim of capitalising on the recovery of values in the market.

VAT

As discussed in last year's statement the Investment Manager had lodged a claim to the HMRC to recover £128,000 of VAT paid on management fees in earlier periods following a ruling in the European Court. I am

pleased to report that the VCT has recovered this sum in full plus interest for the period for which it was due.

Results and dividends

The VCT generated a total return after tax of £873,000, equating to a return per share of 4.47p from the combination of a recovering market and gains from successful realisations. Following several successful realisations the Board has declared a second interim dividend of 10p per ordinary share. The ex-dividend date will be 30 June 2010 and the record date 2 July 2010. Payment will be made to shareholders by 23 July 2010. This will bring cumulative dividends paid to date to 21p.

Annual General Meeting

The Annual General Meeting of the VCT will be held at Bond Street House, 14 Clifford Street, London, W1S 4JU on 26 August 2010 at 11.10am. Notice of the Annual General Meeting and Form of Proxy are inserted within the annual accounts.

Outlook

The VCT continues to progress the realisation of its portfolio and the Board anticipates commencing the winding up of the fund on schedule in the summer of 2011.

Sir Aubrey Brocklebank Bt

Chairman
30 June 2010

Investment Manager's Report

Overall Performance

In its fourth year, the Fund has produced a strong performance. As the country came out of recession, backed by low interest rates and quantitative easing, the stock market began a significant recovery. The Fund saw a return of value on its existing AIM stocks, holdings in Absolute Return Funds have also performed well plus we were able to derive strong returns by trading selected bonds and bond funds during the year. We are pleased to report that, as a result of these and other factors, the Fund has generated a fully diluted return of 5.0% for the year after adjusting for the 2.5p of dividends paid in the period leaving the Fund with a residual NAV of 92.05p per share at the year end.

Qualifying Investments – unquoted

This year has seen significant realisations in the unquoted qualifying portfolio. The fund realised in full its holding in Cadbury House Limited and sold its holdings in Albemarle Contracting Limited and Heddon Services Limited in exchange for secured loan notes and shares in Forward Internet Group Limited as discussed in the Chairman's Statement. At the year end the remaining unquoted portfolio consisted of Bond Contracting Limited and Stocklight Limited (subsequently sold) and four qualifying companies which are actively pursuing opportunities for significant qualifying business, Bruton, Kingly, Pollen and Saville Services Limited.

Puma VCT III plc invested a total of £2.2 million in Bond Contracting Limited ("Bond"). Bond was set-up to operate as a contractor within the leisure sector and actively sought to enter into contracting arrangements. It entered into a contract as master contractor to build a 141 room Holiday Inn hotel on the outskirts of Winchester which was completed in January 2010 and subsequently sold. Upon the sale of the hotel, Bond received full settlement of the contracting costs plus a margin. Upon receipt Bond redeemed in full its loan notes with the VCT. Including the value of the remaining



The Restaurant, Cadbury House Limited.

equity holding, the investment has generated a total return of 4% for the VCT which is a satisfactory result taking into account the difficult market conditions under which this project was completed.

Stocklight Limited, in which the VCT has invested £985,000, is a rare book dealer and the parent company of Bloomsbury Auctions, which has made progress expanding its book auction business both in the UK and overseas. Whilst trading for this business has been tough, subsequent to the year end, we successfully received full repayment of the loan notes. The equity held by the VCT was re-purchased by the company.

In last year's annual report and accounts to 28 February 2009 we discussed that the VCT had invested £6 million into a number of qualifying companies which are actively pursuing opportunities for significant qualifying business. We are pleased to report the £2 million of this, invested into Albemarle Contracting Limited and Heddon Services Limited, has been invested into Forward Internet Group, as discussed above. The remaining four companies which comprise the balance of the £6 million continue to pursue such



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

opportunities and with several strong deals in the pipeline we are satisfied that they will be fully invested well within the timeframe set out by the HMRC VCT guidelines.

Qualifying Investments – quoted

The Company made no additional qualifying investments into AiM quoted companies during the year aside from the exchange of securities in Clifford Contracting Limited for securities in Telford Homes plc. Excluding Telford, the remaining AiM stocks have recovered this year by 84%, from 28 February 2009 and outperforming the AiM index.

The Company's holding in Clifford Contracting Limited of £1.9 million was sold in June 2009 to Telford Homes plc in exchange for new shares and secured loan notes.

Vertu Motors plc, a volume retailer of both new and used cars, continues to perform well, gaining market share. In the year ending 31 March 2010, profit before tax increased to £4.6m from £0.7m in 2009, helped by acquisitions and organic growth. The company raised an additional £30m of equity adding 16 sales outlets in 2010, this further increased liquidity in the after market which will facilitate an exit. The new car market is predicted to rise aided by low interest rates and a weakened Euro. We expect Vertu to strengthen its market position in the current year, aided by £13m of net cash at year end.

Qualifying Investments – quoted

Clarity Commerce Solutions plc is a global supplier of end to end software solutions for the entertainment, hospitality and leisure sectors, Clarity posted 2010 interim results showing a year on year revenue increase of 10%. Strong cash management, plus the general ease in borrowing rates, reduced interest charges to a nominal level for the period – with a resultant doubling of profits in the six months to September 2009 against the same period in 2008. The Company raised £2.7m in 2009 through the issue of new shares, the proceeds being used to settle earn-outs and strengthen the balance sheet.

Mount Engineering plc owns three operating subsidiaries of established engineering brands, selling principally to the oil and gas sector. Despite a lower turnover in 2009, management took decisive action in the supply chain - improving margins by 5%. The company is well placed to continue developing its portfolio of brands and has a cash balance of £4.3m at year end.



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

Non-qualifying investments

We continued to reduce holdings in hedge funds to a lower level, redeeming the JP Morgan Progressive Multi-Strategy Fund Limited and part redeeming the Company's holding in the Puma Absolute Return Fund.

As discussed in the Company's Interim Statements we also fully redeemed our holdings in Puma Brandenburg and Lakan Investments in the year.

Our hedge fund allocations continue to perform strongly. We retain a position in BlackRock UK Emerging Companies Fund, an equity fund which has delivered positive returns in all market environments and the Puma Absolute Return Fund has also performed strongly over the fiscal year generating a return of 15.4%

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 proposed 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 2010

Investment Portfolio Summary

As at 28 February 2010

Investment	Valuation £'000	Original Cost £'000	Gain/(Loss) £'000	Valuation as % of NAV
Qualifying Investments - Unquoted				
Bruton Services Limited	995	1,000	(5)	6%
Bond Contracting Limited	194	394	(200)	1%
Kingly Services Limited	995	1,000	(5)	6%
Pollen Services Limited	995	1,000	(5)	6%
Saville Services Limited	995	1,000	(5)	6%
Stocklight Limited	985	985	–	5%
Forward Internet Group Limited (formerly Traffic Broker Limited)	2,000	2,000	–	10%
Qualifying Investments - Quoted				
Clarity Commerce Solutions plc	149	230	(81)	1%
Mount Engineering plc	166	188	(22)	1%
Sport Media Group plc	20	493	(473)	0%
Telford Homes Plc	1,888	1,888	–	10%
Vertu Motors plc	317	500	(183)	2%
Total Qualifying Investments	9,699	10,678	(979)	54%
Non - Qualifying Investments - Quoted				
Blackrock UK Emerging Cos Hedge Fund Limited *	1,188	800	388	7%
GLG Investments Vi Emerging Markets UCITS *	405	400	5	3%
HBOS Capital Funding 6.85% Perpetual Bonds ***	219	210	9	1%
Jupiter Unit Managers Strategic Bond Fund **	325	321	4	2%
Man Group 11% Perpetual Bonds *	218	207	11	1%
Puma Absolute Return Fund Limited *	2,006	1,855	151	11%
St Peter Port Capital Limited	385	700	(315)	2%
The Hotel Corporation plc	400	423	(23)	2%
Total Non - Qualifying Investments	5,146	4,916	230	29%
Total investments	14,845	15,594	(749)	83%
Cash at bank	2,983	2,983	–	16%
Net current assets	134	134	–	1%
Net assets	17,962	18,711	(749)	100%

Of the investments held at 28 February 2010 73 per cent (2009 – 73 per cent) are incorporated in England and Wales, 22 per cent (2009 – 20 per cent) in the Cayman Islands, 3 per cent (2009 – 2 per cent) in Europe and 3 per cent (2009 – 5 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

*** Listed on the Luxembourg Stock Exchange

A detailed analysis of the loan stock holdings is provided in note 18 on page 34.

Bruton, Kingley, 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):	194
Income received by the Company from this holding in the year (£'000):	–
Source of financial data –	
Last filed accounts:	30/04/09
Turnover (£'000):	4,454
Loss before tax (£'000):	(132)
Retained loss (£'000):	(132)
Net assets (£'000):	1,773
Earnings per share (p)	(0.00)
Dividends per share (p)	–
Proportion of equity held:	20%
Equity managed by Shore Capital Ltd:	60%

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.



Stocklight Limited www.shapero.com

Cost (£'000):	985
Investment comprises:	
Ordinary shares (£'000):	98
Debt (£'000):	887
Valuation method:	Discounted cashflow based on post year end redemption
Valuation (£'000):	985
Income received by the Company from this holding in the year (£'000):	115
Source of financial data –	
Last audited accounts:	31/12/07
Turnover (£'000):	15,173
Loss before tax (£'000):	(1,659)
Loss after tax (£'000):	(1,659)
Net assets (£'000):	5,307
Earnings per share (p)	(2.1)
Dividends per share (p)	–
Proportion of equity held:	1%
Equity managed by Shore Capital Ltd:	3%

Stocklight Limited owns 100 per cent of Bloomsbury Auctions and trades as Bernard J Shapero Rare Books, an internationally recognised dealer in antiquarian and rare books. Bernard Shapero, who owns the business with his business partner Tommaso Zanzotto, has been dealing in antiquarian books for over 20 years. Subsequent to the year end the VCT received full repayment of the loan notes. The equity was repurchased by the company.



Telford Homes plc

www.telfordhomes.plc.uk

Cost (£'000):	1,888
Investment comprises:	
Ordinary shares (£'000):	189
Debt (£'000):	1,699
Valuation method:	Price of recent investment
Valuation (£'000):	1,888
Income received by the Company from this holding in the year (£'000):	65
Source of financial data –	
Last audited accounts:	31/03/09
Turnover (£'000):	106,662
Profit before tax (£'000):	4,343
Profit after tax (£'000):	3,023
Net assets (£'000):	50,305
Earnings per share (p)	8.1
Dividends per share (p)	–
Proportion of equity held:	0.9%
Equity managed by Shore Capital Ltd:	3%

Telford Homes plc ("Telford"), the AiM listed residential property developer in East London noted for regeneration projects within public sector partnerships.

Forward Internet Group Limited (formerly Traffic Broker Limited)

Cost (£'000):	2,000
Investment comprises:	
Ordinary shares (£'000):	400
Debt (£'000):	1,600
Valuation method:	Price of recent investment
Valuation (£'000):	2,000
Income received by the Company from this holding in the year (£'000):	–
Source of financial data –	
Last filed accounts:	31/07/08
Turnover (£'000):	5,685
Profit before tax (£'000):	1,691
Retained Profit (£'000):	1,248
Net assets (£'000):	2,898
Earnings per share (p)	1.4
Dividends per share (p)	–
Proportion of equity held:	7%
Equity managed by Shore Capital Ltd:	18%

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.

Significant Investments continued

Puma Absolute Return Fund Limited

Cost (£'000):	1,855
Investment comprises:	
Ordinary shares (£'000):	1,855
Debt (£'000):	–
Valuation method:	NAV per share
Valuation (£'000):	2,006
Income received by the Company from this holding in the year (£'000):	–
Source of financial data –	
Last audited accounts:	30/04/09
Turnover (\$'000):	(20,787)
Profit before tax (\$'000):	(21,694)
Retained Profit (\$'000):	(21,694)
Net assets (\$'000):	30,630
Earnings per share (p)	n/a
Dividends per share (p)	–
Proportion of equity held:	9.7%
Equity managed by Shore Capital Ltd:	20%

Puma Absolute Return Fund Limited (PARF) is an absolute return fund of funds, investing across a range of third party investment managers. It diversifies its portfolio across a number of different investment styles.

Kingly Services Limited

Cost (£'000):	1,000
Investment comprises:	
Ordinary shares (£'000):	250
Debt (£'000):	750
Valuation method:	Net Assets
Valuation (£'000):	995
Income received by the Company from this holding in the year (£'000):	16
Source of financial data –	
Last audited accounts*:	–
Turnover (£'000):	–
Profit before tax (£'000):	–
Retained Profit (£'000):	–
Net assets (£'000):	–
Earnings per share (p)	–
Dividends per share (p)	–
Proportion of equity held:	50%
Equity managed by Shore Capital Ltd:	100%

* The Company is yet to file accounts

Kingly Services limited was incorporated in February 2009 and is actively pursuing opportunities for significant qualifying business.

Bruton Services Limited

Cost (£'000):	1,000
Investment comprises:	
Ordinary shares (£'000):	250
Debt (£'000):	750
Valuation method:	Net Assets
Valuation (£'000):	995
Income received by the Company from this holding in the year (£'000):	16
Source of financial data –	
Last audited accounts*:	–
Turnover (£'000):	–
Profit before tax (£'000):	–
Retained Profit (£'000):	–
Net assets (£'000):	–
Earnings per share (p)	–
Dividends per share (p)	–
Proportion of equity held:	50%
Equity managed by Shore Capital Ltd:	100%

* The Company is yet to file accounts

Bruton Services limited was incorporated in February 2009 and is actively pursuing opportunities for significant qualifying business.

Pollen Services Limited

Cost (£'000):	1,000
Investment comprises:	
Ordinary shares (£'000):	250
Debt (£'000):	750
Valuation method:	Net Assets
Valuation (£'000):	995
Income received by the Company from this holding in the year (£'000):	16
Source of financial data –	
Last audited accounts*:	–
Turnover (£'000):	–
Profit before tax (£'000):	–
Retained Profit (£'000):	–
Net assets (£'000):	–
Earnings per share (p)	–
Dividends per share (p)	–
Proportion of equity held:	50%
Equity managed by Shore Capital Ltd:	100%

* The Company is yet to file accounts

Pollen Services limited was incorporated in February 2009 and is actively pursuing opportunities for significant qualifying business.

Saville Services Limited

Cost (£'000):	1,000
Investment comprises:	
Ordinary shares (£'000):	250
Debt (£'000):	750
Valuation method:	Net Assets
Valuation (£'000):	995
Income received by the Company from this holding in the year (£'000):	16
Source of financial data –	
Last audited accounts*:	–
Turnover (£'000):	–
Profit before tax (£'000):	–
Retained Profit (£'000):	–
Net assets (£'000):	–
Earnings per share (p)	–
Dividends per share (p)	–
Proportion of equity held:	50%
Equity managed by Shore Capital Ltd:	100%

* The Company is yet to file accounts

Saville Services limited was incorporated in February 2009 and is actively pursuing opportunities for significant qualifying business.

Directors' Biographies

Sir Aubrey Brocklebank Bt, ACA (Chairman) (58)

Sir Aubrey worked for Guinness Mahon from 1981 to 1986, initially in its corporate finance department before assisting in the establishment of a specialist development capital department. From 1986 to 1990 he was a director of Venture Founders Limited, managing a £12 million venture capital fund, which had been raised to invest in early stage ventures. He managed the Avon Enterprise Fund (a venture capital fund of circa £4.5 million investing in approximately 20 companies) from 1990 until all investments had been realised in 1997. He is on the board of eight other VCTs, the Downing Distribution VCT 1 plc (as chairman), Keydata AiM VCT plc and Keydata AiM VCT II plc (both as chairman), Close Second AiM VCT plc and Pennine 6 VCT plc (both as a non-executive director), Puma VCT plc, Puma VCT II plc and Puma VCT IV plc (as chairman). He is and has also been a director of a number of companies, some of which are, or have been, quoted on AiM.

David Michael Brock (60)

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 (54)

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 Shore Capital-promoted development capital funds Puma I, the JellyWorks portfolio, Puma II and the Puma VCTs. This has involved the evaluation of new deals 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.

Report of the Directors

The Directors present their annual report and the audited financial statements of the Company for the year to 28 February 2010.

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 has been granted provisional approval by the Inland Revenue under Section 274 of the Income and Corporation Taxes Act 2007 as a Venture Capital Trust for the year ended 28 February 2010. 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 28 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 prospectus at 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.

Report of the Directors continued

Results and dividends

The results for the financial year are set out on page 20. The Directors do not propose a final dividend (2009 – 2.5p). 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 2010, 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 uncertificated 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.

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

The Directors of the Company during the year and their beneficial interests in the issued ordinary shares of the Company at 1 March 2009 and 28 February 2010 were as follows:

	1p ordinary shares	
	28 February 2010	1 March 2009
Sir A T Brocklebank Bt, ACA (Chairman)	10,000	10,000
D M Brock	5,000	5,000
Graham Shore (appointed 27 June 2008)	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.

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

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 2010, 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 as follows:

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 2009 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.

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 2010 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.

	Position at 28 Feb 2010
1. The Company holds at least 70% of its investments in qualifying companies,	84.78%
2. At least 30% of the Company's qualifying investments are held in "eligible shares";	35.39%
3. No investment constitutes more than 15% of the Company's portfolio at time of investment;	Complied
4. The Company's income for each financial year is derived wholly or mainly from shares and securities;	96.79%
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	Complied
6. A maximum unit size of £1 million in each VCT qualifying investment (per tax year).	Complied

Report of the Directors continued

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 August 2010 at 11.10am. 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. They are also responsible for ensuring the Annual Report includes information required by the Listing and Disclosure and Transparency Rules of the Financial Services Authority.

Company law and the Disclosure and Transparency Rules requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 10 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 3 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 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 2010

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 26 August 2010.

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 £14,000 (including VAT) as set out in note 5.

The Directors contracts are discussed in point (g) in the Corporate Governance Statement on page 16.

Directors' Remuneration

The Directors received annualised emoluments as detailed below:

	Unaudited Current Annual Fee £	Audited 2010 £	Audited 2009 £
Sir A T Brocklebank Bt, ACA (Chairman)	7,500	7,500	7,500
D M Brock	6,000	6,000	6,000
Graham Shore *	–	–	–
	13,500	13,500	13,500

* No fee is paid to Graham Shore, due to his position as 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 10.

2011 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

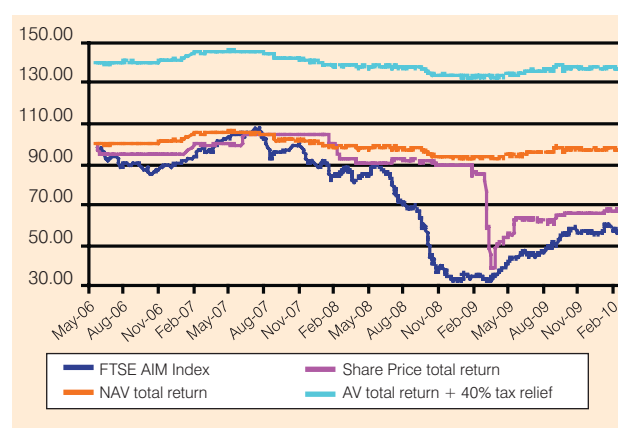
the Directors or general meetings or otherwise in connection with the discharge of their duties.

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

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

Performance Graph

The following chart represents the Company's performance 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

Sir Aubrey Brocklebank Bt

Chairman

30 June 2010

Corporate Governance Statement

The Directors support the relevant principles of the new Combined Code issued in June 2008 and published on the Financial Reporting Council's Website (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 has appointed Sir Aubrey Brocklebank as the senior independent Director who is also the Chairman. Biographical details of all Board members are shown on page 10.

Aubrey Brocklebank 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 Aubrey Brocklebank 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	4/4
D M Brock	4/4
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 15, 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.

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 11, and a statement by the auditors about their reporting responsibilities is set out in the Auditor's Report on page 19.

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

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 whereby the auditors are the same auditors as other VCTs managed by the Investment Manager and thus controls are tested on a frequent basis. Further to this, the Audit Partner has open access to the Directors of the VCT 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 2010 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 Aubrey Brocklebank. 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 board consists of a majority of non-executive Directors as recommended by C3-1 of the Combined Code. The Directors consider that the role and responsibility of the audit committee as set-out in provisions C3-1 to C3-6 have been adopted by the full board. Relevant matters were dealt with by the full Board.

Corporate Governance Statement continued

- 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 there have been no changes to the Board of the Directors and the Directors remuneration remains unchanged.
- g) Provision A7-2 - On 5 December 2005 (27 June 2008 for G Shore), 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.
- h) Provision A3-1 - the Directors are not considered to be independent as they hold common directorships under the same Investment Manager. The Board considers that the Directors have sufficient experience to exercise proper judgment within the meaning set out by the Combined Code.

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

We have audited the financial statements on pages 20 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 14, 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 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/UKP.

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 2010 and of its result 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 16 to 18 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 13, in relation to going concern; and
- the part of the Corporate Governance Statement on pages 16 to 18 relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

RICHARD WHITE (Senior Statutory Auditor)
For and on behalf of BAKER TILLY UK AUDIT LLP,
Statutory Auditor
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST
30 June 2010

Income Statement

For the year ended 28 February 2010

	Note	For the year to 28 February 2010			For the period to 28 February 2009		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains/(losses) on investments	9 (c)	–	663	663	–	(1,494)	(1,494)
Income	2	610	–	610	994	–	994
		610	663	1,273	994	(1,494)	(500)
Investment management fees	3	63	188	251	113	340	453
Performance fees	4	–	–	–	–	–	–
Other expenses	5	105	–	105	147	–	147
		168	188	356	260	340	600
Return/(loss) on ordinary activities before taxation		442	475	917	734	(1,834)	(1,100)
Tax on ordinary activities	6	(84)	40	(44)	(138)	102	(36)
Return/(loss) after taxation attributable to equity shareholders		358	515	873	596	(1,732)	(1,136)
Basic and diluted return/(loss) per Ordinary Share (pence)	7	1.83p	2.64p	4.47p	3.05p	(8.88)p	(5.83)p

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 24 to 38 are an integral part of the financial statements.

Balance Sheet

As at 28 February 2010

	Note	As at 28 February 2010 £'000	As at 28 February 2009 £'000
Fixed Assets			
Investments	9(a)	14,845	17,214
Current Assets			
Debtors	10	301	242
Cash at bank and in hand		2,983	255
Creditors - amounts falling due within one year		3,284	497
	11	(166)	(133)
Net Current Assets		3,118	364
Total Assets less Current Liabilities		17,963	17,578
Creditors - amounts falling due after more than one year (including convertible debt)		(1)	(1)
	12		
Net Assets		17,962	17,577
Capital and Reserves			
Called up share capital	13	195	195
Capital reserve – realised	14	(1,037)	(559)
Capital reserve – unrealised	14	(762)	(1,755)
Other reserve	14	–	–
Revenue reserve	14	19,566	19,696
Equity Shareholders' Funds		17,962	17,577
Basic and Diluted Net Asset Value per Ordinary Share		92.05p	90.08p
	15		

The financial statements were approved and authorised for issue by the Board of Directors on 30 June 2010 and were signed on their behalf by:

Graham Shore

Director
30 June 2010

The accompanying notes on pages 24 to 38 are an integral part of the financial statements.

Cash Flow Statement

For the year ended 28 February 2010

	Note	For the year to 28 February 2010 £'000	For the period to 28 February 2009 £'000
Operating activities			
Interest income received		719	864
Dividend income received		21	74
Investment management fees paid		(377)	(508)
Directors fees paid		(14)	(18)
Foreign exchange loss on cash		(1)	(46)
Other expenses paid		(76)	(135)
Net cash inflow from operating activities	16	272	231
Equity dividend paid		(488)	(293)
Taxation paid		(37)	–
Capital expenditure and financial investment			
Purchase of investments		(3,311)	(7,678)
Proceeds from sale of investments		6,295	3,979
Net realised gain/(loss) on forward foreign exchange contracts		18	(205)
Transaction costs		(21)	–
Net cash inflow/(outflow) from capital expenditure and financial investment		2,981	(3,904)
Cash inflow/(outflow) in the year/period		2,728	(3,966)
Reconciliation of net cash flow to movement in net funds			
Increase/(decrease) in cash for the year/period		2,728	(3,966)
Net funds at start of the year/period		255	4,221
Net funds at the year/period end		2,983	255

The accompanying notes on pages 24 to 38 are an integral part of the financial statements.

Reconciliation of Movements in Shareholders' Funds

For the year ended 28 February 2010

	For the year to 28 February 2010					
	Called up share capital £'000	Capital reserve- realised £'000	Capital reserve- unrealised £'000	Other reserve £'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)
At 28 February 2010	195	(1,037)	(762)	–	19,566	17,962

	For the period to 28 February 2009					
	Called up share capital £'000	Capital reserve- realised £'000	Capital reserve- unrealised £'000	Other reserve £'000	Revenue reserve £'000	Total £'000
At 1 January 2008	195	(110)	(405)	–	19,326	19,006
Return/(loss) after taxation attributable to equity shareholders	–	(449)	(1,350)	–	663	(1,136)
Equity dividend paid	–	–	–	–	(293)	(293)
At 28 February 2009	195	(559)	(1,755)	–	19,696	17,577

The accompanying notes on pages 24 to 38 are an integral part of the financial statements.

Notes to the Accounts

For the year ended 28 February 2010

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 £873,000 (2009 a net loss of £1,136,000) as per the Income Statement on page 20 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 11. 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: 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.

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.

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 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.

Comparative period

The comparative figures represent the period from 1 January 2008 to 28 February 2009.

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.

Notes to the Accounts continued

For the year ended 28 February 2010

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 2010 £'000	Period to 28 February 2009 £'000
Income from investments		
Loan stock interest	543	729
Dividend income	21	74
Investment fee rebate	19	43
Other income	17	41
	600	887
Other income		
Bank deposit interest	2	107
Interest on VAT recovered	8	–
	610	994

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

3. Investment Management Fees

	Year to 28 February 2010 £'000	Period to 28 February 2009 £'000
Shore Capital Limited	379	453
VAT recovered	(128)	–
	251	453

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% of the year end Net Asset Value (2009 – 3.4%).

During the year the Investment Manager submitted a reclaim on behalf of the Company of £128,000 of VAT paid on Management fees to the HMRC following a recent European Union ruling. The reclaim is for VAT paid on management fees from the period 1 March 2006 to 31 August 2008. No VAT has been charged on management fees from September 2008 onwards. A sum of £135,715 was received by the Company subsequent to the year end being the sum of the full reclaim amount plus interest.

4. Performance Fees

	Year to 28 February 2010 £'000	Period to 28 February 2009 £'000
Shore Capital Limited	–	–

5. Other expenses

	Year to 28 February 2010 £'000	Period to 28 February 2009 £'000
Administration - Shore Capital Fund Administration Services Limited	44	80
Directors' remuneration	14	17
Auditor's remuneration for statutory audit	14	14
Insurance	2	3
Legal and professional fees	9	7
FSA, LSE and registrar fees	16	15
Custody charges	–	–
Other expenses	6	11
	105	147

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 15. The Company had no employees (other than Directors) during the year. The average number of non-executive Directors during the year was 3 (2009 – 3).

Notes to the Accounts continued

For the year ended 28 February 2010

6. Tax on Ordinary Activities

	Year to 28 February 2010 £'000	Period to 28 February 2009 £'000
UK corporation tax charged to revenue reserve	(84)	(138)
UK corporation tax credited to capital reserve	40	102
(a) UK corporation tax charge for the year/period	(44)	(36)
(b) Factors affecting tax charge for the year/period		
Revenue/(loss) return on ordinary activities before taxation	917	(1,100)
Tax charge calculated on total return/(loss) on ordinary activities before taxation at the applicable rate of 21% (2009 – 21%)	193	(231)
Effects of:		
Taxable losses b/fwd	–	(31)
Non taxable UK dividend income	(8)	(16)
Non taxable Capital (income)/loss	(102)	385
Capital expenses in year/period	(39)	(71)
Total current tax charge	44	36

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 year. 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 2010			Period ended 28 February 2009		
	Revenue	Capital	Total	Revenue	Capital	Total
Return/loss for the year/period	358,000	515,000	873,000	596,000	(1,732,000)	(1,136,000)
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	1.83p	2.64p	4.47p	3.05p	(8.88)p	(5.83)p

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

8. Dividends

	Year ended 28 February 2010 £'000	Period ended 28 February 2009 £'000
Paid in year/period		
2009 Final revenue dividend	488	–
2008 Final revenue dividend	–	293

In respect of the current year, the directors approved interim dividends of 7p, paid on 28 May 2010, and 10p, to be paid on 23 July 2010, these have not been included as a liability in these statements. The directors do not propose a final dividend (2009 final – 2.5p).

9. Investments

(a) Summary	Historic Cost as at 28 February 2010 £'000	Market Value as at 28 February 2010 £'000	Historic Cost as at 28 February 2009 £'000	Market Value as at 28 February 2009 £'000
Qualifying venture capital investments	10,678	9,699	13,621	12,564
Non - qualifying investments	4,916	5,146	5,362	4,650
	15,594	14,845	18,983	17,214

(b) Movements in investments	Venture capital investments £'000	Hedge funds & equity investments £'000	Total £'000
Opening book cost at 28 February 2009	13,621	5,362	18,983
Unrealised losses at 28 February 2009	(1,057)	(712)	(1,769)
Valuation at 28 February 2009	12,564	4,650	17,214
Purchases at cost	5,093	2,106	7,199
Disposals – proceeds	(8,181)	(2,081)	(10,262)
– realised net gains/(losses) on disposal	145	(470)	(325)
Net unrealised gains on revaluation of investments	78	941	1,019
Valuation at 28 February 2010	9,699	5,146	14,845
Book cost at 28 February 2010	10,678	4,916	15,594
Net unrealised (losses)/gains at 28 February 2010	(979)	230	(749)
Valuation at 28 February 2010	9,699	5,146	14,845

Notes to the Accounts continued

For the year ended 28 February 2010

9. Investments continued

(c) Gains (losses) on investments

The gains/(losses) on investments for the year shown in the Income Statement on page 20 is analysed as follows:

	Year to 28 February 2010 £'000	Period to 28 February 2009 £'000
Realised gains on disposal	(399)	(35)
Foreign exchange gains/(losses) - realised	90	(176)
Foreign exchange (losses)/gains - unrealised on forward foreign exchange contracts	(9)	94
Transaction costs	(21)	-
Foreign exchange (losses)/gains - unrealised on investments	(109)	121
Net unrealised gains/(losses) on revaluation in respect of investments held at the year/period end	1,111	(1,498)
	663	(1,494)

(d) Quoted and unquoted investments	Historic Cost as at 28 February 2010 £'000	Market Value as at 28 February 2010 £'000	Historic Cost as at 28 February 2009 £'000	Market Value as at 28 February 2009 £'000
Quoted investments	6,516	5,987	6,466	4,624
Unquoted investments	9,078	8,858	12,517	12,590
	15,594	14,845	18,983	17,214

(e) Disposals of unquoted investments in the year	Net disposal proceeds £'000	Cost £'000	Market Value as at 28 February 2009 £'000
Clifford Contracting Limited	1,890	1,890	1,890
Redemption of Lakan Investments loan	374	307	380
Cadbury House Limited	2,335	2,335	2,335
Albemarle Contracting Limited	1,015	1,023	1,000
Heddon Services Limited	990	1,000	1,000
Part redemption of Bond Contracting Limited	1,869	2,182	1,000
	8,473	8,737	7,605

It is the Company's policy to exercise either significant or controlling influence over investee companies.

10. Debtors

	2010 £'000	2009 £'000
Fair value of forward foreign exchange contracts	-	14
Prepayments and accrued income	301	228
	301	242

11. Creditors – amounts falling due within one year

	2010 £'000	2009 £'000
Fair value of forward foreign exchange contracts	(9)	–
Accrued management and administration costs	(157)	(133)
	(166)	(133)

Included in creditors or debtors in notes 10 and 11 above is the fair value of the forward foreign exchange contracts held to hedge the Company's foreign currency denominated assets (see Note 1).

	2010 £'000		2009 £'000	
	Assets	Liabilities	Assets	Liabilities
Forward foreign exchange contracts – \$ USD	–	(9)	–	–
Forward foreign exchange contracts – € EUR	–	–	14	–
	–	(9)	14	–

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

	2010 £'000	2009 £'000
Loan Notes	(1)	(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 21).

Notes to the Accounts continued

For the year ended 28 February 2010

13. Called Up Share Capital

	2010 £'000	2009 £'000
Authorised:		
35,000,000 ordinary shares of 1p each (2009: 35,000,000)	350	350
Allotted and fully paid:		
19,512,692 ordinary shares of 1p each (2009: 19,512,692)	195	195

The Company did not issue any shares during the year ended 28 February 2010.

14. Capital and Reserves

	Capital reserve- realised £'000	Capital reserve- unrealised £'000	Revenue reserve £'000	Total £'000
At 1 March 2009	(599)	(1,755)	19,696	17,382
Net losses on realisation of investments	(399)	–	–	(399)
Foreign exchange gain realised	90	–	–	90
Net unrealised gains on revaluation of investments, forward foreign exchange contracts and cash	–	993	–	993
Transaction costs	(21)	–	–	(21)
Management fees charged to capital	(188)	–	–	(188)
Performance fee charged to capital	–	–	–	–
Retained net revenue for the year	–	–	358	358
Taxation relief on capital expenses	40	–	–	40
Equity dividend paid	–	–	(488)	(488)
Balance at 28 February 2010	(1,037)	(762)	19,566	17,767

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.

Distributable reserves comprise: Capital reserve-realised, Capital reserve unrealised and the Revenue reserve. At the year end there were £17,767,000 (2009 - £17,382,000) 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.

15. Net Asset Value per Ordinary Share

	2010		2009	
	Basic	Diluted	Basic	Diluted
Net assets (£)	17,962,000	17,962,000	17,577,000	17,577,000
Number of Ordinary Shares	19,512,692	19,512,692	19,512,692	19,512,692
Net Assets Value per Ordinary Share (p)	92.05p	92.05p	90.08p	90.08p

There is a dilution impact from the future issuance of additional shares to effect the performance fee payable to the Investment Manager. Although the conditions of the performance fee have not been met at the year-end, the following disclosure has been provided to show the impact as if the performance fee was effected at the year end (see note 1). No performance fees were payable to the Investment Manager hence there was no dilution impact as at 28 February 2010.

Calculation of number of shares

	2010		2009	
	Basic	Diluted	Basic	Diluted
Number of Ordinary Shares	19,512,692	19,512,692	19,512,692	19,512,692
Dilutive effect of performance fee (see note 1)	–	–	–	–
At 28 February	19,512,692	19,512,692	19,512,692	19,512,692

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

	2010 £'000	2009 £'000
Total return/(loss) before taxation	917	(1,100)
(Gains)/losses on investments	(663)	1,494
Decrease/(increase) in debtors	3	(56)
Increase/(decrease) in creditors	16	(61)
Foreign exchange loss on cash	(1)	(46)
Net cash inflow from operating activities	272	231

17. Analysis of Changes in Net Funds

	2010 £'000	2009 £'000
Beginning of year/period	255	4,221
Net cash inflow/(outflow)	2,728	(3,966)
As at year/period-end	2,983	255

Notes to the Accounts continued

For the year ended 28 February 2010

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 cashflow 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 represented 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 2010:

	2010 £'000	2009 £'000
Assets at fair value through profit or loss		
Investments managed through Shore Capital Limited	14,845	17,214
Loans and receivables		
Cash at bank and in hand	2,983	255
Interest, dividends and other receivables	301	242
Other financial liabilities		
Financial liabilities measured at amortised cost	(167)	(134)
	17,962	17,577

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:

	2010 £'000	2009 £'000
Investments in fixed interest instruments	4,775	3,002
Investments in floating rate instruments	3,000	6,756
Cash and cash equivalents	2,983	255
Interest, dividends and other receivables	301	242
	11,059	10,255

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.

18. Financial Instruments continued

All the quoted assets of the Company are held by Pershing Securities Limited, the Company's custodian. 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.

Substantially all of the cash 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.

Credit risk associated with interest, dividends and other receivables are predominantly covered by the investment management procedures.

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 11. 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.

5 per cent of the Company's investments are in Bonds and Bond funds traded on AiM, listed on the London Stock Exchange or other similar exchanges, 11 per cent are in equities also traded on AiM. 24 per cent of the Company's investments are quoted hedge funds and 60 per cent are unquoted 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.

		2010 £'000	2009 £'000
Quoted equities	+/-	81	60
Quoted bonds and bond funds	+/-	38	-
Quoted hedge funds	+/-	180	172
Unquoted investments	+/-	443	630
		742	862

Notes to the Accounts continued

For the year ended 28 February 2010

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 2010 these investments were valued at £8,781,000 (2009: £4,879,000).

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 2010. 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 Albemarle, Bond and Clifford Contracting and with Bruton, Heddon, Kingley, Pollen and Saville Services are also subject to movements in the base rate. During the year, the Company earned interest income from holdings in commercial paper and 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 2010.

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	2010 £'000	2009 £'000
Cash at bank	Floating rate *	0.9%		2,983	255
Albemarle Contracting loan note	Floating rate	2.52%	Redeemed	–	700
Bond Contracting loan note	Floating rate **	3.61%	Redeemed	–	606
Clifford Contracting loan note	Floating rate	2.52%	Redeemed	–	1,700
Bruton Services loan note	Floating rate	2.5%	9 years	750	750
Heddon Services loan note	Floating rate	2.5%	Redeemed	–	750
Kingly Services loan note	Floating rate	2.5%	9 years	750	750
Pollen Services loan note	Floating rate	2.5%	9 years	750	750
Saville Services loan note	Floating rate	2.5%	9 years	750	750
Forward Internet Group loan note	Fixed rate	8.125%	4 years	2,000	–
Telford Homes loan note	Fixed rate	8.88%	4 years	1,888	–
Cadbury House loan stock C units	Fixed rate	7%	Redeemed	–	1,400
Cadbury House loan stock B units	Fixed rate	11%	Redeemed	–	335
Stocklight loan stock	Fixed rate	9%	1 month	591	591
Stocklight loan stock D units	Fixed rate	13.33%	1 month	296	205
Stocklight loan stock D units	Fixed rate	8.9%	1 month	–	91
Lakan investments	Fixed rate	18.44%	Redeemed	–	380
Balance of assets	Non-interest bearing			7,371	7,699
				18,129	17,712

* Benchmark rate is Bank of England base rate, 0.5% at the year end

** Benchmark rate is UK 3 month LIBOR

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 loss for the year by £69,000 (2009: increased the net assets and profit by £82,000). 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 £437,000 (2009 - £393,000) representing 2 per cent (2009 - 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 £9,000 (2009 - profit of £14,000) and are recorded in the Capital Reserve - unrealised. The notional principal amounts of the outstanding forward foreign currency exchange contracts at 28 February 2010 were £434,000 (2009 - £393,000).

Notes to the Accounts continued

For the year ended 28 February 2010

18. Financial Instruments (continued)

Fair value hierarchy

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

Year ended 28 February 2010	Level 1 'Quoted prices'	Level 2 'Observable inputs'	Level 3 'Unobservable inputs'	Total
Financial assets				
At fair value through profit and loss	5,444	543	8,858	14,845

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 cashflow 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.

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 £251,000 (2009 – £453,000) was due in respect of investment management fees. The balance owing to Shore Capital Limited at year-end was £58,000 (2009 - £57,000).

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 £44,000 (2009 - £80,000) was due in respect of these services. The balance owing to Shore Capital Fund Administration Services Limited at year-end was £10,000 (2009 - £10,000).

22. Subsequent events

Subsequent to the year end the Company realised its holding in Stocklight Ltd as discussed in the Investment Managers Report on page 4.

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 26 August 2010 at 11.10 a.m. (or as soon thereafter as the annual general meeting of Puma VCT II plc called for 11.05 a.m. on 26 August 2010 shall have been concluded) for the following purposes:

Ordinary Business

- 1 To approve and adopt the Accounts for the financial period ended 28 February 2010, together with the reports of the Directors and Auditors thereon.
- 2 To re-elect Aubrey Brocklebank as a director who retires pursuant to article 118 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.
- 4 To approve the policy set out in the Remuneration Report in the Annual Report and Accounts 2010.

BY ORDER OF THE BOARD

Eliot Kaye
Company Secretary

Dated: 30 July 2010

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/.

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, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU or electronically at vctproxies@shorecap.co.uk, 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.
- (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, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. In the case of a member

Puma VCT III plc

Notice of Annual General Meeting continued

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 vctproxies@shorecap.co.uk.

In either case, the revocation notice must be received by the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU 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 11 am. on 14 August 2010 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 11 am on 14 August 2010 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 30 July 2010, the Company's issued share capital comprised 19,512,692 Ordinary Shares. The total number of voting rights in the Company as at 30 July 2010 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, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU on 0871 664 0300 (calls cost 10p per minute plus network extras) (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: Information about the Director who is proposed by the Board for re-election at the Annual General Meeting is shown in the Annual Report and Accounts 2010.

Officers and Professional Advisers

Directors

Sir A T Brocklebank Bt, ACA
(Chairman and senior independent
director) *

D M Brock *

G B Shore *

* 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

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

Auditor

Baker Tilly UK Audit LLP

Chartered Accountants

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

VCT Tax Advisor

PricewaterhouseCoopers LLP

1 Embankment Place

London WC2N 6RH

Custodians

Pershing Securities Limited

Capstan House

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