

**Marwyn Value Investors Limited**  
Annual Report and Accounts 2006



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## Chairman's Statement

I am pleased to present to shareholders the Company's first annual report for the period ended 31 December 2006.

The Company was admitted to trading on the Alternative Investment Market ("AIM") of the London Stock Exchange plc on 23 February 2006 raising £15,000,000 from the issue of 15 million ordinary shares at £1 together with the issue of 7.5 million Series One Warrants and 7.5 million Series Two Warrants.

During the period the Company sought to achieve its investment objective to maximise its total return through the capital appreciation of its investment through taking a partnership interest in the Marwyn Neptune Fund LP (the "Master Fund") using all its available assets.

To 31 December 2006, the Company increased its net asset value per share by 48.6 pence, representing a return of 50.9% over the nine month period. As at 31 December 2006, the net asset value ("NAV") per share of the Company was 144.0 pence, the price of an ordinary share was 118.5 pence and the value of each Series One Warrant and Series Two Warrant were 16.3 pence and 14.8 pence respectively. On a fully diluted basis, as at 31 December the price of an ordinary share represented a discount to the underlying NAV per ordinary share of 17.7%.

The Board of Directors may, pursuant to powers enshrined in the constitutional documents of the Company, purchase ordinary shares in the event that they consider the share price discount to the NAV per share to be too great. To date, your Board has not felt it necessary or appropriate to make use of this power, which will expire at the Company's first Annual General Meeting on 20 July 2007. It is the Board's intention to seek the renewal of this authority each year and accordingly a resolution to this effect will be placed before shareholders at the first Annual General Meeting.

The Series One Warrants were called at the option of the Company on 22 March 2007.

The 50.9% increase in the NAV reflects the strong performance of the Master Fund during the period and the Board continues to be optimistic that a satisfactory return will be achieved in 2007.

I look forward to welcoming shareholders to our first Annual General Meeting to be held at Martello Court, Admiral Park, St Peter Port, Guernsey GY1 3HB.

**David Williams**  
Chairman  
26 June 2007

## Investment Manager's Report

Our investment strategy is to identify, support, invest in and work alongside experienced operational managers with strong, demonstrable track records for building and managing small and mid-cap UK, European and North American businesses (under £1bn) with the aim of combining private equity and public market best practice and disciplines to deliver investment returns.

We overlay our requirements for minimum levels of operating profitability and cash generation, on top of this central theme of strong management and have a preference for sectors undergoing structural, technical or regulatory change; this includes conventional regulated industries, such as environmental services, water and utilities, financial services and insurance, to those sectors undergoing specific structural and/or technical change including the leisure, gaming and food and beverages.

We believe that an environment of change within an industry creates real opportunities for management with the right aptitude and experience to create significant investment returns as the remainder of the market continues to overlook the opportunities.

The Company was floated on AIM on 23 February 2006 to allow a broad spectrum of investors to gain exposure to the strategy pursued by the Marwyn Neptune Fund LP.

Taking into account the costs of establishing and listing the Company, the NAV of the Company grew by 50.9% to 31 December 2006.

Notable investments during this period include Silverdell Plc (ticker: SID) a UK asbestos and environmental services business; Concateno Plc (ticker: COT); a drug and alcohol testing business; Zetar Plc (ticker: ZTR) a nut-free confectionery and healthy snack manufacturer; and Inspicio Plc (ticker: INP) a global testing and inspection business which, among other things, operates oil, minerals, food and soil testing laboratories internationally.

We maintain a very positive outlook for the year to come with a strong pipeline of follow on investment opportunities within the existing companies as well as excellent management teams to lead the launch of new strategies.

### Investment Manager history

Marwyn was founded in 2002 by David Williams, Mark Watts and James Corsellis and is wholly owned by management. Based in London and Jersey, Marwyn employs 21 professionals from investment, legal, accounting and M&A backgrounds and is supported by a team of industry experienced sector specialists. Marwyn's principals all come from strong operational backgrounds having built businesses across a wide range of sectors including environmental services, financial services and reinsurance, automotive, technology, property, leisure and gaming. Since August 2004, Marwyn has launched eleven sector specific investment vehicles raising over £800 million in 30 transactions to support the acquisition of companies within their specific strategies.

**James Corsellis and Mark Watts**  
Marwyn Investment Management LLP  
26 June 2007

## Directors

### **David Williams** Chairman

David (54) has 36 years' experience in the investment market. He has served as Chairman in both Executive and Non-executive capacities for a number of companies, both public and private. He has overseen the development of these companies through both organic and acquisitive growth as well as dealing with turnaround situations. David is currently Chairman of Aldgate Capital plc, Entertainment One Limited, Silverdell plc, Augean plc, Drury Lane Capital plc, and Zetar plc as well as Marwyn Investment Group Limited, Marwyn Value Investors II Limited and associated companies.

### **Robert Ware** Executive Director

Robert (52) served first as corporate development director and then as deputy chief executive of MEPC between June 1997 and June 2003. MEPC was the fourth largest property company quoted on the London Stock Exchange until September 2000 when Leconport Estates, a company jointly owned by clients of Hermes Pensions Management Limited and GE Real Estate, took the company private. Over the six year period in which he was employed at MEPC, Robert and his team realised over £6 billion of international properties and invested over £2 billion, mainly in the UK. Prior to joining MEPC, Robert served as a Director of Development Securities plc between 1988 and 1994. In 1994, he left to take up the position of managing director of Dunton Group plc, where he stayed until November 1996. Robert is also currently Chief Executive Officer of the Conygar Investment Company plc, an AIM quoted property investment and development company formed by Robert and members of the ex-MEPC team. He is a Non-executive Director of Tarsus Group plc (where he is a Senior Non-executive Director), Raven Mount plc, and an Executive Director of Marwyn Value Investors II Limited. He is Chairman of the Remuneration Committee at Tarsus Group plc and Raven Mount plc. Robert is a fellow of the Institute of Chartered Accountants in England and Wales.

### **David Warr** Non-executive Director

David (53) is resident in Guernsey and joined the accountancy practice of Reads & Co in 1972. He qualified as a Chartered Accountant in 1976 and is a fellow of the Institute of Chartered Accountants in England and Wales. David became a partner in Reads & Co in 1981 and held a variety of executive positions within the firm helping to develop it into a broadly based financial services business. The business was sold in 1999 and is now part of the Fortis Guernsey Group. David is currently an executive director of Fortis Reads International Management Limited and in that capacity acts for a number of substantial trust clients. David is a non-executive director of Marwyn Value Investors II Limited in addition to a number of other funds and quoted companies.

### **Ian Clarke** Non-executive Director

Ian (41) moved to Guernsey, where he is now resident, in 1987 and has specialised in providing offshore fiduciary services since then. Ian is a Director of Fortis Funds Services (Guernsey) Limited, part of the Fortis Guernsey Group and is responsible for the administration of a number of closed ended property funds and AIM listed investment vehicles. In addition, Ian has experience in managing complex trust and corporate structures. Ian is a non-executive director of Marwyn Value Investors II Limited.

## Report of the Directors

### Directors' responsibilities

The Directors are responsible for preparing financial statements for each financial year which 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 and are in accordance with applicable laws. In preparing those financial statements the Directors are required to:

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and International Accounting Standards ("IAS") and Standing Interpretations approved by the International Accounting Standards Committee ("IASC") that remain in effect, together with the applicable legal and regulatory requirements of The Companies (Guernsey) Law 1994 and the AIM Rules published by the London Stock Exchange. 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.

### Status and activities

The Company is a closed ended investment company registered under the provisions of The Companies (Guernsey) Law, 1994.

The Company was incorporated on 20 January 2006 and its securities began trading on the Alternative Investment Market of the London Stock Exchange on 23 February 2006 with a placing of 15,000,000 ordinary shares of 10 pence each, 7,500,000 Series One Warrants and 7,500,000 Series Two Warrants.

The Company's Investment objective is to maximise its total return primarily through the capital appreciation of its investment in Marwyn Neptune Fund LP ("Master Fund").

### Results and dividends

The results attributable to the shareholders for the period and the transfer to reserves are shown in the Income Statement.

The Directors do not recommend a dividend for the period.

### Directors and their interests

The Directors of the Company who served during the period were:

David Jeffreys Williams  
David John Warr  
Ian Geoffrey Clarke  
Robert Thomas Ernest Ware

At 31 December 2006 the Directors' interests in the ordinary shares and Warrants of the Company were as follows:

	Ordinary shares	Series One Warrants	Series Two Warrants
David Jeffreys Williams	500,000	250,000	250,000
David John Warr	100,000	50,000	50,000
Ian Geoffrey Clarke	—	—	—
Robert Thomas Ernest Ware	250,000	125,000	125,000

There have been no changes in the interests of the Directors since 31 December 2006, other than the exercising, in full, of the Series One Warrants, held by David Williams, David Warr and Robert Ware.

### Directors' remuneration

The emoluments of the individual Directors for the period were as follows:

	Period ending 31 December 2006
David Jeffreys Williams	£12,908
David John Warr	£12,908
Ian Geoffrey Clarke	£12,908
Robert Thomas Ernest Ware	£12,908

The above fees do not include reimbursed expenditure.

### Substantial shareholdings

At 31 March 2007 the following interests in 3% or more of the issued ordinary shares had been notified to the Company:

	Number of ordinary shares	Percentage of share capital
Goldman Sachs Securities	3,015,950	20.11%
Morstan Nominees	1,516,000	10.11%
Nortrust Nominees	1,250,000	8.33%
OMX Securities Nominees	1,185,850	7.91%
Chase Nominees	923,796	6.16%
Hanover Nominees	821,500	5.48%
BBHISL Nominees	800,000	5.33%
The Bank of New York	750,000	5.00%
Rulegale Nominees	641,000	4.27%
HSBC Global Custody	500,000	3.33%

### Auditors

A resolution to re-appoint RSM Robson Rhodes (Guernsey) Limited as auditors will be proposed at the Annual General Meeting.

### Corporate governance

As a Guernsey incorporated company and under the AIM rules for companies, the Company is not required to comply with the Combined Code published by the Financial Reporting Council. The Directors however recognise the importance of maintaining sound corporate governance in the UK and Guernsey and so seek to ensure that the Company adopts policies and procedures which reflect those principles of Good Governance and Code of Best Practice as are appropriate to the Company's size.

The Company has established an Audit Committee, a Nomination Committee and a Remuneration Committee, each with formally delegated duties and responsibilities. The Audit Committee comprises David Warr and Ian Clarke, the Nomination Committee comprises Robert Ware, David Warr and Ian Clarke and the Remuneration Committee comprises David Warr and Ian Clarke.

The Audit Committee determines the terms of engagement of the Company's auditors and, in consultation with the auditors, the scope of the audit. The Audit Committee receives and reviews reports from management and the Company's auditors relating to the interim and annual accounts and the accounting and internal control systems in the Company. The Audit Committee has unrestricted access to, and oversees the relationship with, the Company's auditors.

## Report of the Directors (continued)

### **Corporate governance (continued)**

The Nomination Committee reviews the structure, size and composition required of the Board and makes recommendations to the Board with regard to any changes which may be required. The Nomination Committee is responsible for identifying and nominating candidates to fill board vacancies when they arise for approval of the Board.

The Remuneration Committee reviews the scale and structure of the Executive Directors and senior employees' remuneration and the terms of their service or employment contracts, including share option schemes and other bonus arrangements. The remuneration and terms and conditions of the Non-executive Directors are set by the Board. No Director or Manager of the company may participate in any meeting at which discussion or any decision regarding his own remuneration takes place. The Remuneration Committee also administers the annual share option scheme.

The Board complies with Rule 21 of the AIM Rules relating to Directors' dealings as applicable to AIM companies and also takes all reasonable steps to ensure compliance by the Company's applicable employees and has adopted a share dealing code for this purpose.

Approved by the Board of Directors

**David Williams**

Chairman

26 June 2007

**Robert Ware**

Executive Director

## Independent Auditors' Report

to the Shareholders of Marwyn Value Investors Limited

We have audited the financial statements of Marwyn Value Investors Limited for the period ended 31 December 2006 on pages 8 to 14. These financial statements have been prepared under the historical cost convention as modified by the revaluation of investments and the accounting policies set out therein.

This report is made solely to the Company's shareholders, in accordance with section 64 of The Companies (Guernsey) Law, 1994. Our audit work has been undertaken so that we might state to the Company's shareholders 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 shareholders for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable Guernsey Law and International Financial Reporting Standards as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with The Companies (Guernsey) Law, 1994.

In addition we report to you if, in our opinion, the Directors' Report is inconsistent with the financial statements, if the Company has not kept proper accounting records, or if we failed to obtain all access, information and explanations we require for our audit.

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

### Basis of audit opinion

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

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

### Opinion

In our opinion:

- ➔ the financial statements give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the Company's affairs as at 31 December 2006 and of its income and cash flows for the period then ended; and
- ➔ the financial statements have been properly prepared in accordance with The Companies (Guernsey) Law, 1994.

### RSM Robson Rhodes (Guernsey) Limited

Chartered Accountants

Guernsey, CI

26 June 2007

## Income Statement

For the period from 20 January 2006 to 31 December 2006

	Note	Revenue £	Capital £	Total £
<b>Income</b>	1			
Bank interest		10,313	—	<b>10,313</b>
Gains on investments held at fair value through profit or loss		—	7,418,764	<b>7,418,764</b>
		10,313	7,418,764	<b>7,429,077</b>
<b>Expenses</b>	1			
Directors' fees	12	51,630	—	<b>51,630</b>
Administration fees	12	17,957	—	<b>17,957</b>
Legal and professional fees		9,575	—	<b>9,575</b>
Regulatory expenses		9,404	—	<b>9,404</b>
Nominated advisers' fees	12	30,062	—	<b>30,062</b>
Registrars' fees		11,184	—	<b>11,184</b>
Exempt fee	2	600	—	<b>600</b>
Other expenses		23,975	—	<b>23,975</b>
		154,387	—	<b>154,387</b>
<b>Profit for the period</b>		(144,074)	7,418,764	<b>7,274,690</b>
		pence	pence	pence
Return per ordinary share – basic and diluted	4	(0.96)	49.46	<b>48.50</b>

The total column of this statement represents the Income Statement of the Company, prepared in accordance with IFRS. The revenue and capital columns represent supplementary information prepared under guidance published by the Association of Investment Trust Companies. All items in the above statement derive from continuing operations.

The accompanying notes on pages 11 to 14 form an integral part of these financial statements.

# Balance Sheet

As at 31 December 2006

	Note	£
<b>Non current assets</b>		
Unquoted investments held at fair value through profit or loss	3	<b>21,418,764</b>
<b>Current assets</b>		
Prepayments		<b>718</b>
Cash and cash equivalents		<b>217,926</b>
		<b>218,644</b>
<b>Total assets</b>		<b>21,637,408</b>
<b>Current liabilities</b>		
Accruals		<b>(32,687)</b>
<b>Net assets</b>		<b>21,604,721</b>
<b>Equity</b>		
Called up share capital	8	<b>1,500,000</b>
Share premium	9	<b>—</b>
Special distributable reserve	9	<b>12,209,982</b>
Series One Warrant reserve	10	<b>378,918</b>
Series Two Warrant reserve	10	<b>241,131</b>
Capital reserve – unrealised		<b>7,418,764</b>
Revenue reserve		<b>(144,074)</b>
<b>Total equity</b>		<b>21,604,721</b>
		<b>pence</b>
Net asset value per ordinary share – basic	5	<b>144.03</b>
Net asset value per ordinary share – diluted	5	<b>134.35</b>

Approved by the Board of Directors

**David Williams**  
Chairman  
26 June 2007

**Robert Ware**  
Executive Director

The accompanying notes on pages 11 to 14 form an integral part of these financial statements.

## Statement of Changes in Equity

For the period from 20 January 2006 to 31 December 2006

	Called up share capital £	Share premium £	Special distributable reserve £	Series One Warrant reserve £	Series Two Warrant reserve £	Capital reserve £	Revenue reserve £	Total £
Issue of ordinary shares and warrants	1,500,000	12,850,962	—	396,634	252,404	—	—	15,000,000
Profit for the period	—	—	—	—	—	7,418,764	(144,074)	7,274,690
Share and warrant issue costs	—	(640,980)	—	(17,716)	(11,273)	—	—	(669,969)
Transfer to special distributable reserve (see note 9)	—	(12,209,982)	12,209,982	—	—	—	—	—
	<b>1,500,000</b>	<b>—</b>	<b>12,209,982</b>	<b>378,918</b>	<b>241,131</b>	<b>7,418,764</b>	<b>(144,074)</b>	<b>21,604,721</b>

The accompanying notes on pages 11 to 14 form an integral part of these financial statements.

## Cash Flow Statement

For the period from 20 January 2006 to 31 December 2006

	Note	£
Net cash outflow from operating activities	6	(112,105)
Net cash outflow from investing activities		(14,000,000)
Net cash outflow before financing		(14,112,105)
Net cash inflow from financing activities		14,330,031
Increase in cash and cash equivalents		217,926
Cash and cash equivalents at beginning of period		—
Cash and cash equivalents at end of period		217,926

The accompanying notes on pages 11 to 14 form an integral part of these financial statements.

# Notes to the Financial Statements

For the period from 20 January 2006 to 31 December 2006

## 1. Accounting policies

The financial statements have been prepared in accordance with IFRS, which comprise standards and interpretations approved by the IASB and IAS and Standing Interpretations approved by the IASC that remain in effect, together with the applicable legal and regulatory requirements of The Companies (Guernsey) Law, 1994 and the AIM rules published by the London Stock Exchange.

### (a) Convention

The financial statements have been prepared under the historical cost convention, except where stated in (c) below, modified to include the revaluation of financial assets and financial liabilities held at fair value through the profit or loss.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

The Company has not made early adoption of the provisions of IFRS 7: "Financial Instruments: Disclosures" which will enhance certain requirements of IAS 32 and IAS 39 for the period commencing on 1 July 2007. The Directors anticipate that the adoption of this Standard in future periods will have no material impact on these financial statements except for additional disclosures.

### (b) Income

Interest receivable on cash deposits is accounted for on an accruals basis.

### (c) Unquoted investments held at fair value through profit or loss

Unquoted investments are stated at fair value as determined by the Directors using appropriate valuation techniques. Changes in the fair value of investments held at fair value through profit or loss are recognised in the Income Statement. On disposal realised gains and losses are also recognised in the Income Statement. Unrealised gains and losses on the valuation of investments are taken to the capital reserve – unrealised.

The Company recognises unquoted investments held at fair value through profit or loss on the date it commits to purchase the instruments.

Derecognition of investments occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

The Company's interest in the Master Fund will be valued by the Directors on the basis of the NAV of the Master Fund as provided by the Master Fund Administrator at the year end. The NAV of the Master Fund, Marwyn Neptune Fund LP, will be determined by the Master Fund Administrator by deducting the fair value of the liabilities of the Master Fund from the fair value of the Master Fund's assets.

### (d) Expenditure

All expenses are accounted for on an accruals basis and are charged through the Income Statement.

The Manager will not receive a management or performance fee from the Company in respect of funds invested by the Company in the Master Fund. The Manager will be entitled to fees and expenses from the Master Fund.

The Company will pay brokers' commissions (if any) and any issue or transfer taxes chargeable in connection with its investment transactions. Transaction costs incurred on the acquisition or disposal of an investment are charged to capital through the Income Statement in the period in which they are incurred.

### (e) Cash and cash equivalents

Cash and cash equivalents comprise bank balances and cash held by the Company including short-term bank deposits with an original maturity of three months or less. The carrying value of these assets approximates to their fair value.

### (f) Share and warrant issue costs

The preliminary expenses of the Company directly attributable to the equity transaction, and costs associated with the establishment of the Company that would otherwise have been avoided, are taken to the Share Premium and Warrant Reserve accounts.

### (g) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in pounds sterling, which is the Company's functional and presentation currency.

### (h) Liabilities

Financial liabilities are recognised when the Company becomes a party to the contractual agreements of the instrument.

Financial liabilities are derecognised from the balance sheet only when the obligations are extinguished either through discharge, cancellation or expiration.

## Notes to the Financial Statements (continued)

For the period from 20 January 2006 to 31 December 2006

### 1. Accounting policies (continued)

#### (i) Equity

Called up share capital is determined using the nominal value of shares that have been issued.

Special distributable reserve is a reserve to allow, amongst other things, the buy-back and cancellation of up to 14.99% of ordinary shares.

Capital reserve comprises gains and losses due to the revaluation of unquoted investments held at fair value through profit or loss.

Revenue reserve includes all current and prior period results of operations as disclosed in the income statement.

#### J) Segment reporting

The Directors are of the opinion that the Company is engaged in a single geographic and economic business segment. The Company holds one investment in a Cayman Island Fund.

#### K) Presentation of information

In order to better reflect the activities of an investment company and in accordance with the 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.

These are the inaugural financial statements for the Company and therefore there are no comparatives available.

### 2. Taxation

The Company has been granted exempt status under the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 and is therefore subject to the payment of an annual fee which is currently £600.

### 3. Unquoted investments at fair value through profit or loss

	£
Marwyn Neptune Fund LP	
Class A GBP – at cost	14,000,000
Unrealised gain	7,418,764
<b>At fair value</b>	<b>21,418,764</b>

The Company's investment in Class A of the Marwyn Neptune Fund LP ("Master Fund") represents 38.6% of the Class A net assets and 35.3% of the Master Fund.

### 4. Earnings per share

The calculation of basic earnings per share is based on the net revenue deficit, and net capital gain, on ordinary activities for the period and on 15,000,000 ordinary shares in issue throughout the period.

As at 31 December 2006 the price of the ordinary shares was 118.5 pence which is in excess of the exercise price of the Series One Warrants (115.0 pence). However, as the average price of the ordinary shares during the period was less than the exercise price of the Series One Warrants there was no dilution in the earnings per ordinary share in respect of the Series One Warrants.

As at 31 December 2006 the price of the ordinary shares was 118.5 pence and at no point during the period did the share price reach the exercise price of the Series Two Warrants (130.0 pence). As the average price of the ordinary shares during the period was less than the exercise price of Series Two Warrants there was no dilution in the earnings per ordinary share in respect of the Series Two Warrants.

### 5. Net asset value

The calculation of net asset value ("NAV") is based on the net assets of £21,604,721 and on the ordinary shares in issue of 15,000,000 at the balance sheet date.

As the price of the ordinary shares (118.5 pence) was above the exercise price of the Series One Warrants (115.0 pence), but below the exercise price of the Series Two Warrants (130.0 pence) there was a dilution in the NAV per ordinary share in respect to the Series One Warrants only. The diluted NAV is based on net assets of £30,229,721 and on ordinary shares in issue of 22,500,000.

### 6. Reconciliation of net profit for the period to net cash outflow from operating activities

	£
Net profit for the period	7,274,690
Gains on investments held at fair value through profit or loss	(7,418,764)
Decrease/(increase) in debtors	(718)
Increase/(decrease) in creditors	32,687
<b>Net cash outflow from operating activities</b>	<b>(112,105)</b>

## 7. Warrants

At the placing on 23 February 2006, for each ordinary share the subscriber also received one half Series One Warrant and one half Series Two Warrant.

	Exercise price pence	End of subscription period	Allotted
Series One Warrants	115.0	22 February 2008	7,500,000
Series Two Warrants	130.0	22 February 2009	7,500,000

### Accelerated call feature

If the mid-market closing price on AIM as shown by Bloomberg shall be 130 pence or more in the case of the Series One Warrants, or 150 pence or more in the case of the Series Two Warrants for any 20 or more trading days out of a period of 30 consecutive trading days, the Company shall become entitled at the close of AIM on the 30 consecutive trading day to give notice to the relevant holders of Series One Warrants or Series Two Warrants, as applicable.

The notice referred to in the paragraph above must be sent in writing by the Company to the relevant holders within two trading days of the thirtieth consecutive trading day, stating that the Company will treat the Series One Warrants or Series Two Warrants as appropriate as exercised at the relevant subscription price on the date falling 21 days from the date of the notice.

On exercise of the Warrants, the Company will sell any shares that would have been issued on exercise and (after deducting the costs of exercise), remit the proceeds to the holder and after this time all rights under those Warrants will cease.

For full details of the rights of the Warrants, please see the Admission Document or contact the administrator.

The Series One Warrants were called at the option of the Company on 22 March 2007.

## 8. Called up share capital

£

### Authorised

200,000,000 ordinary shares of 10 pence each	<b>20,000,000</b>
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### Allotted and fully paid

15,000,000 ordinary shares of 10 pence each	<b>1,500,000</b>
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## 9. Share premium account

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Premium on new share issues	<b>12,850,962</b>
Share and warrant issue costs	<b>(640,980)</b>
Transferred to special distributable reserve	<b>(12,209,982)</b>

### Balance at 31 December 2006

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A special distributable reserve was created when, as stated in the Admission Document, the Company cancelled all of its share premium account (as approved in the Royal Court of Guernsey on 31 March 2006), transferring it to a distributable reserve to allow, amongst other things, the buy-back and cancellation of up to 14.99% of the ordinary shares.

## 10. Warrant reserves

The proceeds from the issue of the placing were split between the ordinary shares (share capital and share premium account), the Series One Warrant reserve and the Series Two Warrant reserve based on the weighted average value of the ordinary shares and Warrants in issue at the close of business on the first day of trading. The weighted average value was calculated using the mid prices of the ordinary shares and Warrants as quoted on AIM.

## Notes to the Financial Statements (continued)

For the period from 20 January 2006 to 31 December 2006

### 11. Risk profile of financial assets and liabilities

The main risks arising from the Company's financial instruments are market price risk, interest rate risk and liquidity risk.

#### Market price risk

The Company's exposure to market price risk consists mainly of movements in the value of the investment in the Master Fund. The Company's investment portfolio complies with the investment parameters as disclosed in its Admission Document. The Board manages the market price risks inherent in the investment portfolio by ensuring full and timely access to relevant information from the Investment Manager. The Board meets regularly and at each meeting it reviews investment performance.

A 10% increase/decrease in the market price of the Master Fund would result in a 9.9% increase/decrease in the basic NAV per ordinary share as at the Balance Sheet date.

#### Interest rate risk

The Company finances its operations through a mixture of shareholders' capital and retained returns. With the exception of cash at bank, which receives interest at a floating rate, all assets and liabilities of the Company are non-interest bearing. No further interest rate risk disclosure has been provided as all material amounts, with the exception of cash at bank, are non-interest bearing.

#### Liquidity risk

The Company's investment in the Master Fund is relatively illiquid as it invests a significant part of its assets in such investments. The Master Fund and/or Company may not be able to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time.

### 12. Material contracts

#### Manager

The Manager does not receive a management or performance fee from the Company in respect of funds invested by the Company in the Master Fund.

#### Investment Manager

The Investment Manager does not receive a management or performance fee from the Company or Manager in respect of funds invested by the Company in the Master Fund.

#### Collins Stewart Europe Limited ("Collins Stewart")

Under an engagement letter dated 12 January 2006 from Collins Stewart to the Company, Collins Stewart has agreed to act as nominated adviser and broker to the Company for the purposes of the AIM Rules for an annual fee of £35,000. The appointment may be terminated at any time by either party immediately on written notice being received and the letter contains certain indemnities given by the Company in favour of Collins Stewart.

#### Directors

Each Director will be paid a fee of £15,000 per annum.

#### Administrator

The Administrator performs the necessary secretarial and administrative services for the Company under the Administration Agreement. The Administrator is paid an annual fee of £20,000. The Administrator is also entitled to reimbursement of certain expenses incurred by it in connection with its duties.

### 13. Related parties

During the period fees of £17,956 were payable to the Administrator, Fortis Fund Services (Guernsey) Limited, with £10,000 outstanding at the period end. Ian Clarke is a Director of both the Company and the Administrator.

All Directors are entitled to receive an annual fee of £15,000 and to be reimbursed for all travel and other costs incurred as a direct result of carrying out their duties as Directors.

## Risk Warning

### **Risks applicable to investing in the Company and the Master Fund**

#### **Lack of operating history**

Neither the Company nor the Master Fund has an operating history upon which prospective investors may base an evaluation of the likely performance of the Master Fund. The past performance of the Investment Manager and Manager may not be indicative of the future performance of the Master Fund.

#### **Dependence on key advisers**

The success of the Master Fund and the Company depends upon the ability of the Investment Manager and Manager to develop and implement investment strategies that achieve the Company's and the Master Fund's investment objective. If the Investment Manager and Manager were to become unable to participate in the management of the Company and/or Master Fund, the consequence to the Company and/or Master Fund could be material and adverse and could lead to the premature termination of the Company and/or Master Fund.

#### **Availability of investment strategies**

The success of the Master Fund's and/or Company's investment activities will depend on the Investment Manager's ability to identify investment opportunities as well as to assess the importance of news and events that may affect the financial markets. Identification and exploitation of the investment strategies to be pursued by the Company and/or the Master Fund involves a high degree of uncertainty. No assurance can be given that the Investment Manager will be able to locate suitable investment opportunities in which to deploy all of the Company's and/or the Master Fund's assets or to exploit discrepancies in the securities and derivatives markets.

#### **Illiquid portfolio instruments**

The Master Fund and/or Company may invest a significant part of its assets in illiquid investments. The Master Fund and/or Company may not be able to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. An investment in the Master Fund and/or Company is suitable only for certain sophisticated investors who do not require immediate liquidity for their investments.

Where appropriate, positions in the Master Fund's and/or Company's investment portfolio that are illiquid and do not actively trade will be marked to market, taking into account actual market prices, market prices of comparable investments and/or such other factors (e.g. the tenor of the respective instrument) as may be appropriate. To the extent that marking an illiquid investment to market is not practicable, an investment will be carried at fair value, as reasonably determined by the Directors or their delegate. There is no guarantee that fair value will represent the value that will be realised by the Master Fund and/or Company on the eventual disposition of the investment or that would, in fact, be realised upon an immediate disposition of the investment. As a result, an investor withdrawing from the Master Fund and/or Company prior to realisation of such an investment may not participate in gains or losses from that investment.

#### **Investments in undervalued securities**

The Master Fund and/or Company will seek to invest in undervalued securities. The identification of investment opportunities in undervalued securities is a difficult task, and there are no assurances that such opportunities will be successfully recognised or acquired. While investments in undervalued securities offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from the Master Fund's or Company's investments may not adequately compensate for the business and financial risks assumed. In addition, the Master Fund and/or Company may be required to hold such securities for a substantial period of time before realising their anticipated value. During this period, a portion of the Master Fund's or Company's capital would be committed to the securities purchased, thus possibly preventing the Master Fund and/or Company from investing in other opportunities. In addition, the Master Fund may finance such purchases with borrowed funds and thus will have to pay interest on those funds during this waiting period.

#### **Regulatory risk**

The investment strategy seeks to capitalise on opportunities presented by regulatory change. The direction and impact of regulation can be unpredictable and there is a risk that regulation will not bring around positive changes and opportunities as envisaged.

#### **Small company risk**

The investment strategy seeks to focus on smaller capitalisation companies which will often be at an earlier stage in their development, have limited financial and management resources, and may be less established or diversified in their commercial proposition and therefore subject to higher degrees of volatility than may be found in larger companies.

## Risk Warning (continued)

### **Risks applicable to investing in the Company and the Master Fund (continued)**

#### **Management influence and fiduciary responsibility**

The Investment Manager may take a position of significant management influence or control and therefore there is a risk that executive decisions taken or advice provided by the Investment Manager or associated companies may not produce positive benefits for investee companies. Furthermore, on taking a position as a Director of an investee company, the Investment Manager or associated companies and personnel, will have a fiduciary responsibility to act in the interests of all shareholders and not simply the interests of the Company and/or Master Fund alone.

#### **Unsuccessful transaction costs**

There is a risk that the Company and/or Master Fund may incur substantial legal, financial and advisory expenses arising from unsuccessful transactions which may include public offer and transaction documentation, legal, accounting and environmental due diligence.

#### **Fixed income securities**

The Master Fund and/or Company may invest in bonds or other fixed income securities, including, without limitation, commercial paper and "higher yielding" (including non-investment grade) (and therefore higher risk) debt securities. The Master Fund and/or Company will therefore be subject to credit, liquidity and interest rate risks. Higher-yielding debt securities are generally unsecured and may be subordinated to certain other outstanding securities and obligations of the issuer, which may be secured on substantially all of the issuer's assets. The lower rating of debt obligations in the higher-yielding sector reflects a greater probability that adverse changes in the financial condition of the issuer or in general economic conditions or both may impair the ability of the issuer to make payments of principal and interest. Non-investment grade debt securities may not be protected by financial covenants or limitations on additional indebtedness. In addition, evaluating credit risk for debt securities involves uncertainty because credit rating agencies throughout the world have different standards, making comparison across countries difficult. Also, the market for credit spreads is often inefficient and illiquid, making it difficult to accurately calculate discounting spreads for valuing financial instruments. It is likely that a major economic recession could severely disrupt the market for these securities and may have an adverse impact on the value of such securities. In addition, it is likely that any similar economic downturn could adversely affect the ability of the issuers of those securities to repay principal and pay interest thereon and increase the incidence of default for those securities.

#### **Concentration of investments**

Although it will be the policy of the Master Fund and may be the policy of the Company to diversify their investment portfolios, the Master Fund and the Company will hold relatively few investments. The Master Fund and the Company could be subject to significant losses if it holds a large position in a particular investment that declines in value or is otherwise adversely affected, including default of the issuer.

#### **Certain derivative investments**

The Master Fund and/or the Company may buy or sell ("write") both call options and put options, and when it writes options, it may do so on a "covered" or an "uncovered" basis. A call option is "covered" when the writer owns securities of the same class and amount as those to which the call option applies. A put option is covered when the writer has an open short position in securities of the relevant class and amount. The Master Fund's and/or Company's option transactions may be part of a hedging strategy (i.e. offsetting the risk involved in another security's position) or a form of leverage, in which the Master Fund and/or Company has the right to benefit from price movements in a large number of securities with a small commitment of capital. These activities involve risks that can be substantial, depending on the circumstances.

In general, the principal risks involved in options trading can be described as follows, without taking into account other positions or transactions the Master Fund may enter into. When the Master Fund and/or Company buys an option, a decrease (or inadequate increase) in the price of the underlying security in the case of a call, or an increase (or inadequate decrease) in the price of the underlying security in the case of a put, could result in a total loss of the Master Fund's and/or Company's investment in the option (including commissions). The Master Fund and/or Company could mitigate those losses by selling short, or buying puts on the securities in which it holds call options, or by taking a long position (e.g. by buying the securities or buying calls on them) in securities underlying put options.

When the Master Fund and/or Company sells (writes) an option, the risk can be substantially greater than when it buys an option. The seller of an uncovered call option bears the risk of an increase in the market price of the underlying security above the exercise price. The risk is theoretically unlimited unless the option is "covered." For example, if it is a covered call option, the Master Fund and/or Company would forego the opportunity for profit on the underlying security should the market price of the security rise above the exercise price. If the price of the underlying security were to drop below the exercise price, the premium received on the option (after transaction costs) would provide profit that would reduce or offset any loss the Master Fund and/or Company might suffer as a result of owning the security.

### Swap agreements

The Master Fund and/or Company may enter into swap agreements. Swap agreements can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structure, swap agreements may increase or decrease the Master Fund's and/or Company's exposure to long-term or short-term interest rates, currency values, corporate borrowing rates, or other factors such as security prices, baskets of equity securities or inflation rates. Swap agreements can take many different forms and are known by a variety of names. The Master Fund and/or Company is not limited to any particular form of swap agreement if consistent with the Master Fund's and/or Company's investment objective and approach.

Swap agreements tend to shift the Master Fund's and/or Company's investment exposure from one type of investment to another. For example, if the Master Fund and/or the Company agrees to exchange payments in Sterling for payments in US Dollars, the swap agreement would tend to decrease the Master Fund's and/or Company's exposure to Sterling interest rates and increase its exposure to non-Sterling currency and interest rates. Depending on how they are used, swap agreements may increase or decrease the overall volatility of the Master Fund's and/or the Company's portfolio. The most significant factor in the performance of swap agreements is the change in the specific interest rate, currency, individual equity values or other factors that determine the amounts of payments due to and from the Master Fund and/or the Company. If a swap agreement calls for payments by the Master Fund and/or the Company, the Master Fund and/or the Company must be prepared to make such payments when due. In addition, if a counterparty's creditworthiness declines, the value of swap agreements with such a counterparty can be expected to decline, potentially resulting in losses by the Master Fund and/or the Company.

### Forward trading

Forward contracts and options thereon, unlike futures contracts, are not traded on exchanges and are not standardised; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any market traded by the Master Fund and/or the Company due to unusually high trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward trading to less than that which the Investment Manager would otherwise recommend, to the possible detriment of the Master Fund and/or the Company. Market illiquidity or disruption could result in major losses to the Master Fund and/or the Company.

### Highly volatile markets

The prices of financial instruments in which the Master Fund and/or the Company may invest can be highly volatile. Price movements of forward and other derivative contracts in which the Master Fund's and/or the Company's assets may be invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programmes and policies of governments, and national and international political and economic events and policies. The Master Fund and/or the Company is subject to the risk of failure of any of the exchanges on which its positions trade or of its clearing houses.

### Counterparty risk

Some of the markets in which the Master Fund and/or the Company may effect transactions are "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange-based" markets. This exposes the Master Fund and/or the Company to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not *bona fide*) or because of a credit or liquidity problem, thus causing the Master Fund and/or the Company to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Master Fund and/or the Company has concentrated its transactions with a single or small group of counterparties. Subject to the investment restrictions contained in the Admission Document or the Offering Memorandum for the Master Fund, the Company and the Master Fund are not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. Moreover, neither the Master Fund nor the Company has an internal credit function which evaluates the creditworthiness of its counterparties. The ability of the Master Fund to transact business with any one or number of counterparties, the lack of any meaningful and independent evaluation of such counterparties' financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Master Fund and the Company.

## Risk Warning (continued)

### **Risks applicable to investing in the Company and the Master Fund (continued)**

#### **Global economic and market conditions**

The Company and/or Master Fund may invest in currencies and securities traded in various markets throughout the world, including in emerging or developing markets, some of which are highly controlled by governmental authorities. Such investments require consideration of certain risks typically not associated with investing in currencies or securities of developed markets. Such risks include, among other things, trade balances and imbalances and related economic policies, unfavourable currency exchange rate fluctuations, imposition of exchange control regulation by governments, withholding taxes, limitations on the removal of funds or other assets, policies of governments with respect to possible nationalisation of their industries, political difficulties, including expropriation of assets, confiscatory taxation and social, economic or political instability in foreign nations. These factors may affect the level and volatility of securities prices and the liquidity of the Company's and/or the Master Fund's investments. Unexpected volatility or illiquidity could impair the Company's and/or the Master Fund's profitability or result in losses.

The economies of countries differ in such respects as growth of GDP, rate of inflation, currency depreciation, asset reinvestment, resource self-sufficiency and balance of payments position. Further, certain economies are heavily dependent upon international trade and, accordingly, have been and may continue to be adversely affected by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. The economies of certain countries may be based, predominantly, on only a few industries and may be vulnerable to changes in trade conditions and may have higher levels of debt or inflation.

#### **Certain securities markets**

Stock markets in certain countries may have a relatively low volume of trading. Securities of companies in such markets may also be less liquid and more volatile than securities of comparable companies elsewhere. There may be low levels of government regulation of stock exchanges, brokers and listed companies in certain countries. In addition, settlement of trades in some markets is slow and subject to failure.

Some commodity exchanges are "principals' markets" in which performance is the responsibility only of the individual member with whom the trader has entered into a commodity contract and not of an exchange or clearing corporation. In such a case, the Master Fund and/or the Company is subject to the risk of the inability of, or refusal by, the counterparty to perform with respect to such contracts. In addition, the trading of futures and forward contracts on certain commodity exchanges may be subject to price fluctuation limits.

#### **Interpositioning**

From time to time, the Master Fund and/or the Company may execute over-the-counter trades on an agency basis rather than on a principal basis. In these situations, the broker used by the Master Fund and/or the Company may acquire or dispose of a security through a market-maker (a practice known as "interpositioning"). The transaction may thus be subject to both a commission and a markup or markdown. The use of a broker can provide anonymity in connection with a transaction. In addition, a broker may, in certain cases, have greater expertise or greater capability in connection with both accessing the market and executing a transaction.

#### **Exchange rate fluctuations – currency considerations**

Whilst the Master Fund and the Company will operate in Sterling, the Master Fund's and/or Company's assets may be invested in securities denominated in other currencies and any income or capital received by the Master Fund and/or Company will be denominated in the local currency of investment. Accordingly, changes in currency exchange rates (to the extent unhedged) will affect the value of the Master Fund's and/or Company's portfolio and the unrealised appreciation or depreciation of investments.

Furthermore, the Master Fund and/or Company may incur costs in connection with conversions between various currencies. Currency exchange dealers realise a profit based on the difference between the prices at which they are buying and selling various currencies. Thus, a dealer normally will offer to sell currency to the Master Fund and/or Company at one rate, while offering a lesser rate of exchange should the Master Fund and/or Company desire immediately to resell that currency to the dealer. The Master Fund and/or Company will conduct its currency exchange transactions either on a spot (i.e. cash) basis at the spot rate prevailing in the currency exchange market, or through entering into forward or options contracts to purchase or sell non-Sterling currencies. It is anticipated that most of the Master Fund's and/or Company's currency exchange transactions will occur at the time securities are purchased and will be executed through the local broker or custodian acting for the Master Fund and/or Company.

### **Net asset value ("NAV") considerations**

The NAV per share of both the Company and the Master Fund is expected to fluctuate over time with the performance of the Master Fund's and/or Company's investments. A shareholder may not fully recover his initial investment when he chooses to redeem his shares or upon compulsory redemption if the NAV per share of the relevant class of shares at the time of such redemption is less than the subscription price paid by that shareholder. In addition, where in relation to the calculation of the NAV there is any conflict between UK GAAP and the valuation principles set out in the Articles and this document in relation to the Company or US GAAP, and the valuation principles set out in the Articles of Association of the Master Fund or its offering memorandum in the case of the Master Fund, the latter principles shall take precedence.

### **Other clients of the investment manager and its affiliates**

#### **Legal risk**

Many of the laws that govern private and foreign investment, equity securities transactions and other contractual relationships in certain countries, particularly in developing countries, are new and largely untested. As a result, the Master Fund and/or the Company may be subject to a number of unusual risks, including inadequate investor protection, contradictory legislation, incomplete, unclear and changing laws, ignorance or breaches of regulations on the part of other market participants, lack of established or effective avenues for legal redress, lack of standard practices and confidentiality customs characteristic of developed markets and lack of enforcement of existing regulations. Furthermore, it may be difficult to obtain and enforce a judgement in certain countries in which assets of the Master Fund and/or the Company are invested. There can be no assurance that this difficulty in protecting and enforcing rights will not have a material adverse effect on the Master Fund and/or the Company and its operations. In addition, the income and gains of the Master Fund and/or the Company may be subject to withholding taxes imposed by foreign governments for which shareholders may not receive a full foreign tax credit. Furthermore, it may be difficult to obtain and enforce a judgement in a court outside of the Cayman Islands and/or Guernsey.

Regulatory controls and corporate governance of companies in some developing countries may confer little protection on minority shareholders. Anti-fraud and anti-insider trading legislation is often rudimentary. The concept of fiduciary duty to shareholders by officers and directors is also limited when compared to such concepts in Western markets. In certain instances, management may take significant actions without the consent of shareholders and anti-dilution protection may also be limited.

The Investment Manager, its affiliates and their principals manage other accounts and other collective investment vehicles. These accounts may employ different or similar trading strategies, and could increase the level of competition for the same trades or positions that the funds might otherwise make, including the priorities of order entry. This could make it difficult or impossible to take or liquidate a position of a particular security at a satisfactory price. Moreover, in such situations, the Company and Master Fund may not be able to engage in as large a portion of a transaction as they otherwise would.

The Investment Manager and its affiliates may employ investment methods, policies and strategies for their clients that differ from those under which the Company and Master Fund operate. Therefore, the results of Company and Master Fund's trading may differ from those of other accounts traded by the Investment Manager and its affiliates. Moreover, certain of the Investment Manager's principals also may also invest for their own accounts.

#### **Litigation**

The Company's and Master Fund's investment activities are subject to the normal risks of becoming involved in litigation by third parties. The risk is somewhat greater because the Company and/or Master Fund will often hold substantial stakes in listed companies which could be considered to give rise to exercise of control or significant influence over a company's direction. Furthermore, many of the exchanges on which the Company and/or Master Fund may invest impose reporting and other obligations which, if not met, could lead to fines and other sanctions against the Company and/or Master Fund, the Manager or the Investment Manager. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgements may have to be borne by the Funds. The Manager, Investment Manager and others will be indemnified by the Master Fund in connection with any such litigation which relates to the activities of the Master Fund, subject to certain conditions. In addition, certain of the Company's and/or Master Fund's strategies may be subject to claims for the return of profits or the recovery of losses on the basis of certain statutory, regulatory or administrative entitlements or prohibitions.

## Risk Warning (continued)

### **Profit sharing**

In addition to receiving an Investment Management Fee, the Investment Manager may also receive a Performance Fee based on the appreciation in the NAV of the Master Fund and accordingly the Performance Fee will increase with regard to unrealised appreciation, as well as realised gains. The Performance Fee may create an incentive for the Investment Manager to make investments for the Company and the Master Fund which are riskier than would be the case in the absence of a fee based on the management of the Company and the Master Fund.

### **Tax considerations**

Where the Master Fund and/or Company invests in securities that are not subject to withholding tax at the time of the acquisition, there can be no assurance that tax may not be withheld in the future as a result of any change in applicable laws, treaties, rules or regulations or the interpretation thereof. The Master Fund and/or Company will not be able to recover such withheld tax and so any change would have an adverse effect on the NAV. Where the Master Fund and/or Company sells securities short that are subject to withholding tax at the time of sale, the price obtained will reflect the withholding tax liability of the purchaser. In the event that in future such securities cease to be subject to withholding tax, the benefit thereof will accrue to the purchaser and not the Master Fund or Company.

The Company and the Master Fund may both invest in securities that are subject to withholding tax on income and/or gains. Although the Company intends to minimise such withholding tax there can be no assurance that the Company will be able to achieve this.

### **Highly volatile instruments**

The prices of derivative instruments, including options, are highly volatile. Price movements of forward contracts and other derivative contracts in which the Master Fund's and/or Company's assets may be invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programmes and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain markets, particularly those in currencies and financial instrument options. Such intervention often is intended directly to influence prices and may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations. The Master Fund and/or Company is also subject to the risk of the failure of any of the exchanges on which its positions trade or of their clearing houses.

### **Investments in unlisted securities**

The Master Fund and/or Company may invest in unlisted securities. Because of the absence of any trading market for these investments, it may take longer to liquidate, or it may not be possible to liquidate, these positions than would be the case for publicly traded securities. Although these securities may be resold in privately negotiated transactions, the prices realised on these sales could be less than those originally paid by the Master Fund and/or Company. Further, companies whose securities are not publicly traded will generally not be subject to public disclosure and other investor protection requirements applicable to publicly traded securities.

### **Business and regulatory risks of hedge funds**

Legal, tax and regulatory changes could occur during the term of the Master Fund and/or Company that may adversely affect the Master Fund and/or Company. The regulatory environment for hedge funds is evolving, and changes in the regulation of hedge funds may adversely affect the value of investments held by the Master Fund and/or Company and the ability of the Master Fund to obtain the leverage it might otherwise obtain or to pursue its trading strategies. In addition, the securities and futures markets are subject to comprehensive statutes, regulations and margin requirements. Regulators and self-regulatory organisations and exchanges are authorised to take extraordinary actions in the event of market emergencies. The regulation of derivatives transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial action. The effect of any future regulatory change on the Master Fund and/or the Company could be substantial and adverse.

### **Terrorist action**

There is a risk of terrorist attacks on the United States, the UK and elsewhere causing significant loss of life and property damage and disruptions in global markets. Economic and diplomatic sanctions may be in place or imposed on certain states and military action may be commenced. The impact of such events is unclear, but could have a material effect on general economic conditions and market liquidity.

### **UK taxation**

The Directors intend that the Company will be managed and controlled in such a way that it should not be resident in the United Kingdom for United Kingdom tax purposes. Also the Directors and the Investment Manager each intend that, so far as this is within their respective control, the affairs of the Company, the Master Fund and the Investment Manager are conducted so that the requirements as set out in Schedule 26 Finance Act 2003 are met.

## **Risks applicable to investments in the Company**

### **Need for additional financing and dilution**

The Placing is not underwritten and may not be taken up in full. The Company may in the future need to seek additional sources of financing to implement its strategy. There can be no assurance that the Company will be able to raise such funds, whether on acceptable terms, or at all. If further financing is obtained by issuing equity securities or convertible debt securities, the existing shareholders may be diluted and the new securities may carry rights, privileges and preferences superior to the shares. The Directors may seek debt finance to fund the implementation of the Company's strategy. There can be no assurance that the Company will be able to raise such debt funds, whether on acceptable terms, or at all. If debt financing is obtained, the Company's ability to raise further finance, and its ability to operate its business, may be subject to restrictions.

### **Directors and employees**

The Company will be highly dependent on the expertise and continued service of the Directors. These individuals could terminate their agreements for service or service contracts at any time, and their loss may have an adverse effect on the Company's business. Furthermore, the ability to attract and retain individuals may be critical to the Company's ongoing business. The failure to attract and retain such individuals may adversely affect the Company's operations.

## **Risks applicable to investments in the Master Fund**

### **Value and liquidity of the shares**

An investment in shares traded on AIM is perceived to involve a higher degree of risk and be less liquid than an investment in companies whose shares are listed on the Official List of the London Stock Exchange. It may be difficult for an investor to realise his or her investment. The shares of publicly traded emerging companies have limited liquidity and their share prices can be highly volatile. The price at which the shares will be traded and the price at which investors may realise their investment will be influenced by a large number of factors, some specific to the Company and its operations, and others which may affect companies operating within a particular sector or quoted companies generally. Prospective investors should be aware that the value of the shares could go down as well as up, and investors may therefore not recover their original investment. Furthermore, the market price of the shares may not reflect the underlying value of the Company's net assets.

### **Limited redemption rights**

An investment in the Master Fund is suitable only for certain sophisticated investors who have no need for immediate liquidity in their investment. Shares in the Master Fund may only be redeemed on stated redemption days with due notice after the expiry of the relevant commitment period. Shares in the Master Fund may not be redeemed when the calculation of the NAV of the Master Fund is suspended.

No partial redemptions in the Master Fund will be permitted if, immediately thereafter, the value of a redeeming shareholder's holding would be less than £100,000, unless approved by the Board of Directors of the Master Fund in its sole and absolute discretion. Shares in the Master Fund may not be redeemed when the calculation of the NAV of the Master Fund is suspended.

Special Situation Shares may not generally be redeemed at the option of the holder.

The Company may not always be able to redeem its shares in the Master Fund.

### **In specie distributions**

The Master Fund expects to distribute cash to a redeeming shareholder; however, a redeeming shareholder may, at the sole and absolute discretion of the Directors of the Master Fund, receive securities owned by the Master Fund in lieu of cash. In addition, there can be no assurance that the Master Fund will have sufficient cash to satisfy withdrawal requests, or that it will be able to liquidate investments at the time of such withdrawal requests at favourable prices. Under the foregoing circumstances, and under other circumstances deemed appropriate by the Directors of the Master Fund, a redeeming shareholder may receive *in specie* distributions from the Master Fund's portfolio. Such investments so distributed may not be readily marketable or saleable and may have to be held by such shareholder for an indefinite period of time. The risk of loss and delay in liquidating these securities will be borne by the shareholder, with the result that such shareholder may receive less cash than it would have received on the date of withdrawal. As a result, an investment in the Master Fund is suitable only for sophisticated investors.

### **Performance fee**

The Manager will receive a Performance Fee from the Master Fund, based upon the appreciation, if any, in the net assets of the Master Fund. The Manager will share this fee with the Investment Manager. The Performance Fee theoretically may create an incentive to make investments that are riskier or more speculative than would be the case if such arrangement were not in effect. In addition, because the Performance Fee is calculated on a basis which includes unrealised appreciation, it may be greater than if this compensation were based solely on realised gains.

## Risk Warning (continued)

### **Risks applicable to investments in the Master Fund (continued)**

#### **Currency of denomination of share classes**

The Master Fund is offering shares denominated in Sterling and US Dollars and may offer shares denominated in other currencies in the future. The initial offering price of each class is determined by the Directors and, due amongst other things to differences in exchange rate, the initial offering price of one class will not necessarily be economically equivalent to the initial offering price of another class. Accordingly, investors investing the same economic amounts in different currency classes, may receive different numbers of shares and thus, on a poll, their voting rights will not necessarily reflect their economic interest in the Master Fund.

#### **Class of shares is not a separate legal entity**

As among the shareholders, although the Master Fund maintains only one portfolio of assets, the appreciation and depreciation attributable to a class of shares in the Master Fund will be allocated only to such class of shares in the Master Fund. In particular, gains or losses arising from "new issues" investments will be allocated solely to eligible classes of shares in the Master Fund. Similarly, expenses solely attributable to a particular class of shares in the Master Fund will be allocated solely to that class of shares in the Master Fund. However, a creditor of the Master Fund will generally not be bound to satisfy its claims from a particular class of shares in the Master Fund. Rather, such a creditor generally may seek to satisfy its claims from the assets of the Master Fund as a whole. Further, if the losses attributable to a class of shares exceed its value, then such losses could negatively impact upon the value of other classes of shares.

#### **Hedging transactions**

The Master Fund may utilise financial instruments, both for investment purposes and for risk management purposes in order to (i) protect against possible changes in the market value of the Master Fund's investment portfolio resulting from fluctuations in the securities markets and changes in interest rates; (ii) protect the Master Fund's unrealised gains in the value of the Master Fund's investment portfolio; (iii) facilitate the sale of any such investments; (iv) enhance or preserve returns, spreads or gains on any investment in the Master Fund's portfolio; (v) hedge the interest rate or currency exchange rate on any of the Master Fund's liabilities or assets; (vi) protect against any increase in the price of any securities the Master Fund anticipates purchasing at a later date; or (vii) for any other reason that the Investment Manager deems appropriate.

The success of the Master Fund's hedging strategy will depend, in part, upon the Investment Manager's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the portfolio investments being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the Master Fund's hedging strategy will also be subject to the Investment Manager's ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While the Master Fund may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Master Fund than if it had not engaged in such hedging transactions. For a variety of reasons, the Investment Manager may not seek to establish a perfect correlation between the hedging instruments utilised and the portfolio holdings being hedged. Such an imperfect correlation may prevent the Master Fund from achieving the intended hedge or expose the Master Fund to risk of loss. The Investment Manager may not hedge against a particular risk because it does not regard the probability of the risk occurring to be sufficiently high as to justify the cost of the hedge, or because it does not foresee the occurrence of the risk. The successful utilisation of hedging and risk management transactions requires skills complementary to those needed in the selection of the Master Fund's portfolio holdings.

#### **Loans of portfolio securities**

The Master Fund may lend its portfolio securities. By doing so, the Master Fund attempts to increase income through the receipt of interest on the loan. In the event of the bankruptcy of the other party to a securities loan, the Master Fund could experience delays in recovering the loaned securities. To the extent that the value of the securities the Master Fund lent has increased, the Master Fund could experience a loss if such securities are not recovered.

#### **Restriction on auditors' liability**

Cayman Islands' law does not restrict the ability of auditors to limit their liability and consequently the engagement letter in relation to the Master Fund entered into with the auditors of the Master Fund may contain such a provision as well as contain provisions indemnifying the auditors in certain circumstances.

#### **Amortisation of organisational costs**

The Master Fund's organisational and offering expenses, to the extent the Directors deem appropriate, may be, for accounting purposes, amortised by the Master Fund for up to a 60-month period. Amortisation of such expenses over a period that is up to 60 months is a divergence from US Generally Accepted Accounting Principles ("GAAP"), which may, in certain circumstances, result in a qualification of the Master Fund's annual audited financial statements. In such instances, the Master Fund may decide to (i) avoid the qualification by recognising the unamortised expenses or (ii) make GAAP conforming changes for financial reporting purposes, but amortise expenses for purposes of calculating the Master Fund's NAV. There will be a divergence in the Master Fund's fiscal year end NAV and in the NAV reported in the Master Fund's financial statements in any year where, pursuant to clause (ii), GAAP conforming changes are made only to the Master Fund's financial statements for financial reporting purposes. If the Master Fund is terminated within 60 months of its commencement, any unamortised expenses will be recognised. If a shareholder redeems shares prior to the end of the 60-month period during which the Master Fund is amortising expenses, the Master Fund may, but is not required to, accelerate a proportionate share of the unamortised expenses based upon the number of shares being redeemed and reduce redemption proceeds by the amount of such accelerated expenses.

#### **Valuation policies and GAAP**

The Master Fund's valuation policies may not be in compliance with GAAP and such divergence may, in certain circumstances, result in a qualification of the Master Fund's annual audited financial statements. In such instances, the Master Fund may decide to make GAAP conforming changes for financial reporting purposes, but use the valuation policies detailed herein for the purposes of calculating the Master Fund's NAV. There will be a divergence in the Master Fund's fiscal year end NAV and in the NAV reported in the Master Fund's financial statements in any year where, GAAP conforming changes are made only to the Master Fund's financial statements for financial reporting purposes.

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