

**C O R E**

**CORE VCT III PLC**

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**Annual Report and Accounts  
for the period ended 31 December 2006**



# Performance Summary

	As at 31 December 2006		As at 30 June 2006	
	Ordinary Shares	B Shares	Ordinary Shares	B Shares
Net asset value per share	97.17 pence	0.01 pence	94.88 pence	0.01 pence
Net asset value total return per share <sup>1</sup>	97.17 pence	0.01 pence	94.88 pence	0.01 pence
Share Price (mid-market)	100.00 pence	3.50 pence	100.00 pence	3.50 pence

	Period ended 31 December 2006		Period ended 30 June 2006	
	Ordinary Shares	B Shares	Ordinary Shares	B Shares
Return per share	1.65 pence	–	0.29 pence	–
Increase in total return since inception <sup>2</sup>	2.83%	–	0.40%	–
Total expense ratio <sup>3</sup>	1.71%	–	1.60%	–

<sup>1</sup> Net asset value total return per share comprises closing net asset value per share plus cumulative dividends per share paid to date.

<sup>2</sup> Increase in total return since inception compares net asset value total return per share to opening net asset value per share.

<sup>3</sup> Total expense ratio has been calculated using total operating costs divided by gross funds raised.

No dividends have been paid to date. The Directors are recommending a final dividend of 1.5 pence per Ordinary Share in respect of the period ended 31 December 2006.

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# Investment Objective

Core VCT III plc ("Core VCT III") is a tax efficient listed company which aims to achieve long-term capital and income growth and to distribute tax free dividends comprising realised gains and investors' capital investment.

## Investment Approach

We invest management buyout and development capital, typically in:

- Established, private companies, which show:
  - sufficient operating critical mass, with an established economic model;
  - quality management teams with the key skills in place to deliver a well-defined business model.
- Amounts of £2 - £5 million in companies valued at £5 – £25 million.

## Fund Structure

Core VCT III is structured as follows:–

- **No Annual Management fees**

Only when Shareholders have received the first 60 pence of distributions, which together with an assumed 40 pence of initial tax relief will have realised them 100 pence, will the Manager start to be entitled to 30% of distributions from the Fund (for further information please see Note 3 to the Accounts on page 24) .

- **Maximise distributions of income and capital**

Core VCT III has a policy to distribute all proceeds from realised investments. The Company has no fixed life but intends to naturally liquidate and distribute its assets over time. The Manager's incentives are structured to align its interest in delivering this liquidity for Shareholders as well as maximising overall investment performance.

# Chairman's Statement

I am delighted to present the first Annual Report on the activities of the Company in respect of the period from incorporation to 31 December 2006.

## Closing of the Offers for Subscription

As reported in the Interim Report, Core VCT III plc (the 'Company') closed its Offer for subscription on 27 March 2006, raising a total of £16.5 million, alongside the £16.5 million raised by Core VCT II plc, resulting in a combined total of £33 million. Whilst the Company and Core VCT II plc are legally separate entities, they share identical investment approaches and will invest in the same investments in every case.

Following the closing of the Offers, a bonus issue of six B Ordinary Shares ("B Shares") was made for every four Ordinary Shares, and of these B Shares 50% were issued to Ordinary Shareholders and 50% were subscribed for and issued to Core Capital LLP ("Core Capital" or "the Manager") in order to establish the Manager's performance-only incentive structure. Shareholders will recall that the Manager receives no investment management fees. Shareholders are also reminded that the B Shares form an integral part of their investment.

## Results

The Net Asset Value (NAV) per Ordinary Share as at 31 December 2006 was 97.17 pence, representing a gain of 2.83% over the initial opening NAV per Ordinary Share at the closing of the Offer.

This increase in total return has largely been driven by the performance of those assets of the Company managed by Credit Suisse, which achieved a total return since 17 January 2006 of 5.46%.

At this early stage in the performance of the private equity portfolio being established, there have been no valuation changes, nor would we expect such until the investments are more mature and their longer term performance becomes more established.

## Investments

Core Capital has invested in five new investments during this initial period, at a total cost and valuation of £3.1 million. This means that 23.4% of the Company's assets were in qualifying investments as at the period-end. This has subsequently increased to 34.6% following the completion of a further new investment of £990,000 in Pureleaf Limited, the vehicle for the Buy-In Management Buy-Out ("BIMBO") of Baxter International Removals Limited and including a commitment to invest a further £641,000. These amounts compare to the HM Revenue & Customs ("HMRC") requirement to be 70% invested in qualifying investments by 31 December 2008, which the Manager expects to be fulfilled well before this date.

All of the investments have been completed as part of a larger total investment managed by Core Capital and utilising funds from Core VCT I plc and Core VCT II plc ("Core VCTs I and II") in accordance with the co-investment agreement.

## Dividends

Core VCT III is structured to maximise distributions of both capital and income to Shareholders over the life of the Company. These will be derived primarily from investment realisations which are likely to be some years away and surplus cash assets which the Company anticipates being in a position to distribute after the end of its third financial year. In the meantime, dividend payments are likely to be modest and derived primarily from income earned on the Company's assets managed by Credit Suisse. Accordingly, the Board is proposing a final dividend of 1.50 pence per Ordinary Share for the period ended 31 December 2006.

## Information for shareholders

The Board supports open communication with Shareholders and welcomes any comments or questions they may have. Contact information is provided on page 36 of this Report.

## Share price

Both the Ordinary Shares and the B Shares are fully listed shares. Prices are available on [www.londonstockexchange.com](http://www.londonstockexchange.com) and the Ordinary Share price is published daily in the Financial Times. Shareholders are reminded that disposing of their Ordinary Shares within three years of purchase will result in loss of tax relief. Should you wish to sell your shares, you are strongly recommended to approach the administrators, Matrix Securities, for confirmation of the Company's buy-back policy. The B Shares can be sold at any time without loss of tax relief.

## Outlook

The Company has made good progress in completing investments of the size, type and quality consistent with its objectives of building a focused portfolio of private equity investments where the total equity funding completed by Core Capital is in the range of £2 – £5 million.

## Peter Smail

*Chairman*

9 March 2007

# Manager's Review

Following the close of the Offer and subsequent New Offer in March 2006, Core VCT III raised a total of £16.5 million before expenses and the Manager has completed five investments, totalling £3.1 million, to the end of the period under review.

In addition to this positive start, a further new investment in Pureleaf Limited, the vehicle for the BIMBO of Baxter International Removals Limited, a removals and storage business, was completed after the period end, in which Core VCT

III invested £990,000 with a commitment to invest a further £641,000, alongside £2.72 million from Core VCTs I and II. This means that Core VCT III will be 34.6% invested in qualifying VCT investments and will need to complete new investments totalling £9.8 million to meet the 70% requirement by 31 December 2008. The Manager is confident that this target can be achieved. At this stage in the Company's life, the Manager does not anticipate any material movements in the valuations of these investments as they are all relatively new.

## Investments

The following five investments have been completed in the period ended 31 December 2006, of which the first three were completed in the period ended 30 June 2006 and were therefore previously reported on in the Interim Report :-



### Blanc Brasseries Holdings plc April 2006

**Cost £1,000,000**  
**Valuation: £1,000,000**

Core Capital completed this Management Buy Out ("MBO") with total funding of £10 million in April. It led, managed and arranged this transaction with the Core VCTs collectively investing £3 million (£1 million from Core VCT III), and raised a further £3 million in EIS funds from private investors and other smaller VCTs. The partners at Core Capital have previously backed the management team in a number of successful leisure businesses, including Luminar Leisure and Loch Fyne Restaurants, which won the 2005 Best Exit Award at the EIS Association Awards.

Blanc Brasseries currently operates five units in the premium casual dining market and is looking to grow to twenty units within three years. The restaurants are situated in prime locations in Birmingham, Cheltenham, Manchester, Oxford and Tunbridge Wells and have been rebranded and relaunched. This has driven volume growth in the units and refined the operating model in preparation for the roll out. Again, finding well located new sites on attractive economic terms in the current strong property market has required a creative approach and patience, but the company now has a good pipeline of new sites for openings later in calendar 2007 and 2008.

The investment is held at cost.

Audited accounts for the period from 6 February 2006 to 2 July 2006

Turnover	Profit before tax	Net assets
£1,891,638	£(1,063,429)	£4,629,640



### Colway Limited (trading as Red Box) May 2006

**Cost £1,000,000**  
**Valuation: £1,000,000**

Core Capital led, managed and arranged this investment with total funding of £12 million. The Core VCTs collectively invested £3 million (£1 million from Core VCT III) in a mix of ordinary shares and loan notes with an 8% per annum yield, with the balance of the total funding raised through an innovative senior and mezzanine debt structure.

Red Box is a long established office and graphics supplies business with over £15 million of turnover. The main B2B division of the business has been rebranded Red Box (from The London Graphic Centre), and one acquisition has been completed as the first step in achieving growth through consolidating smaller businesses to drive further economies of scale.

The investment is held at cost. No audited financial information has been produced since investment.



## Highpitch Limited

June 2006

Cost £72,333  
Valuation: £72,333

Core VCT III invested a small amount in a mezzanine debt layer to fund the £7.5 million MBO of Highpitch. The Core VCT III secured loan note ranks ahead of a significant equity investment by the management. It carries an effective yield of 12.5% per annum and is indicative of the terms available in smaller mezzanine transactions not currently served by other debt or equity providers.

Highpitch comprises two businesses – MNet, a fast growing provider of Internet Protocol (IP) networks to mid sized UK companies, with turnover of circa £8 million, and MBS, a long established reseller of Canon photocopiers. Both companies provide services under long term contracts to a similar customer base.

The investment is held at cost. No audited financial information has been produced since investment.



## Augentius Group Limited

October 2006

Cost £35,525  
Valuation: £35,525

Core VCT III invested a small amount in a mezzanine debt layer to fund the MBO of Augentius. The transaction did not require bank debt and the £1 million A loan stock in which Core VCT III invested alongside Core VCT I and Core VCT II is the senior ranking debt. The loan stock has a cash yield of 9.5% and is indicative of the terms available in smaller mezzanine transactions not currently served by other debt and equity providers.

Augentius acquired the private equity fund administration division of Ansbacher & Co in August 2006. The business operates from London and Guernsey and provides out-sourced administration services to many leading private equity funds.

The investment is held at cost. No audited financial information has been produced since investment.



## Kelway Limited

November 2006

Cost £1,000,000  
Valuation: £1,000,000

Core Capital led, managed and arranged this investment with a total transaction value of £20m. The Core VCTs collectively invested £5 million in a mix of ordinary shares, loan notes and bank guarantees where the Manager's investment is positioned principally as a senior loan note that has an upside equity exposure of 25%.

Kelway is one of the fastest-growing IT resellers. Since it was established in 1990, it has experienced continued growth and success due to its ability to deliver exactly the right IT solutions for a wide range of customers, backed by a level of service that's the envy of the industry. Kelway understands that their customers' trust must be earned – so they ensure that the customer's individual needs are satisfied and that their expectations are exceeded.

Their unrivalled levels of quality and service have helped Kelway to achieve success in a highly competitive industry. The account management and customer service people are experienced IT professionals who offer a consultative approach to procurement. They work closely with customers to understand their business needs and will recommend only the most appropriate solutions.

Kelway operates from newly-built headquarters in London and regional sales offices in Leeds, Exeter, Swansea and Glasgow. Customer orders are fulfilled from their central distribution centre in Northampton.

The investment is held at cost. No audited financial information has been produced since investment.

# Manager's Review

## Credit Suisse portfolio

The Funds managed by Credit Suisse (CS) are held in a range of short-term, highly liquid securities, aiming to achieve a better overall return than a pure money market fund. These funds are liquidated as Core Capital identifies suitable qualifying investment opportunities. During the period the funds were initially held in cash, then moved into a range of short dated government and corporate bonds, but towards the end of the period, also built up some exposure to equity markets. At the period-end 45% of the portfolio was held in equity related instruments, 24% in alternative investments, 8% in convertibles and preference shares while 23% was held in bonds. In respect of the equity portion of their portfolio, CS has taken steps to protect the portfolio against downward capital movements. The overall return achieved by the portfolio since inception was 5.46%.

## Additional Funds

Core VCT III primarily invests alongside Core VCTs I and II and the combined total of the three Funds is some £44 million. Each of these Funds invests in private equity investments, typically between £2 – £5 million in aggregate.

Whilst Core Capital is not raising additional 'equity' based funds, the Manager has launched Core VCTs IV and V which are targeted to jointly raise £20 million. These two new Funds will invest in mezzanine debt opportunities, with a lower risk and return profile. Certain of these investments may potentially be alongside Core VCTs I, II and III and will therefore be complementary to our investment approach.

## Future Investments

Core Capital is aiming to build a highly selective investment portfolio where the unique approach and focus on larger investments with the most able and ambitious management teams will add value and liquidity. Many of the investments the Manager has completed during this initial period have been introduced directly to the Partners at Core Capital, and not generally marketed to other investors. This proprietary deal flow and Core Capital's ability to complete larger investments from the multiple funds managed clearly differentiates the Manager's approach and should result in an attractive portfolio of private equity investments.

# Investment Portfolio Summary

as at 31 December 2006

	Date of initial Investment	Book Cost £'000	Valuation £'000	% of equity held	% of net assets by value
<b>Qualifying Investments (unquoted)</b>					
Blanc Brasseries Holdings plc Premium casual dining brasseries	April 2006	1,000	1,000	11.87%	6.3%
Colway Limited (trading as Red Box) Office and graphics supplies	May 2006	1,000	1,000	23.33%	6.2%
Kelway Holdings Limited IT services	November 2006	1,000	1,000	9.40%	6.2%
<b>Total qualifying investments</b>		<b>3,000</b>	<b>3,000</b>		<b>18.7%</b>
<b>Non-qualifying investments</b>					
Short-dated fixed and variable interest securities		2,381	2,374		14.9%
Listed securities		3,767	3,947		24.6%
Funds and Trusts		4,705	4,796		29.9%
Highpitch Limited Provider of internet services and photocopiers	June 2006	72	72		0.4%
Augentius Fund Administration LLP Fund administrator	October 2006	36	36		0.2%
<b>Total non-qualifying investments</b>		<b>10,961</b>	<b>11,225</b>		<b>70.0%</b>
<b>Total investments</b>		<b>13,961</b>	<b>14,225</b>		<b>88.7%</b>
Other assets			1,974		12.3%
Current liabilities			(172)		(1.0%)
<b>Net assets</b>			<b>16,027</b>		<b>100.0%</b>

Book value of total qualifying investments represents 21.5% of the book value of total investments. The VCT investment tests are measured broadly on original cost of investments, including cash balances, and this gives the figure of 23.4% quoted in the Chairman's Statement on page 3 in relation to progress towards achieving a minimum of 70% of total investments invested in qualifying investments before 31 December 2008.

## 10 Largest investments

	Book cost £'000	Valuation £'000	% of net assets by value
Blanc Brasseries Holdings plc	1,000	1,000	6.3%
Colway Limited	1,000	1,000	6.2%
Kelway Holdings Limited	1,000	1,000	6.2%
J P Morgan Capital Protected Bond linked to FTSE 100 Index	1,000	990	6.2%
Schroder Income Maximiser Unit Trust	878	886	5.5%
BNP Paribas UK High Income preference shares	863	882	5.5%
Harewood US Hedged Equity Fund	850	876	5.5%
Treasury 8.5% Loan 2007	725	722	4.5%
iShares FTSE UK Dividend Plus exchange traded fund	655	693	4.3%
GE Capital Floating rate note 2010	651	651	4.1%
Speymill (German Property Investment Trust)	594	630	3.9%
<b>Total of 10 largest investments</b>	<b>9,216</b>	<b>9,330</b>	<b>58.2%</b>

# Board of Directors

## **Peter Smail**

**Status:** *Independent, non-executive Chairman*

**Age:** 52

**Date of appointment:** 11 October 2005

Peter has pursued a career in private equity investment spanning more than 25 years, focusing on mid-market transactions of all types. He has been associated with many successful exits of buyouts, buyins and growth capital investments throughout the UK. A law graduate of Edinburgh University, Peter trained at 3i and had a period with Gresham Trust plc, specialising in Business Expansion Scheme financings, prior to developing his career at National Westminster Bank Plc. He was a Director of NatWest Equity Partners Limited (now Bridgepoint Capital Limited), and headed its Edinburgh office in 1989. He was Director of the NatWest IT Fund from 1996 to 2000, which achieved successful flotations for investments on AIM, Techmark and NASDAQ, as well as via trade sales. Subsequently he moved to LICA Development Capital Limited in London where he was Co Managing Director, developing information technology strategy and tax related products, before joining Dunedin Capital Partners Limited, where he was a Director from 2002 to 2004. He has acted as a non-executive director of AIM Group Holdings Limited and OSS Environmental Holdings Limited. He was non-executive chairman of Portman Holdings Limited, a MBO which he led in 1996 and successfully exited in February 2007. In January 2006, he was appointed a director of Fairfax Investment Management Limited. Peter was from 1998 to 2002 a Council member of the British Venture Capital Association Limited and Chairman of its Training Committee. Peter was appointed as Chairman of Core VCT I plc in November 2004 and of Core VCT II plc in October 2005.

## **The Rt. Hon. The Lord Walker of Worcester, MBE, PC**

**Status:** *Non-executive Director*

**Age:** 74

**Date of appointment:** 11 October 2005

Lord Walker has pursued both an active business career and a distinguished career in British politics. He was elected a Conservative Member of Parliament in 1961 for Worcester, and

became the youngest member of the Shadow Cabinet in 1965 and the youngest Cabinet member in 1970. He remained a member of all Conservative Cabinets from 1970 to 1990. In 1990, he left the Cabinet and returned to his business activities and took on a series of executive and non-executive board positions including British Gas plc (1990-1996), and Tate & Lyle plc (1990-2001). He was Chairman of Allianz Cornhill Insurance plc until June 2006 and is Vice Chairman of Dresdner Kleinwort Limited. He is a non-executive Director of the London International Financial Futures and Options Exchange, a non-executive director of Caparo plc and Caparo Group Limited and a non-executive director of ITM Power plc. He is also a director of the International Tax and Investment Centre and is vice president of the German-British Chamber of Industry and Commerce. Lord Walker was appointed as a Director of Core VCT I plc in November 2004 and of Core VCT II plc in October 2005.

## **Helen Bagan**

**Status:** *Independent, non-executive Director*

**Age:** 48

**Date of appointment:** 11 October 2005

Helen started her career at Deloitte Haskins and Sells where she qualified as an accountant and spent 4 years in corporate finance. She moved into private equity in 1992, joining Henderson Venture Managers Limited, and subsequently Dunedin Capital Partners Limited where she was a member of the team that bought out the business from its parent company in 1996. She was Finance Director of Majedie Investments plc, a quoted investment trust, from 1999 until she became Finance Director at ProVen Private Equity Limited in 2000, where she was responsible for group compliance and financial management of VCTs, limited partnerships, and funds managed by its US parent company, Beringea, where she left in 2003. Helen was non-executive director of Ofex Holdings Plc and Plus Markets Group plc until January 2007. Helen was appointed as a Director of Core VCT I plc in November 2004 and of Core VCT II plc in October 2005.

# Directors' Report

The Directors present the first Annual Report and Accounts of the Company for the period from incorporation on 23 September 2005 to 31 December 2006.

## Business and principal activities

The principal activity of the Company during the period under review was investment in a diverse selection of established unquoted companies in the United Kingdom. Details of the principal investments made by the Company are given in the Investment Portfolio Summary on page 7 of this Report. A review of the Company's business during the period is contained in the Chairman's Statement on page 3 and Manager's Review pages 4-6.

The Ordinary Shares of 0.01 p each and the B Ordinary Shares of 0.01 p each in the capital of the Company were first admitted to the Official List of the UK Listing Authority (UKLA) and began trading on 10 March and 19 April 2006 respectively.

The Company is an investment company as defined in section 266 of the Companies Act 1985 ("the Act") and has satisfied the requirements for provisional approval as a Venture Capital Trust under section 842AA of the Income and Corporation Taxes Act 1988 (ICTA). It is the Directors' intention to continue to manage the Company's affairs in such a manner as to comply with section 842AA of the ICTA.

## Future developments

The Company will continue to pursue its investment objective as set out at the beginning of this Annual Report.

## Business review and performance review

For a review of the Company's development and performance during the period, please see the Chairman's Statement on page 3 and the Manager's Review on pages 4-6. The Performance Summary on page 1 provides data on the Company's key performance indicators.

The Board reviews performance by reference to a number of measures, taking account of the long term nature of the assets in which the Company invests.

## Total Return

The total return (Net Asset Value (NAV) plus cumulative distributions) is the key measure of performance for the Company. The two principal components of this measure are :-

### NAV per share

- NAV per share is calculated quarterly, with a full valuation of the unquoted investments carried out every six months in accordance with the International Private Equity Venture Capital Valuation guidelines.

### Cumulative Distributions

- Cumulative distributions are since inception distributions of both income and capital. The Company has no fixed life, but intends to naturally liquidate and distribute all its assets over time. In particular, the Company has a policy to distribute all proceeds from realised investments (the original capital invested plus realised profits less losses), as well as income after expenses. In addition, the Company intends to return cash assets after the initial 3 year investment period.

## Share price

The Board monitors the share price of the Ordinary Shares and the B Shares. There have been no transactions in the Company's shares or share buy backs by the Company.

## Total expense ratio

The expenses of managing the Company, known as the Total Expense Ratio (TER), are reviewed by the Board at Board meetings. Because the Company has no management fee payable to Core Capital, the Company is expected to have one of the lowest fixed costs of any VCT of comparable size.

## Issue of shares

On incorporation the authorised share capital of the Company was £50,000 comprising 50,000 Ordinary Shares of £1.00 each (of which two were issued fully paid at a subscription price of £1.00 each to the subscribers of the Memorandum of Association).

At an Extraordinary General Meeting held on 7 October 2005 the authorised share capital of the Company was increased to £55,005 by the creation of 5,005 Ordinary Shares of £1.00 each. 50,000 unissued Ordinary Shares were redesignated into 50,000 non-voting Redeemable Preference Shares of £1 each, and each of the two issued shares and remaining 5,003 unissued Ordinary Shares of £1 each in the Company were subdivided into 50,050,000 Ordinary Shares of 0.01 pence each. 30,030,000 Ordinary Shares of 0.01 pence were then redesignated as B Shares of 0.01 pence each.

On 7 October 2005, so as to enable the Company to obtain a certificate under section 117 of the Companies Act 1985, Core Capital was allotted 50,000 Redeemable Preference Shares of £1 each at par for cash, paid up to one quarter of their nominal value. The Redeemable Preference Shares were paid up in full on 12 January 2006, and redeemed by the Company out of the proceeds of the Offer for Subscription launched on 24 October 2005. The Redeemable Preference Shares were re-designated as 40 Ordinary Shares of 0.01 pence each and 60 B Shares of 0.01 pence each pursuant to the Articles of Association, creating a further 200,000,000 Ordinary Shares of 0.01 pence each and 300,000,000 B Shares of 0.01 pence each.

Of the 220,020,000 authorised Ordinary Shares of 0.01 pence each, a total of 16,490,859 were issued between 24 October 2005 and 27 March 2006 at a price of £1 per share raising a total of £16,490,859 (before costs).

Following the close of the Offer, in accordance with the Prospectus, sufficient B Shares were issued to represent 60% of the aggregate total number of Ordinary and B Shares in issue. The Manager was entitled to subscribe for 50% of the total number of B Shares at par value and the remaining 50% of the B Shares were issued to Ordinary Shareholders by way of a bonus issue financed from the Ordinary Share Premium Account. Of the authorised 330,030,000 B Shares of 0.01 pence each, a total of 24,736,288 were issued.

# Directors' Report

The Company has not issued any new Ordinary Shares or B Shares since the close of the Offer on 27 March 2006.

As at 31 December 2006, the issued Ordinary Share capital of the Company was £1,651 and the issued B Share capital of the Company was £2,474. The number of Shares in issue as at 31 December 2006 was 16,510,859 Ordinary Shares and 24,736,288 B Shares.

The Company's application to the High Court to reduce the Share Premium account of the Company by 50% was approved by an Order of the Court on 23 August 2006 and registered at Companies House on 26 September 2006. The cancellation of the share premium account has created a special reserve that can be used, amongst other things, to fund buy-backs of the Company's shares when the Directors consider that it is in the best interests of the Company to do so.

The Company has not bought back any shares during the period under review.

## Results

	Period ended 31 December 2006 £
Capital return for the period	261,638
Revenue return after taxation for the period	161,934
Total return attributable to Shareholders for the period	423,572

## Dividend

The Directors will be recommending a final dividend of 1.50 pence per Ordinary Share to Shareholders at the Annual General Meeting to be held on 19 April 2007 and will be payable on 7 May 2007 to Shareholders who are on the Register on 13 April 2007.

## Directors and their interests

The names of the Directors appear below and brief biographical details on each of the Directors are given on page 8 of this Annual Report. The current Directors were all appointed to the Board on 11 October 2005 and subsequently re-elected at the AGM held on 2 November 2006. In accordance with the Company's Articles of Association and the 2003 FRC Code of Corporate Governance ("the Combined Code"), Helen Bagan will retire by rotation at the Annual General Meeting of the Company to be held on 19 April 2007 and being eligible offers herself for re-election. Having reached the age of 70, Lord Walker will also retire at this meeting and offers himself for re-election.

The Directors' interests (including holdings of connected persons) in the issued capital of the Company as at 31 December 2006 were:

	Shares held on 31 December 2006:	
	Ordinary Shares	B Shares
Peter Smail	31,900	23,175
Helen Bagan	15,600	11,700
Lord Peter Walker	31,200	23,400

There have been no further changes in the holdings of the Directors since 31 December 2006.

No options over the share capital of the Company have been granted to the Directors. No Director has a service contract with the Company. The Company does not have any employees.

## Management

Core Growth Capital LLP was appointed Manager to the Company on 11 October 2005 and changed its name to Core Capital LLP on 3 October 2006. The Management Agreement is for an initial period of four years and thereafter until their appointment is terminated by not less than one year's notice in writing to expire at any time after the initial period. The Manager receives no annual fee but instead has subscribed for 50% of the B Shares in issue. For further information please see note 3 to the accounts on page 24. The Directors regularly review the performance of the Manager and carry out an annual evaluation. They believe that the continuing appointment of the Manager on the terms agreed is in the interests of the Shareholders as a whole. For further details of the review please see page 15 of the Corporate Governance Statement.

Matrix-Securities Limited acts as both Administrator and Company Secretary to the Company under an Agreement dated 11 October 2005. The appointment was for an initial period of one year and thereafter may be terminated by not less than six month's notice in writing to expire after the initial period. A fee of £20,335 was paid in respect of the period covered by this Report.

## VCT status monitoring

The Company appointed PricewaterhouseCoopers LLP to advise on its compliance with the legislative requirements relating to VCTs. PricewaterhouseCoopers review new investment opportunities as appropriate and carry out regular reviews of the Company's investment portfolio.

## Auditors

Ernst & Young LLP were reappointed as Auditors of the Company at the Annual General Meeting held on 2 November 2006 and resolutions to re-appoint Ernst & Young LLP and to authorise the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

## Auditors' right to information

So far as the Directors are aware, there is no relevant audit information of which the auditors are unaware. They have individually 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 the Company's auditors are aware of that information.

### Financial instruments

The main risks arising from the Company's financial instruments are due to fluctuations in the market price and interest rates, credit risk and liquidity risk. The Board regularly reviews and agrees policies for managing these risks and full details can be found in note 18 on pages 31–32.

### Substantial interests

As at 21 February 2007 the Company had not been notified of any beneficial interest exceeding 3% of the issued share capital.

### Creditors' payment policy

The Company's policy is to pay all creditors' invoices within 30 days of the invoice date unless otherwise agreed. At 31 December 2006 the average credit period for creditors was 60 days (this figure is exceptionally high due to the receipt of a large invoice just before the period-end).

### Annual General Meeting

Notice of the Annual General Meeting of the Company to be held at 3.15 pm on 19 April 2007 at One Jermyn Street, London SW1Y 4UH is set out on pages 33–34 of this Annual Report. A personalised Proxy Card has been included with Shareholders' copies of this Annual Report.

The notice of the meeting includes resolutions to re-appoint Helen Bagan and Lord Walker as Directors of the Company and brief biographical details of both Directors can be found on page 8 of this Annual Report.

The resolutions to be considered at the Annual General Meeting include:

### Authorities for the Directors to allot shares (Resolution 8) and disapply pre-emption rights of members (Resolution 9) under sections 80 and 95 of the Act.

These two resolutions grant the Directors the authority to allot shares for cash to a limited and defined extent otherwise than pro rata to existing shareholders in accordance with section 89 of the Act. Resolution 8 will enable the Directors to allot up to an aggregate nominal amount not exceeding £412.77 with regard to the Ordinary Shares and £618.41 with regard to the B Shares representing approximately 25% of the issued ordinary share capital of both classes. This resolution is proposed as an ordinary resolution. This authority, unless previously renewed or revoked, will expire on the fifth anniversary of the date of the passing of this resolution.

Under section 89 of the Act, if the Directors wish to allot any of the unissued share capital for cash they must first offer such shares to existing shareholders in proportion to their current holdings. Resolution 9 will enable this requirement to be disapplied in the specific circumstances named in the Resolution. These are in relation to a rights issue, to fund a purchase of shares and also pursuant to any future 5 per cent. "top-up" offer. This resolution is proposed as a special resolution.

Both authorities, unless previously renewed or revoked, will expire on the earlier of the Annual General Meeting of the Company to be held in 2008 and the date which is fifteen months after the date on which the relevant resolution is passed except that the Directors may allot securities after this date in pursuance of offers or agreements made prior to the expiration of the authority.

Both resolutions generally renew previous authorities approved on 2 November 2006 respectively. The Directors have no immediate intention of exercising these powers.

### Authority to purchase the Company's own shares (Resolution 10)

This resolution authorises the Company to purchase its own shares pursuant to section 166 of the Companies Act 1985. The authority is limited to a maximum number of Ordinary Shares and B Shares equal to 14.99% of the issued share capital of each class at the date of the resolution and will expire on the earlier of the conclusion of the Annual General Meeting of the Company to be held in 2008 and the date which is fifteen months after the date on which this resolution is passed. The maximum price (exclusive of expenses) which may be paid for an Ordinary Share or a B Share will be the amount equal to 105% of the average of the middle market quotations for the Company's Shares of that class as derived from The London Stock Exchange Daily Official List for the five business days immediately preceding the purchase. The minimum price which may be paid is 0.01 of a penny per share, the nominal value thereof.

As a consequence of the tax relief available to investors who purchase new VCT shares, market liquidity is restricted. The additional new reserve created by the cancellation of the share premium account may be used to off-set the effects of any future unrealised losses on the ability of the Company to pay future dividends in respect of the shares. In addition, the reserve created by the cancellation may also be used, to a limited extent, to purchase Ordinary Shares and B Shares in the market. Such purchases may help to limit the discount at which the shares may trade to their underlying net asset value.

Shareholders should note that the Directors will not exercise this authority unless to do so would result in an increase in net assets per share and would be in the interests of Shareholders generally. This resolution is proposed as a special resolution.

By order of the Board

**Matrix-Securities Limited**

*Secretary*

9 March 2007

# Directors' Remuneration Report

This Report has been prepared by the Directors in accordance with the requirements of Schedule 7A of the Companies Act 1985. A resolution to approve the Report will be proposed at the Annual General Meeting to be held on 19 April 2007. The Company's auditors are required to give their opinion on the specified information provided on Directors' emoluments and this is explained further in their report to Shareholders on page 18. The figures that are audited are detailed as such.

## Remuneration policy

The remuneration policy and the remuneration of individual Directors is determined by the Board as a whole of which Peter Smail and Helen Bagan are independent of the Manager. When considering the level of Directors' fees, the Board takes account of remuneration levels elsewhere in the Venture Capital Trust industry and other relevant information. It considers the levels and make-up of remuneration which are sufficient to attract, retain and motivate directors of the quality required to run the Company successfully and reflect the time commitment and responsibilities of the roles. The Board has access to independent advice where it considers it appropriate. However, no such advice was taken during the period under review.

It is not considered appropriate at the current time to relate any portion of the fees paid to the Directors, who are all non-executive, to performance. However, members of the Manager own 50% of the B Shares through which they effectively receive 30% of all income and capital after such time as the Ordinary Shareholders have received the effective initial cost of 60 pence plus a hurdle rate return of 5% per annum. Lord Peter Walker is a Director and shareholder of Caparo plc which is a partner in Core Capital LLP (for further information on the incentive fee and on Lord Walker's connection to the Caparo Group Limited please see Notes 3 and 19 respectively of the Notes to the Accounts on pages 24 and 32). Lord Walker was paid director's fees of £5,885 during the period under review.

The Directors do not have any plans to introduce any further incentive schemes at the present time and will seek Shareholder approval for any such schemes should they be proposed in the future.

The Company's Articles of Association limit the total amount that can be paid to the Directors in fees to £100,000 per annum. It is intended that this policy will continue for the year ended 31 December 2007 and subsequent years.

Details of the Directors' remuneration are disclosed below and in the Notes to the Accounts.

## Terms of appointment

The Articles of Association provide that Directors may be appointed either by an ordinary resolution of the Company or by the Board provided that a person appointed by the Board shall be subject to re-election at the first Annual General Meeting following their appointment. Subject to the provisions of the Companies Act 1985, one third of the Directors (or if the number is not a multiple of three, the number nearest to one-third), shall retire from office by rotation at each AGM and the Director(s) retiring by rotation shall be the Director(s) who has been longest in office since their last election. Directors retiring by rotation are then eligible for re-election. Having reached the age of 70 years, Lord Walker shall retire annually in accordance with section 293(5) of the Companies Act 1985.

All of the Directors are non-executive and none of the Directors has a service contract with the Company. All Directors receive a formal letter of appointment setting out the terms of their appointment, the powers and duties of Directors and the fees pertaining to the appointment. A Director's appointment may be terminated on three months' notice being given by the Company and in certain other circumstances. No arrangements have been entered into between the Company and the Directors to entitle any of the Directors to compensation for loss of office. None of the Directors receive pension benefits from the Company and the Company has not granted any Director any options over the share capital of the Company.

## Directors' emoluments (audited information)

The total emoluments in respect of qualifying services of each person who served as a Director during the period are as set out in the table below. The Company does not have any schemes in place to pay any of the Directors bonuses or benefits in addition to their Directors' fees.

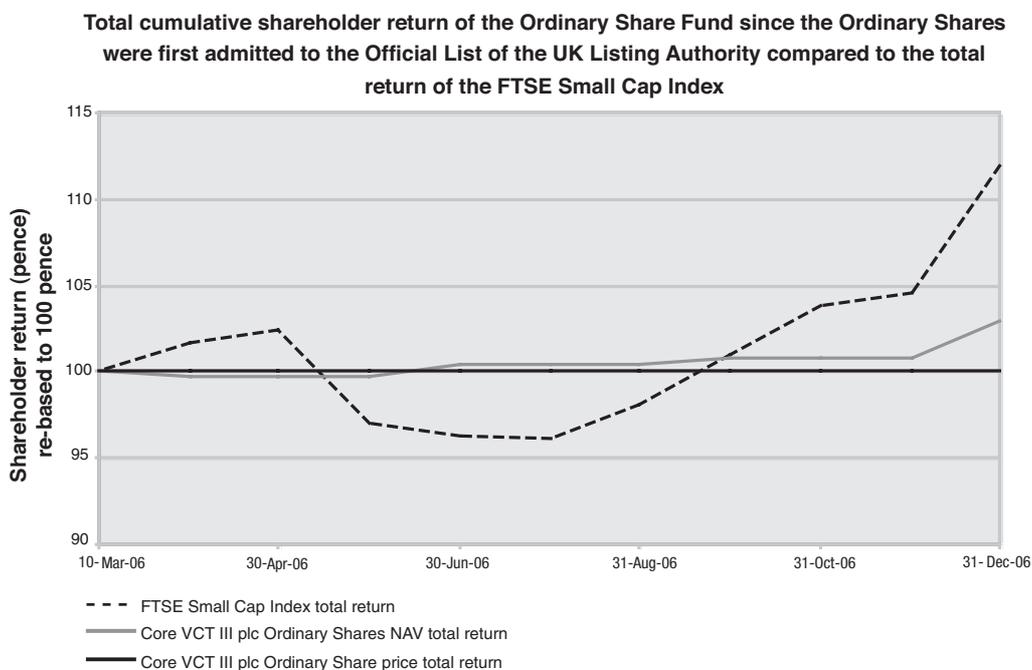
	Period to 31 December 2006 £
Peter Smail	7,355
Helen Bagan	5,885
Lord Peter Walker	5,885
	<hr/> 19,125 <hr/>

The Directors received no further emoluments in respect of their services. Aggregate fees in respect of qualifying services for all Directors for the period from 23 September 2005 to 31 December 2006 amounted to £19,125.

**Total shareholder return**

The following graph charts the total cumulative shareholder return of the Company since the Ordinary Shares were first admitted to the Official List of the UK Listing Authority on 10 March 2006 (assuming all dividends are re-invested) compared

to the total cumulative shareholder return of the FTSE SmallCap Index. This index represents a broad equity market index against which investors can measure the performance of the Company and is considered an appropriate index against which to measure the Company's performance. The total shareholder return has been re-based to 100 pence which is equivalent to the opening share price of the Ordinary Shares. An explanation of the performance of the Company is given in the Chairman's Statement and the Manager's Review.



The NAV per share has been shown separately on the graph because the Directors believe that it represents a more accurate reflection of the Company's performance.

By order of the Board

**Matrix-Securities Limited**

*Company Secretary*

9 March 2007

# Corporate Governance Statement

The Directors of Core VCT III plc have adopted the FRC Combined Code on Corporate Governance (2003) ("the Combined Code") in respect of the period from 10 March 2006, when the Company's shares were first admitted to the Official List of the UKLA, to 31 December 2006. They have considered the principles detailed in the Combined Code and believe that, insofar as they are relevant to the Company's business, and except as disclosed below, the Company has complied with the provisions of the Code throughout the period.

The Company has recently become a member of the Association of Investment Companies (AIC) and the Directors have adopted the AIC Code of Corporate Governance ("the AIC Code") with effect from 1 January 2007. The AIC Code was endorsed by the FRC on 3 February 2006 who have confirmed that in complying with the AIC Code companies will meet their obligations in relation to the Combined Code and paragraph 9.8.6 of the Listing Rules.

## The Board

The Board comprises three non-executive Directors. Each brings a range of relevant expertise, experience and judgement to the Board. The Company has not appointed a Senior Independent Director as it does not believe that such an appointment is necessary when the Board is comprised solely of non-executive Directors. The Directors believe that this structure is the most appropriate for the Company given its current size and the nature of its business.

The Chairman's other significant time commitments are disclosed on page 8.

All the Directors are equally responsible under the law for the proper conduct of the Company's affairs. In addition, the Directors are responsible for ensuring that their policies and operations are in the best interests of all the Company's Shareholders and that the best interests of creditors and suppliers to the Company are properly considered.

At least four formal Board meetings are scheduled every year and other meetings are held as necessary. There is a schedule of matters specifically reserved for decision by the Board. These include compliance with the requirements of the Companies Act, the UK Listing Authority and the London Stock Exchange; changes relating to the Company's capital structure or its status as a plc. Given the size and structure of the Company and the Board, the Board does not believe it is necessary to appoint an Audit Committee or a Nominations and Remuneration

Committee. The roles and responsibilities of these Committees have been included in the schedule of matters specifically reserved for decision by the Board following the recommendations of the Combined Code where these are considered to be appropriate to the Company. The Board allocates separate sections of the Agendas for Board meetings for 'Audit matters', 'Nomination matters' and 'Remuneration matters'. Under 'Audit matters' the Board reviews the internal financial and non-financial controls, accounting policies and the contents of the Interim and Annual Reports to Shareholders and has full responsibility for the appointment and removal of the external auditors. The Company's external auditors are invited to attend meetings as appropriate. Helen Bagan has particular responsibility on the Board for audit matters and the Board has satisfied itself that she has recent and relevant financial experience.

In the period under review the Board held eight formal meetings. The attendance of the Directors is summarised in the table below:

Director	Number of Meetings (attended/held)
Peter Smail	8/8
Helen Bagan	5/8
Lord Walker	7/8

A procedure has been adopted for individual Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company. The Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring board procedures are followed. Both the appointment and removal of the Company Secretary are matters for the Board as a whole. Where Directors have concerns, which cannot be resolved about the running of the Company or a proposed action, they are asked to ensure that their concerns are recorded in the Board minutes. On resignation, a Director who has any such concerns should provide a written statement to the Chairman, for circulation to the Board. The Board has satisfied itself that it has sufficient resources to undertake its duties.

All of the Directors are subject to re-election by Shareholders at the first Annual General Meeting following their appointment and, subject to the provisions of the Companies Act 1985, one-third of the Directors shall retire from office by rotation at each

AGM and this Director shall be the Director who has been longest in office since their last election. Helen Bagan will retire by rotation at the Annual General Meeting of the Company to be held on 19 April 2007 and being eligible offers herself for re-election. Having reached the age of 70 years, Lord Walker shall retire annually in accordance with section 293(5) of the Companies Act 1985.

	Date of appointment	Next retirement by rotation/ re-election due
Peter Smaill	11-Oct-2005	AGM 2008
Helen Bagan	11-Oct-2005	AGM 19 April 2007
Lord Walker	11-Oct-2005	AGM 19 April 2007

The Board has considered whether each Director is independent in character and judgement and whether there are any relationships or circumstances which are likely to affect, or could appear to affect, the Director's judgement and has concluded that all of the Directors with the exception of Lord Walker are independent of the Manager. The Board has satisfied itself of the independence of the remaining Directors except in respect of the contracts and investments in which they have declared an interest. These are detailed in full in Note 19 of the Notes to the Accounts on page 32 on related party transactions. The Board places great emphasis on the requirement for the Directors to disclose their interests in investments (and potential investments) and has instigated a procedure whereby a Director declaring such an interest does not participate in any decisions relating to such investments. The Chairman fully meets the independence criteria as set out in paragraph A.3.1 of the Combined Code.

The Board aims to include a balance of skills, experience, ages and length of service that the Directors believe to be appropriate to the management of the Company. No new appointments have been made to the Board since the Company began trading. The Board has plans to review and implement an induction procedure when such an appointment is made. The performance of the Board and the Chairman is reviewed regularly as part of the internal control process. The Board does not therefore believe that a formal system of performance evaluation of the Board and its Chairman is appropriate to the Company at the current time.

The Company does not have a Chief Executive.

### The Manager

Under the terms of a Management Deed dated 11 October 2005, the Company has appointed Core Capital LLP (formerly Core

Growth Capital LLP) as Manager of the Company. The Manager will manage and advise the Company so that it will ensure that the Company will satisfy and continue to satisfy the conditions for approval as a venture capital trust set out in section 842AA of ICTA and the rules of the UKLA. The Board regularly reviews the performance of the Manager. Details of the principal investments made by the Company are given in the Manager's Review on pages 4–6. There are no management fees payable to the Manager. Details of the management incentive structure whereby members of the Manager have subscribed for B Shares in the Company are set out in Note 3 to the accounts on page 24.

The continued appointment of Core Capital LLP as Investment Manager to the Company on the existing terms was approved by the Board on 21 February 2007. The Board considers the arrangement for the provision of investment management and other services to the Company on an ongoing basis and a review is conducted annually.

As part of this review the Board considered the quality of management and levels of staffing, the investment process and the results achieved to date. As noted in the Chairman's Statement and Manager's Review, good progress has been made in establishing a portfolio which should, based on the Manager's projections, ensure that the key test that 70% of your Company's assets are invested in qualifying investments for VCT purposes will be achieved by the end of the Company's third financial period.

The Board considers it too early to form a view as to relative performance given the timing of investments. From time to time the Board initiates discussions on the investment process and portfolio activity with the aim of developing the capacity of the Manager to deliver investor value at acceptable risk as the level of invested capital rises.

The principal contents of the agreement with the Manager have been set out in the previous section. Having considered the terms of this agreement, and where relevant those of companies in the same peer group, the Board considers that the terms of the agreement represent an appropriate balance between cost and incentivisation of the Manager, with the principal economic reward to the Manager consisting of the capital growth potential of their holding of B Shares of the Company in the event that investor-focussed hurdles are met.

### Internal control

The Board acknowledges that it is responsible for the Company's system of internal control. Internal control systems are designed to manage the particular needs of the Company and the risks to

# Corporate Governance Statement

which it is exposed and can by their nature only provide reasonable and not absolute assurance against material misstatement or loss.

The Directors are responsible for the internal control systems of the Company and for reviewing their effectiveness. These aim to ensure the maintenance of proper accounting records, the reliability of published financial information and the information used for business making decisions and that the assets of the Company are safeguarded.

The Board has put in place ongoing procedures for identifying, evaluating and managing the significant risks faced by the Company. As part of this process an annual review of the control systems is carried out in accordance with the Turnbull guidelines for internal control. The review covers a consideration of the key business, operational, compliance and financial risks facing the Company. Each risk is considered with regard to: the controls exercised at Board level; reporting by service providers and controls relied upon by the Board; exceptions for consideration by the Board; responsibilities for each risk and its review period; and risk rating.

The Board has delegated contractually to third parties the management of the investment portfolio, the day to day accounting, company secretarial and administration requirements and the registration services. Each of these contracts was entered into after full and proper consideration by the Board. The annual review includes a consideration of the risks associated with the Company's contractual arrangements with third party suppliers.

This procedure for the review of control systems has been in place and operational throughout the period under review. The first formal review took place on 21 February 2007. The Board has identified no significant problems with the Company's internal control mechanisms that warrant disclosure in the Annual Report.

## Directors' remuneration

Under Listing Rule 16.3.5 of the UK Listing Authority, where a Venture Capital Trust company has no executive directors the Combined Code's principles relating to directors' remuneration do not apply. The remuneration of the Directors is determined by the Board, in accordance with the Company's Articles of Association.

## Relations with Shareholders

Communication with Shareholders is given a high priority. All Shareholders receive a copy of the Annual and Interim Reports. There is an opportunity to question the Directors at the Annual General Meeting to which all Shareholders are invited. Shareholders also receive a Newsletter in respect of the quarters in which they do not receive either the Annual or the Interim Reports.

The Board as a whole approves the contents of the Chairman's Statement and Manager's Review which form part of the Annual and Interim Reports to Shareholders in order to ensure that they present a balanced and understandable assessment of the Company's position and future prospects.

The Company counts all proxy votes and indicates to Shareholders at each General Meeting the balance for and against each resolution and the number of abstentions, after it has been dealt with on a show of hands.

The Notice of the Annual General Meeting is included in this Annual Report and is normally sent to Shareholders at least 20 working days before the meeting.

## Going concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

## Accountability and audit

The Statement of Directors' Responsibilities in respect of the accounts is set out on page 17 of this Report. The Report of the Auditors is set out on page 18 of this Report.

The non-audit services provided by the auditors for the period ended 31 December 2006 related to the provision of tax compliance work. The Board regularly reviews and monitors the external auditor's independence and objectivity. As part of this it reviews the nature and extent of services supplied by the auditors to ensure that independence is maintained.

## Internal audit

The Board has reviewed the need for an internal audit function. It has concluded that the systems and procedures employed by the Manager provide sufficient assurance that a sound system of internal financial control, which safeguards Shareholders' investment and Company assets, is maintained. An internal audit function, specific to the Company, is therefore considered unnecessary.

# Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. In preparing such statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure

that the financial statements comply with the Companies Act 1985. They have responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The financial statements may be published on a website that is managed by an organisation other than the Manager or the Board of Directors. The Auditors have represented to your Board that their work does not involve any consideration of the maintenance and integrity of such websites and accordingly the Auditors accept no responsibility for any changes that may have occurred to the financial statements since they were approved. Visitors to any website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdictions.

# Independent Auditors' Report to the Shareholders of Core VCT III plc

We have audited the financial statements of Core VCT III plc for the period ended 31 December 2006 which comprise the Income Statement, Balance Sheet, Reconciliation of Movement in Shareholders' Funds and Cash Flow Statement and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

## Respective responsibilities of directors and auditors

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities. Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited 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 whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the information given in the Directors' Report is consistent with the financial statements. In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Performance Summary, the Investment Objective, the Chairman's Statement, the Manager's Review, the Investment Portfolio

Summary, Board of Directors, the Directors' Report, the unaudited part of the Directors' Remuneration Report, Corporate Governance Statement, and the Statement of Directors' Responsibilities. 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 and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

## Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 and of its net return for the period then ended;
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Ernst & Young LLP  
*Registered auditor, London*

9 March 2007

Notes :

1. These financial statements may be published on the websites of the Manager and/or the Company Secretary or on a website managed by another organisation. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Income Statement

for the period from 23 September 2005 to 31 December 2006

	Notes	Period from 23 September 2005 to 31 December 2006		
		Revenue £	Capital £	Total £
Unrealised gains on investments		–	268,878	268,878
Net realised losses on investments		–	(37,184)	(37,184)
Income	2	513,457	–	513,457
Transaction costs and Investment management expense	3	(7,742)	(86,124)	(93,866)
Income	4	(188,620)	–	(188,620)
<b>Return on ordinary activities before taxation</b>		317,095	145,570	462,665
Tax on ordinary activities	6	(55,457)	16,364	(39,093)
<b>Return attributable to equity shareholders</b>		261,638	161,934	423,572
<b>Return per Ordinary Share</b>	8	1.65p	1.02p	2.67p

The total column is the profit and loss account of the Company.

There were no other gains or losses in the period ended 31 December 2006.

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

No operations were acquired or discontinued in the period.

The notes on pages 22 to 32 form part of these financial statements

# Balance Sheet

as at 31 December 2006

	Notes	£	£	31 December 2006 £
<b>Non-current assets</b>				
Investments at fair value	9			14,224,838
<b>Current assets</b>				
Debtors and prepayments	11	1,483,692		
Cash at bank	17	489,783		
			1,973,475	
<b>Creditors: amounts falling due within one year</b>				
Corporation tax		39,093		
Other creditors		24,167		
Accruals		108,298		
	12		(171,558)	
<b>Net current assets</b>				1,801,917
<b>Net assets</b>				16,026,755
<b>Capital and reserves</b>				
Called up Ordinary Share capital	13			1,651
Called up B Share capital	13			2,474
Share premium account	14			7,799,528
Capital reserve – realised	14			(106,944)
Capital reserve – unrealised	14			268,878
Special distributable reserve	14			7,799,530
Revenue reserve	14			261,638
<b>Total equity shareholders' funds</b>				16,026,755
<b>Net asset value per 0.01p Ordinary Share</b>	15			97.17p
<b>Net asset value per 0.01p B Ordinary Share</b>	15			0.01p

The notes on pages 22 to 32 form part of these financial statements.

The financial statements were approved and authorised for issue by the board on 9 March 2007 and were signed on its behalf by:

**Peter Smaill**

*Chairman*

# Reconciliation of Movements in Shareholders' Funds

for the period from 23 September 2005 to 31 December 2006

	<b>Period from 23 September 2005 to 31 December 2006</b>
	<b>£</b>
Opening Shareholders' funds	–
Net share capital subscribed for in the period	15,603,183
Profit for the period	423,572
Closing Shareholders' funds at 31 December 2006	16,026,755

## Cash Flow Statement

for the period from 23 September 2005 to 31 December 2006

	<b>Notes</b>	<b>£</b>	<b>£</b>	<b>£</b>
			<b>Period from 23 September 2005 to 31 December 2006</b>	
<b>Operating activities</b>				
Investment income received			742,349	
Investment management fees paid			(39,810)	
Other cash payments			(422,795)	
<b>Net cash inflow from operating activities</b>	16			279,744
<b>Taxation</b>				
UK Corporation tax paid				–
<b>Investing activities</b>				
Acquisition of investments	9		(26,142,877)	
Disposal of investments	9		12,149,733	
				(13,993,144)
<b>Equity dividends paid</b>				
Cash outflow before financing				(13,713,400)
<b>Financing</b>				
Issue of ordinary shares			15,049,858	
Issue costs			(846,675)	
Net cash inflow from financing				14,203,183
<b>Increase in cash for the period</b>	17			489,783

The notes on pages 22 to 32 form part of these Financial Statements.

# Notes to the Accounts

## for the period ended 31 December 2006

### 1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the current period, is set out below:

#### a) Basis of accounting

The accounts have been prepared under the fair value rules of the Companies Act 1985, and in accordance with applicable accounting standards and, to the extent that it does not conflict with the Companies Act 1985 and UK accounting standards, the 2003 Statement of Recommended Practice, 'Financial Statements of Investment Trust Companies', revised December 2005.

#### b) Investments

All investments held by the Company are classified as at "fair value through profit and loss". For investments actively traded in organised financial markets, fair value is generally determined by reference to Stock Exchange market quoted bid prices at the close of business on the balance sheet date

Unquoted investments are valued by the Directors in accordance with the following rules, which are consistent with the International Private Equity Venture Capital Valuation (IPEVCV) guidelines published in 2005:

- (i) Investments which have been made in the last 12 months are at fair value, which unless another methodology gives a better indication of fair value, will be at cost.
- (ii) Investments in companies at an early stage of their development are also valued at fair value, which unless another methodology gives a better indication of fair value, will be at cost.
- (iii) Where investments have gone beyond the stage in their development in (ii) above, the shares may be valued, in the absence of overriding factors, by applying a suitable price-earnings ratio to that company's maintainable earnings (the ratio used being based on a comparable listed company or sector but the resulting value being discounted to reflect lack of marketability). Where overriding factors apply, alternative methods of valuation will be used. These may include the application of a material arms length transaction by an independent third party, cost, cost less provision for impairment, discounted cash flow, or a net asset basis;
- (iv) Where a value is indicated by a material arms-length transaction by a third party in the shares of a company, this value will be used.
- (v) Where a company's underperformance against plan indicates a permanent diminution in the value of the investment, this amount is transferred to the realised reserve from the unrealised reserve.

#### c) Income

Dividends receivable on quoted equity shares are brought into account on the ex-dividend date. Dividends receivable on unquoted 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. Fixed returns on non-equity shares are recognised on a time apportionment basis so as to reflect the effective yield, provided there is no reasonable doubt that payment will be received in due course. Fixed returns on debt securities are recognised on a time-apportioned basis so as to reflect the effective yield.

#### d) Transaction costs and investment management expense

The Company is responsible for any external costs such as legal or accounting fees incurred on transactions that do not proceed to completion. Such transaction costs are charged 100% against capital, shown as third party transactions costs in Note 3.

The Board has considered the intrinsic value of the B Ordinary Shares ("B Shares") allotted to the Manager at the period-end, as the valuation should be considered over the period of the Manager's service. The resulting valuation, less the amount subscribed by the Manager for these shares, is spread over the estimated investing period.

75% of the investment management expense is charged against capital. This is in line with the Board's expected long-term split of returns from the investment portfolio of the Company.

e) **Expenses**

All expenses are accounted for on an accruals basis. Expenses are charged wholly to revenue, with the exception of expenses incidental to the acquisition or disposal of an investment, which are charged to the capital column of the Income Statement.

f) **Taxation**

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 tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted at the balance sheet date. Deferred tax is measured on a non-discounted basis.

Any tax relief obtained in respect of management fees allocated to capital is reflected in the capital reserve – realised and a corresponding amount is charged against revenue. The tax relief is the amount by which corporation tax payable is reduced as a result of these capital expenses.

## 2 Income

	<b>2006</b> <b>£</b>
<b>Income from investments</b>	
– from loan stock	41,485
– from dividends	35,208
– from fixed and variable securities	263,153
– from money market funds	7,560
	347,406
<b>Interest income</b>	
Bank interest	166,051
	166,051
<b>Total income</b>	513,457
Total income comprises	
Dividends	42,768
Interest	470,689
	513,457
<b>Income from investments comprises</b>	
Listed UK securities	305,921
Unlisted UK securities	41,485
	347,406

# Notes to the Accounts

## for the period ended 31 December 2006

### 3 Transaction costs and investment management expense

	Revenue 2006 £	Capital 2006 £	Total 2006 £
Third party – transaction costs (see note 1 d)	–	59,501	59,501
Core Capital LLP – management fees	–	–	–
Credit Suisse – transaction costs	–	3,398	3,398
Credit Suisse - management fees	7,742	23,225	30,967
Total	7,742	86,124	93,866

Core Capital LLP advises the Company on investments in qualifying companies under an agreement dated 11 October 2005. The agreement is for an initial period of four years and thereafter until their appointment is terminated by not less than one year's notice in writing to expire at any time after the initial period. Core Capital LLP changed its name from Core Growth Capital LLP on 3 October 2006.

The Manager has subscribed for 12,368,144 B Shares of 0.01 p each, being 50% of the B Shares of 0.01 p each that have been issued.

This effectively provides them with a carried interest of 30 per cent of the distributions of income and capital after the Ordinary Shareholders have received back: -

- i) their Effective Initial Cost of investment of 60p per share, and
- ii) the Hurdle Rate Return, being an amount equal to 5% of the Effective Initial Cost that remains to be repaid, compounded annually.

Given the inherent uncertainties in projecting the investment performance of the Manager (which will ultimately determine the value of the B Shares) the Board considers that the fair value of these shares at the period end is £1,237, being 0.01 p per share. This is the subscription price paid by the Manager, and as the Manager has paid this value in cash, there is no investment management expense in respect of the period under review.

Third party transaction costs arose from aborted transactions where such costs were not otherwise recoverable. Under the agreement with the Manager, these costs are to be borne by the Company and by the other VCTs managed by Core Capital. The amount of such costs for the period ended 31 December 2006 is £59,501.

### 4 Other expenses

	2006 £
Directors' remuneration (including NIC) (see note 5)	19,918
IFA trail commission	58,273
Administration fees	20,335
Broker's fees	6,609
Auditors' fees – audit	17,625
– other services	4,936
Registrar's fees	4,009
Printing	4,435
Legal and professional fees	28,404
Directors' insurance	12,310
Subscriptions	9,989
Sundry	1,777
	188,620

Charges for non-audit services provided by the auditors for the period ended 31 December 2006 relate to the provision of tax compliance work and the review of the Interim Report. The Directors consider the auditors were best placed to provide this service. The Board reviews the nature and extent of non-audit services to ensure that independence is maintained.

## 5 Directors' remuneration

	<b>2006</b> <b>£</b>
Directors' emoluments	
Helen Bagan	5,885
Peter Smail	7,355
Lord Peter Walker	5,885
	19,125
Employer's NIC	793
	19,918

No pension scheme contributions or retirement benefit contributions were paid. There are no share option contracts held by the Directors. Since all the Directors are non-executive, the other disclosures required by the Listing Rules are not applicable. The Company has no employees.

## 6 Taxation on ordinary activities

	<b>2006</b> <b>£</b>
<b>a) Analysis of charge in the period</b>	
Revenue charge	55,457
Credited to capital return	(16,364)
Current tax charge for period	39,093
<b>b) Factors affecting tax charge for the period</b>	
Total return on ordinary activities before tax	462,665
Less: unrealised gains	(268,878)
Add: non-taxable realised gains	37,184
Less: capitalised transaction costs and investment management expense	86,124
Revenue return on ordinary activities before taxation	317,095
Corporation tax @ 19 %	60,248
Non-taxable UK dividend income	(6,689)
Non-taxable expenses	1,898
Taxation on revenue return	55,457
Capitalised expenditure allowable and credited to capital return	(16,364)
Current tax charge for period	39,093

Investment trust companies are exempt from tax on capital gains if they meet the HM Revenue & Customs (HMRC) criteria set out in s842AA Income and Corporation Taxes Act 1988 for a given period.

### Deferred taxation

There is no potential liability to deferred tax. There is no unrecognised deferred tax asset, as all allowable expenditure has been utilised.

# Notes to the Accounts

## for the period ended 31 December 2006

### 7 Dividends and other appropriations

Any proposed final dividend is subject to approval by Shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

Set out below are the total income dividends payable in respect of the financial period, which is the basis on which the requirements of section 842 of the Income and Corporation Taxes Act 1988 are considered.

	<b>2006</b> £
Revenue available for distribution by way of dividends for the period	317,095
Proposed final dividend of 1.5 pence per Ordinary Share for the period ended 31 December 2006	247,363

No dividends have been paid, or are proposed, on the B Shares.

### 8 Return per Ordinary Share

	<b>Period from 23 September 2005 to 31 December 2006</b> £
Total earnings after taxation:	423,572
<b>Basic earnings per share (note a)</b>	<b>2.67p</b>
Net revenue from ordinary activities after taxation	261,638
<b>Revenue return per share (note b)</b>	<b>1.65p</b>
Net realised capital losses	(37,184)
Net unrealised capital gains	268,878
Capital expenses	(69,760)
Total capital return	161,934
<b>Capital return per share (note c)</b>	<b>1.02p</b>
Weighted average number of shares in issue in the period	15,834,219

#### Notes

a) Basic earnings per share is total earnings after taxation divided by the weighted average number of shares in issue.

b) Revenue return per share is net revenue after taxation divided by the weighted average number of shares in issue.

c) Capital return per share is total capital return divided by the weighted average number of shares in issue.

None of the returns are considered to be attributable to the B Shares, by the Board, at this stage of the Company's development.

### 9 Investments

	<b>Fully listed</b>	<b>Unlisted ordinary shares</b>	<b>Loan stock</b>	<b>Fixed and variable interest securities</b>	<b>Funds and trusts</b>	<b>Total</b>
	£	£	£	£	£	£
Book cost/valuation at 23 September 2005	–	–	–	–	–	–
Purchases at cost	3,766,718	1,356,252	1,751,607	14,563,034	4,705,266	26,142,877
Sale proceeds	–	–	–	(12,149,733)	–	(12,149,733)
Realised losses	–	–	–	(37,184)	–	(37,184)
Increase in unrealised appreciation	180,435	–	–	(2,467)	90,910	268,878
Closing valuation at 31 December 2006	3,947,153	1,356,252	1,751,607	2,373,650	4,796,176	14,224,838
Book cost at 31 December 2006	3,766,718	1,356,252	1,751,607	2,376,117	4,705,266	13,955,960
Unrealised appreciation at 31 December 2006	180,435	–	–	(2,467)	90,910	268,878
	3,947,153	1,356,252	1,751,607	2,373,650	4,796,176	14,224,838

## 10 Significant interests

At 31 December 2006 the Company held significant investments, amounting to 3% or more of the equity capital of an undertaking, in the following companies:

Company	Equity investment (Ordinary shares) £	Investment in loan stock £	Total investment (at cost) £	Percentage of investee company's total equity
Blanc Brasseries Holdings plc	1,000,000	–	1,000,000	11.87%
Colway Limited (trading as Red Box)	300,000	700,000	1,000,000	23.33%
Kelway Holdings Limited	54,327	945,673	1,000,000	9.40%

The above companies are incorporated in the United Kingdom.

Whilst the Company has significant interests as set out above, it has not equity accounted for its investment. Instead, the investment is accounted for at market value. As the Company is an investment fund, this treatment is permitted under FRS 9: Associates and Joint Ventures.

## 11 Debtors

	2006 £
Amounts due within one year:	
Accrued income	55,080
Prepayments	4,996
Called up share capital unpaid	1,400,000
Other debtors	23,616
	1,483,692

Called up share capital unpaid is in accordance with the arrangements set out in the prospectus.

## 12 Creditors: amounts falling due within one year

	2006 £
UK Corporation tax	39,093
Trade creditors	22,379
Other creditors	1,788
Accruals	108,298
	171,558

The Company has also obtained a credit facility of £5 million on 19 June 2006, that will be secured on the Company's assets.

# Notes to the Accounts

## for the period ended 31 December 2006

### 13 Called up share capital

	<b>2006</b> <b>£</b>
Authorised:	
Ordinary Shares of 0.01 p each: 220,020,000	22,002
B Shares of 0.01 p each: 330,030,000	33,003
	55,005
Allotted, called-up and fully paid:	
Ordinary Shares of 0.01 p each: 16,510,859	1,651
B Shares of 0.01 p each: 24,736,878	2,474

On incorporation, the authorised capital of the Company was £50,000 divided into 50,000 Ordinary Shares of £1 each.

On 7 October 2005 the authorised share capital of the Company was increased from £50,000 to £55,005 by the creation of 5,005 Ordinary Shares of £1 each. The 50,000 unissued Ordinary Shares were redesignated into 50,000 non-voting Redeemable Preference Shares of £1 each and the 2 issued shares and each of the remaining 5,003 unissued Ordinary Shares of £1 each in the Company were subdivided into 50,050,000 Ordinary Shares of 0.01 p each. 30,030,000 of the 50,050,000 Ordinary Shares of 0.01 p were redesignated into B Shares of 0.01 p each. The 50,000 £1 Redeemable Preference Shares were allotted and paid up to one quarter of their nominal value for cash consideration to enable the Company to obtain a certificate under s117 of the Companies Act 1985.

The original subscribed two Ordinary Shares of £1 each (subsequently converted to 20,000 Ordinary Shares of 0.01 p) remain in issue, but unpaid, which debt of £2 has been treated as part of the issue costs.

The Redeemable Preference Shares were paid up in full on 12 January 2006, and redeemed by the Company out of the proceeds of the Offer for Subscription launched on 24 October 2005. Each of the Redeemable Preference Shares were re-designated as 40 Ordinary Shares of 0.01 pence each and 60 B Shares of 0.01 pence each pursuant to the Articles of Association, creating a further 200,000,000 Ordinary Shares of 0.01 pence each and 300,000,000 B Shares of 0.01 pence each.

The Ordinary Shares are entitled to all of the income and capital of the Company until they have received back:

- i. their Effective Initial Cost of investment of 60p per share, and
- ii. the Hurdle Rate Return, being an amount equal to 5% of the Effective Initial Cost that remains to be repaid, compounded annually.

After that point, the B Shares are entitled to 60% of the future income and remaining capital for distribution to all Shareholders.

In the event of liquidation before that date, the Ordinary Shares are entitled to 40%, and the B Shares to 60%, of the assets remaining after:

- i. the Ordinary Shares have received back their Effective Initial Cost of investment of 60p per share, and
- ii. the Hurdle Rate Return, being an amount equal to 5% of the Effective Initial Cost that remains to be repaid, compounded annually, and
- iii. after the B Shares have received two thirds of the Hurdle Rate Return due to the Ordinary Shareholders.

Ordinary Shares have one vote per share. Until such time as the Ordinary Shares have received 60p per share and the Hurdle Rate of Return, the B Shares will only be entitled to vote in the event that the resolution being put to the meeting is one to amend any provision of the Company's Articles.

## 14 Share capital and reserves

	Called up Ordinary Share capital £	Called up B Share capital £	Share premium account £	Capital reserve (realised) £	Capital reserve (unrealised) £	Special distributable reserve £	Revenue reserve £	Total £
At 23 September 2005	–	–	–	–	–	–	–	–
Shares issued	1,651	1,237	16,487,973	–	–	–	–	16,490,861
Expenses of share issues	–	–	(887,678)	–	–	–	–	(887,678)
Bonus issue of B shares from share premium account	–	1,237	(1,237)	–	–	–	–	–
Cancellation of 50% of the share premium account (see note)	–	–	(7,799,530)	–	–	7,799,530	–	–
Realised losses	–	–	–	(37,184)	–	–	–	(37,184)
Unrealised gains	–	–	–	–	268,878	–	–	268,878
Capitalised management fees less tax credit	–	–	–	(69,760)	–	–	–	(69,760)
Net revenue for the period	–	–	–	–	–	–	261,638	261,638
At 31 December 2006	1,651	2,474	7,799,528	(106,944)	268,878	7,799,530	261,638	16,026,755

Note: The cancellation of 50% of the Company's Share Premium Account (as approved at the Extraordinary General Meeting held on 7 October 2005 and by Order of the Court dated 23 August 2006) has provided the Company with a special distributable reserve. The purpose of the reserve is to fund market purchases of the Company's shares, and to write off existing and future losses, should the Company revoke its investment company status and be obliged to take into account capital losses determining distributable reserves.

# Notes to the Accounts

## for the period ended 31 December 2006

### 15 Net asset values per share

The net asset values per share, as disclosed in the Balance Sheet, are based on attributable assets at the date of the Balance Sheet and assume that no break-up of the Company will occur – the “attributed basis”. The Board considers that the Articles basis reflects the attribution of assets between the two classes of shares that would occur in the event that a liquidation of the Company took place. On liquidation, B Shareholders could be entitled to up to 60% of the assets remaining after Ordinary Shareholders first recover their Effective Initial Cost of 60 pence per share plus the annual Hurdle Rates due to both share classes, achieved up to the date of liquidation.

At this early stage in the Company's life, the Board considers that liquidation is unlikely, and that attributing to the B Shares purely the capital contributed of 0.01 of a penny per share reflects the Board's best estimate at 31 December 2006 of the B Shares' entitlement to assets at 31 December 2006, given the inherent uncertainties in projecting the investment performance of the Manager (which will ultimately determine the B Shares' entitlement to the Company's assets).

The net asset values per share have been calculated by reference to the numbers of paid-up shares in issue at 31 December 2006, being 16,490,859 Ordinary Shares of 0.01 p each and 24,736,878 B Shares of 0.01 p each.

	Total attributable net assets 2006 £	Net asset value  2006 pence per share
<b>Ordinary Shares of 0.01p each</b>		
In accordance with the Articles	12,585,432	76.32 p
Additional entitlement to assets on the attributed basis	3,438,849	20.85 p
<b>Attributed basis</b>	<b>16,024,281</b>	<b>97.17 p</b>
<b>B Shares of 0.01p each</b>		
In accordance with the Articles	3,441,413	13.91 p
Reduced entitlement to assets on the attributed basis	(3,438,939)	(13.90)p
<b>Attributed basis</b>	<b>2,474</b>	<b>0.01 p</b>

### 16 Reconciliation of net revenue before taxation to net cash inflow from operating activities

	2006 £
Net revenue before taxation	317,095
Investment management fees charged to capital	(86,124)
Increase in debtors	(83,692)
Increase in creditors and accruals	132,465
Net cash inflow from operating activities	279,744

### 17 Analysis of changes in net funds

	2006 £
At beginning of period	–
Cash flows	489,783
At 31 December 2006 – cash at bank (net funds)	489,783

## 18 Financial Instruments

The Company's financial instruments in the period comprise:

- Equity shares, fixed and variable interest securities that are held in accordance with the Company's investment objective.
- Cash and short-term debtors and creditors that arise directly from the Company's operations.

It is, and has been throughout the period under review, the Company's policy that no trading in derivative financial instruments shall be undertaken.

The main risks arising from the Company's financial instruments are due to fluctuations in market prices and interest rates. The Board regularly reviews and agrees policies for managing each of these risks and they are summarised below. These policies have been in place throughout the current and preceding periods.

### Risk

**Credit risk:** Failure by counter-parties to deliver securities which the Company has paid for, or pay for securities which the Company has delivered.

**Market price risk:** Market price risk arises from uncertainty about the future prices of financial instruments held in accordance with the Company's investment objectives. It represents the potential loss that the Company might suffer through holding market positions in the face of market movements.

The investments in the equity and fixed interest stock of the unquoted companies that the Company holds are not traded and as such the price is more volatile than those of widely traded securities. In addition, the ability of the Company to realise the investment at its carrying value may at times not be possible if there are no willing purchasers. The ability of the Company to purchase or sell investments is also constrained by the requirements set down for venture capital trusts.

Financial instruments are stated in the Balance Sheet at values which are not materially different from their fair value. Investments valuation is aimed at fair value and for cash, book value approximates to fair value due to the short maturity of the instruments.

**Interest rate:** The Company's fixed interest securities, its equity and non-equity investments and net revenue may be affected by interest rate movements. Investments are often in start up businesses, which are relatively high risk investments sensitive to interest rate fluctuations. Due to the short time to maturity of some of the Company's fixed rate investments, it may not be possible to re-invest in assets which provide the same rates as those currently held.

**Currency risk:** All assets and liabilities are denominated in sterling and therefore there is no currency risk.

**Liquidity risk:** the Company cannot realise assets or otherwise raise funds to meet commitments, and cashflow risk is the risk that future cashflows generated will fluctuate in amount.

### Management of risk

**Credit risk:** All transactions are settled on the basis of delivery against payment.

**Market price risk:** The Board manages the market price risk inherent in the Company's portfolio by maintaining an appropriate spread of market risk, and by ensuring full and timely access to relevant information from the Managers. The Board regularly reviews the investment performance and financial results, as well as compliance with the Company's objectives. The Board seeks to ensure that an appropriate proportion of the Company's portfolio is invested in cash and readily realisable securities, which are sufficient to meet any funding commitments that may arise. The Company does not use derivative instruments to hedge against market risk.

**Interest rate:** The Company's assets include fixed interest stocks, the values of which are regularly reviewed by the Board, as referred to above.

**Liquidity risk:** This risk is minimised as sufficient of the Company's assets comprise realisable securities which can be sold to meet funding commitments as necessary.

## Financial assets

The interest rate profile of the Company's financial assets at 31 December 2006 was:

	Financial assets on which no interest paid £	Fixed rate financial assets £	Floating rate financial assets £	Total £	Weighted average interest rate %	Average period to maturity (years)
Equity	10,099,581	–	–	10,099,581		
Securities	–	722,283	1,651,367	2,373,650	5.4	
Loan	–	1,751,607	–	1,751,607	3.84	7.4
Cash	–	–	489,783	489,783		
Debtors	1,483,692	–	–	1,483,692		
Creditors	(171,558)	–	–	(171,558)		
Total	11,411,715	2,473,890	2,141,150	16,026,755		

Floating rate cash earns interest based on LIBOR rates.

The Company's investments in equity shares and similar instruments have been excluded from the interest rate risk profile as they have no maturity date and would thus distort the weighted average period information.

The carrying value of financial assets and liabilities approximates their fair value, due to their short-term maturity.

## 19 Related party transactions

Lord Walker is also a Director of Caparo plc, which is a member of the Manager, Core Capital LLP. Details of the carried interest arrangements between the Company and the Manager are set out in Note 5 which also discloses amounts paid and payable to the Manager. No amounts have been paid or are payable to Caparo plc.

The Manager received a fee of 5.5% of the gross proceeds of the Offer, equalling £887,676.

## 20 Commitments and Guarantees

The Company, jointly with Core VCT I plc and Core VCT II plc has committed to invest up to a further £2,000,000 in Kelway Holdings Limited, to repay a loan of this amount made to Kelway Holdings Limited.

## 21 Post Balance Sheet events

The Company has invested £660,000 in Pureleaf Limited, the investment vehicle for the Buy-In Management Buy-Out of Baxter International Removals Limited.

## 22 Segmental analysis

The operations of the Company are wholly in the United Kingdom.

# CORE VCT III PLC

(Registered in England and Wales No. 5572561)

## NOTICE of the ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the second Annual General Meeting of the Company will be held at 3.15 pm on 19 April 2007 at Matrix Group Limited, Sixth Floor, One Jermyn Street, London, SW1Y 4UH for the following purposes:-

### ORDINARY BUSINESS

1. To receive and adopt the report of the Directors and the audited accounts of the Company for the period from 23 September 2005 to 31 December 2006, together with the Auditors' report thereon.
2. To approve the Directors' Remuneration Report for the period from 23 September 2005 to 31 December 2006 as set out in the Annual Report and Accounts of the Company for the period ended 31 December 2006.
3. To re-appoint Ernst & Young LLP of 1 More London Place, London SE1 2AF as Auditors.
4. To authorise the Directors to determine the remuneration of the Auditors.
5. To re-elect Helen Bagan as a Director of the Company.
6. To re-elect Lord Walker as a Director of the Company.
7. To declare a final dividend for the period ended 31 December 2006 of 1.50 pence per share, payable on 7 May 2007 to Ordinary Shareholders registered at close of business on 13 April 2007.
8. THAT in substitution for any existing authorities pursuant to section 80 of the Companies Act 1985 ("the Act") the Directors be generally and unconditionally authorised, in accordance with section 80 of the Act to allot Ordinary Shares up to the maximum nominal amount of £412.77 and B Ordinary Shares up to a maximum nominal amount of £618.41 being approximately 25% of the issued share capital of each class, this authority to expire on the fifth anniversary of the date of the passing of this resolution (unless previously renewed, varied or revoked by the Company in general meeting). The Directors shall be entitled under the authority conferred or under the renewal thereof to make at any time prior to the expiry of such authority any offer or agreement which would or might require relevant securities as aforesaid to be allotted after the expiry of such authority and to allot relevant securities accordingly as if the authority conferred thereof had not expired.

*To consider and, if thought fit, to pass the following as Special Resolutions:*

9. THAT in substitution for any existing authorities pursuant to section 95 of the Act the Directors be and they are hereby empowered to allot equity securities (as defined in section 94 of the Act) for cash pursuant to the authority conferred upon them by resolution 8 above as if section 89(1) of the Act did not apply to any such allotment, provided that the power conferred by this resolution shall be limited to the allotment of equity securities in connection with:
  - (i) The allotment of equity securities having a nominal value not exceeding 10% of the issued Ordinary Share capital and issued B Ordinary Share capital of the Company at the date on which this resolution is passed in connection with a rights issue in favour of the holders of relevant securities in which such holders are offered the right to participate, in proportion (as nearly as may be) to the respective holdings but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in connection with shares representing fractional entitlements or on account of either legal or practical problems arising in connection with the laws of any territory, or of the requirements of any generally recognised body or stock exchange in any territory; and
  - (ii) the allotment of equity securities (otherwise than pursuant to sub-paragraph (i) above) having a nominal value not exceeding 10% of the issued Ordinary Share capital and issued B Ordinary Share capital of the Company at the date on which this resolution is passed where the proceeds of the allotment may be used in whole or in part to purchase the Company's Ordinary Shares or B Ordinary Shares in the market;
  - (iii) the allotment of equity securities (otherwise than pursuant to sub-paragraphs (i) and (ii) above) from time to time with an aggregate nominal value of up to 5% of the issued Ordinary Share capital and issued B Ordinary Share capital of the Company at the date on which this resolution is passed.

and shall expire on the earlier of the Annual General Meeting of the Company to be held in 2008 or the date which is fifteen months after the date on which this resolution is passed (unless previously renewed, varied or revoked by the Company in General Meeting), except that the Company may, before such expiry, make an offer or agreement which would or might require relevant securities as aforesaid to be allotted after the expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

# CORE VCT III PLC

(Registered in England and Wales No. 5572561)

## NOTICE of the ANNUAL GENERAL MEETING

### SPECIAL BUSINESS

10. THAT the Company be and is hereby authorised in accordance with section 166 of the Act to make one or more market purchases (within the meaning of section 163 of the Act) of the Ordinary Shares of 0.01 pence each ("Ordinary Shares") and B Shares of 0.01 pence each ("B Shares") in the Company provided that:

- (i) the maximum aggregate number of Ordinary Shares and B Shares authorised to be purchased is an amount equal to 14.99 per cent. of the issued Ordinary Share capital or the issued B Share capital, as the case may be, as at the date hereof;
- (ii) the minimum price which may be paid for an Ordinary Share or a B Share is 0.01 pence, the nominal value thereof;
- (iii) the maximum price, exclusive of expenses, which may be paid for an Ordinary Share or a B Share, as the case may be, shall be an amount which is 105% of the average of the middle market prices as derived from the Daily Official List of the UK Listing Authority for the five business days immediately preceding the day on which that Ordinary Share or B Share, as the case may be, is purchased;

and this authority shall expire on the earlier of the Annual General Meeting of the Company to be held in 2008 and the date which is fifteen months after the date on which this resolution is passed save that the Company may prior to such expiry, enter into a contract to purchase Ordinary Shares or, as the case may be, B Shares which will or may be completed or expected wholly or partly after such expiry and provided further that any purchase by the Company of its own shares does not prejudice the ability of the Company to disregard, to the fullest possible extent pursuant to section 842AA (5B) of the Income and Corporation Taxes Act 1988, the use to which money raised pursuant to a share issue is put, for the purposes of complying with the 70% test and the 30% test, as those terms are defined in the Venture Capital Trust (Winding up and Mergers) (Tax) Regulations 2004.

**BY ORDER OF THE BOARD**

Matrix-Securities Limited  
*Secretary*

Registered Office  
One Jermyn Street  
London SW1Y 4UH

9 March 2007

### NOTES:

- (i) A person entitled to receive notice of, attend and vote at the above meeting is entitled to appoint one or more proxies to attend and on a poll, vote in his place. A proxy need not be a member of the Company.
- (ii) To be valid the enclosed form of proxy for the Annual General Meeting, together with the power of attorney or other authority, if any, under which it is signed or a notarially certified or office copy thereof must be deposited no less than 48 hours prior to the time fixed for the holding of the meeting or any adjournment of the said meeting at the offices of the Company's registrars, Capita Registrars, Proxy Processing Centre, Telford Road, Bicester, OX26 4LD.
- (iii) Completion and return of the form of proxy will not prevent you from attending and voting in person at the Annual General Meeting.
- (iv) The Company, pursuant to Regulation 41 of the Uncertified Securities Regulations 2001, specifies that only those Shareholders registered in the Register of Members of the Company as at midnight on 17 April 2007 or, in the event that the meeting is adjourned, in the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend or vote at the Annual General Meeting in respect of the number of shares registered in their name at the relevant time. Changes to entries in the Register of Members after midnight on 17 April 2007 or, in the event that the meeting is adjourned, in the Register of Members less than 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting.
- (v) The Register of Directors' Interests shall be available for inspection at the place of the Annual General Meeting for at least fifteen minutes prior to and during the meeting.

# Shareholder Notes

# Corporate Information

## Directors

Peter Smail (Chairman)  
Lord Walker  
Helen Bagan

*All of whom are non-executive and of:*

One Jermyn Street  
London  
SW1Y 4UH

## Company Secretary and administrator

Matrix-Securities Limited  
One Jermyn Street  
London  
SW1Y 4UH

## Investment Manager

Core Capital LLP  
103 Baker Street  
London  
W1U 6LN

## VCT Tax Adviser

PricewaterhouseCoopers LLP  
1 Embankment Place  
London  
WC2N 6RH

## Cash Assets Investment Manager

Credit Suisse  
Private Banking, London Branch  
17th Floor  
1 Cabot Square  
London  
E14 4QJ

## Receiving Agent

Matrix Registrars Limited  
One Jermyn Street  
London  
SW1Y 4UH

[www.core-cap.com](http://www.core-cap.com)

## Solicitors

SJ Berwin  
10 Queen Street Place  
London  
EC4R 1BE

## Auditors

Ernst & Young LLP  
1 More London Place  
London  
SE1 2AF

## Bankers

Bank of Scotland  
PO Box No. 39900 Level 7  
Bishopsgate Exchange  
155 Bishopsgate  
London EC2M 3YB

## Sponsor and Stockbroker

Brewin Dolphin Securities Limited  
PO Box 512  
National House  
36 St Ann Street  
Manchester M60 2EP

## Registrar

Capita Registrars  
Northern House  
Woodsome Park  
Fennay Bridge  
Huddersfield  
HD8 0LA

## Promoter

Brewin Dolphin Securities Limited  
5 Giltspur Street  
London  
EC1A 9BD

**Company No : 5572561**



