

**SPL Parallel Private Equity (PE2) IC Limited  
Report and Financial Statements**

**For the year ended 31 March 2011**

**Managed by Spearpoint Limited**

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**Investment Objective**

The Investment Manager manages the Fund's portfolio with a view to realising its assets within the shortest period of time consistent with achieving a reasonable realisation price for such assets and with the intention of disposing of all such assets within five years. Realisations are managed, as far as possible, with a view to ensuring regular and consistent distributions of proceeds to Shareholders.

[www.splfunds.com](http://www.splfunds.com)

A closed-ended incorporated cell incorporated under  
the Incorporated Cell Companies Ordinance, 2006.

REGISTERED IN GUERNSEY No. 46103

## Chairman's Statement

SPL Parallel Private Equity (PE2) IC Limited (the "Fund") is one Cell of an umbrella company with numerous other Cells cross-holding numerous special purpose vehicles (the "SPVs") – all of which forms SPL Guernsey ICC Limited (the "ICC"). Therefore, this report looks in large part at all Cells and takes a view on the affairs of the ICC as a whole, only latterly addressing the results of this Fund. I have done that because almost every Cell exists only in the context of at least some other Cells and, to date, the picture as a whole has been the focus of your Board's attention in order to clarify the position for each Cell.

All Shareholders should by now be aware of the massive loss of value of investments suffered by most of the Cells of the ICC during 2008 and 2009 and that a new Board and a new Investment Manager were appointed at the end of 2009. Extraordinary General Meetings were held for all the Cells in January 2010 to reset the objectives of each Cell and, since then, your Board, together with the Investment Manager, has continued to pursue the objective of realising assets within the shortest period consistent with achieving a reasonable price for those assets and with the intention of returning substantially all capital to Shareholders within three to five years and certainly by 2015. We said that we would put in place rigorous management, sound administration and proper process and organise matters to achieve liquidity. We have done so and your Board is grateful for the work of the new Investment Manager (Spearpoint Limited) and the Administrator (Elysium Fund Management Limited) in sometimes difficult circumstances which I outline later.

Good progress was made in the year to 31 March 2011 sorting out structures within the ICC, getting assets to a realisable state and realising cash for Shareholders. With the help of the new Investment Manager and new Administrator, the inherited web of complex structures has been greatly simplified across the Cells. That simplification has been part of a concerted effort to return capital which has been effected by an active programme of share buy-backs and tender offers.

Your Board and its advisers have been investigating the nature of the underlying assets in the ICC, where applicable, their physical condition and the rights of the Cells to them. The condition of the physical assets, which in some cases we had to seize, was far worse than we reasonably expected and, in some cases, frankly appalling. Our work also uncovered yet more examples of what your Board considers to be mismanagement and which are matters for legal action by the Cells against the parties that we hold responsible for loss of value. The Board and its Advisers are preparing Particulars of Claim against Arch FP and a cascade of claims will follow against those who failed in their duty of care to the Cells wherever we believe the Cells can successfully pursue for recovery of value.

As to returns of capital, having resolved a number of historical issues, the Board will be in a position to accelerate the pace of capital returns in the second half of 2011. If current plans are achieved, we hope to have returned over £120 million to Shareholders by the end of 2011 with approximately £126 million (at current carrying values) of less liquid assets remaining to be realised. We are on plan to achieve our original objectives.

### **Simplification of the structure**

The Board of the ICC took over responsibility for a complex structure of 24 Cells and a similar number of special purpose vehicles with many cross-holdings. Investments had been made in a diverse mix of assets, most of which are far from simple investments. Many of these assets were, and remain, illiquid. Together with the new Investment Manager and Administrator, the Board has had to decide how best to simplify the structure, identify readily realisable assets and get all assets properly managed with a view to realisation for the best value commensurate with an early return of cash to Shareholders.

Whilst the active programme of share buy-backs and tender offers returns capital to Shareholders of the Cells, it also aids in simplifying the structure of the ICC through the reduction of cross-holdings. As a result, £44.1 million was returned to Shareholders of the Cells during the year ended 31 March 2011, and a further £13.1 million has been returned since 31 March 2011. From now until the end of this calendar year it is hoped that a further £65 million can be returned to Shareholders.

The return of capital programme also resulted in £7.9 million of cross-holdings being unwound during the year and enabled a further four Cells to be put into voluntary liquidation. We will continue to try to simplify structures and liquidate unnecessary entities.

**Chairman's Statement (continued)**

In order to simplify administration, with effect from 1 July 2011 Elysium also took on responsibility for the administration of the SPVs, bringing together the administration of the Cells and SPVs for the first time, the separation of which had given rise to a number of historical issues of lack of transparency and incorrect accounting.

**Progress to de-listing**

The Board and Investment Manager do not believe that the listing of shares on the Channel Islands Stock Exchange (the "CISX") has been beneficial for the Cells. The Board has sought to return capital to Shareholders, thus reducing the number of Shareholders, and then to de-list the shares of the Cells from the CISX. Six Cells were de-listed in February 2010, twelve Cells were de-listed during the financial year and one further Cell was de-listed in April 2011. At the date of this report, only four Cells remain listed on the CISX. The Board intends to seek to return capital to the Shareholders of these Cells and to de-list their shares from the CISX in due course.

**The assets as at 31 March 2011**

Although an analysis of assets by class for the entire ICC may not be apparently relevant to each Cell, the larger remaining Shareholders in most Cells have interests across all Cells and the underlying investments were frequently allocated across several Cells. Comment for each individual Cell is less meaningful if the total picture is not understood. The following is a simplification of the position at 31 March 2011 for the Fund and for the ICC as a whole:

**Net Assets by class at 31 March 2011**

	ICC £ million	The Fund £ million
Private equity	85.4	34.1
Hedge funds	55.8	-
Cash	24.2	1.3
Shipping	22.3	-
Property	9.0	-
Forestry	8.0	-
Wine	3.3	-
Other net liabilities	(1.6)	(0.1)
<b>Total</b>	<u>206.4</u>	<u>35.3</u>

**Progress with returning capital to Shareholders**

An initial liquidity forecast was provided by Spearpoint on its appointment in December 2009. The Board has subsequently received regular updates on progress and we discuss all major transactions as they develop. We are ahead of forecast on achieving liquidity and returning cash to Shareholders.

In the year ended 31 March 2011, £44.1 million was returned to Shareholders (over half of which went to the UK OEICs, which are the largest Shareholders in the Cells). By the end of June 2011, the Cells had returned an additional £13.1 million of capital to Shareholders, a little over the original target, and there was an additional £22.8 million in cash, within the Cells.

Two issues remain. The first is that, whilst it is possible to release liquidity within the portfolios, restructuring through buy-backs and simplifying cross-holdings is usually necessary to return capital to Shareholders. The complexity that we inherited had been amplified by fragmenting the structure between Cells and Special Purpose Vehicles administered by various service providers which had allowed much to be obscured. The simplification process continues and we will see the benefit of the work done so far in the second half of 2011, which should allow us to accelerate the return of capital built up within the portfolios. The second issue is that there are certain long-life assets whose realisation, without intervention, will not happen within the original mandate of a three to five year orderly return of funds. We are developing separate plans for these.

I am pleased to report that, since the Investment Manager's report (page 6), your Board has been in negotiations to sell its main private equity investment. If approved, the transaction will transfer just over two-thirds of the ICC's holdings by value in private equity into cash and more liquid securities. This transaction would considerably improve the liquidity of the Cells' investments and enable us to pursue more effectively our objective of returning capital to Shareholders.

**Chairman's Statement (continued)**

In the second half of 2011 we are aiming to return a further £65 million to investors. This would bring the amount returned in the first nine months of the 2012 financial year to £78.1 million, compared with £44.1 million returned in the year ended 31 March 2011. It would bring the total amount returned since we started this process to over £120 million.

**Clarification of the extent of loss**

The total sum invested into the Cells by Shareholders amounted to some £422 million. At 31 March 2009, before the market quotations for shares of the Cells were suspended, their total stated so-called net asset value ("NAV") was of the order of £341 million. Neither the Board, nor its Advisers believes that the NAV at the time that the Cells were suspended reflected a true valuation of those assets and multiple enquiries continue in relation to the historical management, administration and valuation of those assets. It might be argued that some market loss was inevitable in 2008/9, since some of the asset classes selected by the former manager have not traded all that well in markets generally. Even so, the losses attributable to poor management within the Guernsey Cells are very large indeed and we are pressing ahead with legal actions, which we will take on a broad front. Recovery will be dependent on the ability of those responsible to pay and available levels of insurance cover. We will update Shareholders with respect to the legal actions in due course.

**Areas of continuing particular concern**

*Nautical Ventures (a shipping venture):* The Investment Manager's Reports for the relevant Cells describe the dire situation that we inherited in shipping and the long and difficult process we have had to undertake after Nautical Ventures defaulted on its borrowings and we had to arrest what was a fleet of old ships, trading unprofitably under poor management, to secure cash recoveries. All seven ships have been arrested, two sets of auction proceeds have been received and two more are progressing, with one due shortly. Three tankers had to be arrested in Nigeria and the process there for at least one of the ships has a way to go. Our investigations have given rise to serious concerns about the way in which these investments were initiated and managed. Although Nautical Ventures only directly affects six Cells, cross-holdings have spread its effect. As the numbers of Shareholders in the Cells reduce, unravelling this ill-conceived and mismanaged venture becomes central to the remaining Shareholders.

*Other shipping:* This amounted to some opaque dealings and a Mediterranean ferry in poor condition. In addition, US\$5.5 million is due to the Cells by the Greek courts.

*Properties:* There is one sizeable portfolio of student accommodation that is being managed externally in order, hopefully, to return some cash to six Cells. In general, the property portfolio was extensive but not of the best quality.

*Hedge Funds:* Much the same could be said of the hedge fund investments – extensive but most are not of particularly high quality, nor are the underlying hedge fund managers inclined to be very communicative.

*Private Equity:* As mentioned above, we are reasonably advanced with ideas that could release a sizeable amount of value. The remainder of the portfolio will take some time for us to realise.

*Forestry:* Although less of a concern, we are trying to find a buyer for this appreciating asset.

**Areas of progress**

*UK property:* Since the year end we have begun selling properties and a small number of properties are currently under offer.

*Wine:* This was a small portfolio and, since the year end, it has been successfully realised at target prices above carrying value and at a low cost in commissions.

**Taking action against those responsible for this state of affairs**

The preparation of Particulars of Claim is now well advanced against the former managers for all the Cells, Arch FP. The quantum of that claim is going to be a considerable number of £million and arises from losses to the Cells caused by the negligence and wrong doing of those servicing them. Throughout our investigations we have discovered what we consider to be negligence, lack of diligence, the use of unsuitable counterparties and the making of improper gains by the former managers. In our view the NAV of several of the Cells was overstated from 2007 onwards and the share

**Chairman's Statement (continued)**

prices of Cells were influenced so that they tracked the overstated NAVs unreasonably. We are pressing our action and reporting our findings to the Guernsey Financial Services Commission and, through them, to the Financial Services Authority. We are in pursuit of the previous owner of ships and other parties whom we consider caused loss to the Cells and, in some cases, misappropriated funds. A consequent cascade of claims will follow to others who failed in their duty of care to the Cells.

Lessons from this tragic loss of shareholder value apply to regulators as well as to the industry.

**The specific results of the Fund**

The Fund reported a profit for the year ended 31 March 2011 of £2.9 million (2010: loss of £4.8 million), representing earnings per £ Class share of 7.65p (2010: loss of 6.90p per £ Class share) and earnings per \$ Class share of 7.26c (2010: loss of 10.95c per \$ Class share). The NAV attributable to Participating Redeemable Preference Shares at 31 March 2011 was £35.3 million (2010: £32.4 million), 91.92p per £ Class share (2010: 84.27p per £ Class share) 87.22c per \$ Class share (2010: 75.79c per \$ Class share).

In the year ended 31 March 2011, the Fund had an unrealised gain of £3.0 million (2010: loss of £2.9 million) and a realised gain of £0.5 million (2010: loss of £0.1 million) on its investments.

The Board is in advanced negotiations to sell its main private equity investments. If approved, the transaction will transfer all of the Fund's investments at cost less impairment into cash and more liquid securities. This transaction would considerably improve the Fund's liquidity and enable us to pursue more effectively our objective of returning capital to Shareholders.

The Investment Manager's Report contains a summary of the performance of the investments and significant investment movements during the year.

**Thanks**

I would like to thank Spearpoint and Elysium for their diligent service to the Cells since their appointments and the support that they have provided to the Directors.

**Outlook**

We are pressing on with our court actions and this report has already set out the rate at which we hope to recover cash for Shareholders during the rest of this calendar year. Thereafter progress will be slower, but we will drive on as vigorously as we and our Manager can.

Most of the remaining assets of the ICC are illiquid and we can only stand by our intention to have realised them all by the end of 2015. Their values are not particularly correlated with stock markets. Although a broad and strong economic recovery, however unlikely, would help, each class of asset is too individual for broad assumptions or predications of their likely realisable values to be sensibly made.

Hugh Aldous  
Chairman  
8 August 2011

## **Investment Manager's Report**

Spearpoint Limited was appointed to manage the Fund on 1 December 2009. We played no part in the management of the portfolio prior to this date. Neither were we involved in valuing the assets or creating the net asset value calculations. In line with the change in investment objective for the Fund, approved by Shareholders at the EGM vote on 28 January 2010, we have focused on an orderly realisation of the assets of the Fund within the shortest period of time consistent with achieving reasonable prices but not fire-selling the assets. We have continued to make good progress in generating cash from assets and working with the Board and Administrators of the Fund to streamline administration and return capital to Shareholders.

The Fund's only holdings are investments in the 2007 and 2008 investment pools of Parallel Private Equity LP. Together, these investments represented 100% of the Fund's investment exposure at the year-end. Parallel Private Equity is a private equity fund investing in a portfolio of later stage investments (MBOs, MBIs and development finance) in UK and European mid-market companies. Parallel makes its investments via eight to ten underlying private equity fund managers, thus providing sector and geographical diversification within the portfolio. The Fund has committed £9.6 million to the 2008 investment pool, which represents 9% of the 2008 Parallel portfolio, and around £2.2 million of this commitment remains undrawn. The Fund's commitment to the 2007 investment pool was £29.5 million, representing 21.5% of that year's investment pool. The commitment is now fully drawn and there should be no follow-on investor funding required for this pool. Parallel has arranged a borrowing facility in order to finance follow on investments and to provide working capital for the 2007 pool. At the year-end, the Fund's share of the amount drawn under this facility was £4.6 million.

The Fund had exposure to 45 companies through the Parallel funds and the average time to realisation of each of these investments is approximately four to five years. The Fund's exposure to the two Parallel investment pools presented no opportunities to generate liquidity at a reasonable price during the year, although the 2008 vintage made three distributions between October 2010 and April 2011.

In general terms, the outlook for private equity is relatively positive. As the world economy continues to expand (although at a moderate pace) exits and the multiples on those exits should increase. Within the Parallel pools there have been two material write-downs of underlying investments due to specific company issues. We have no rights to influence these situations. The Fund retains cash to meet potential future capital calls by the pools and we continue to seek ways to release this cash and generate an exit from Parallel, on reasonable terms, to allow us to return capital to Shareholders in line with our mandate.

Spearpoint Limited  
July 2011

## SPL Parallel Private Equity (PE2) IC Limited

### Report of the Directors

The Directors of SPL Parallel Private Equity (PE2) IC Limited (formerly Arch Parallel Private Equity IC Limited) (the "Fund") are pleased to submit their report and audited financial statements for the year ended 31 March 2011.

#### The Fund

The Fund is an incorporated cell of SPL Guernsey ICC Limited (formerly Arch Guernsey ICC Limited) (the "ICC"), a closed-ended incorporated cell company registered with limited liability in Guernsey on 21 December 2006 and authorised by the Guernsey Financial Services Commission under the Incorporated Cell Companies Ordinance, 2006. The Fund was registered with limited liability on 21 December 2006 and listed on the Channel Islands Stock Exchange (the "CISX") on 31 January 2007 (£ Class) and 27 April 2007 (US\$ Class).

Although the 2010 audit report stated that the statement of financial position gave a true and fair view, in accordance with International Financial Reporting Standards, of the financial position of the Fund as at 31 March 2010, on 5 October 2010, the Market Authority of the CISX suspended the listing of the Fund's Participating Redeemable Preference Shares following the publication of the financial statements for the year ended 31 March 2010 due to the disclaimer of opinion in the audit report in relation to the results and cash flows of the Fund as the auditor was unable to obtain sufficient evidence regarding the comparative figures for the year ended 31 March 2009. Following the receipt of further information by the Market Authority of the CISX, the listing of the Fund's Participating Redeemable Preference Shares resumed on 11 October 2010.

The Fund has elected to be an "authorised" investment scheme under the Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended.

#### Principal Activity

The principal activity of the Fund is to operate as an investment fund in accordance with the Investment Objective.

#### Investment Objective

The Investment Manager manages the Fund's portfolio with a view to realising its assets within the shortest period of time consistent with achieving a reasonable realisation price for such assets and with the intention of disposing of all such assets within five years. Realisations are managed, as far as possible, with a view to ensuring regular and consistent distributions of proceeds to Shareholders.

#### Results and Dividends

The results for the year are shown on page 15.

The Fund did not pay any dividends during the year (2010: nil) and the Directors do not recommend the payment of a final dividend for the financial year (2010: nil).

#### Net Asset Value per Participating Redeemable Preference Share

At the financial reporting date, the net assets of the Fund attributable to Participating Redeemable Preference Shares ("Shares") were £21,025,000 for the £ Class and US\$22,957,000 for the US\$ Class (2010: £19,275,000 for the £ Class, US\$19,948,000 for the US\$ Class) and the net asset value ("NAV") per Share was 91.92p for the £ Class and 87.22c for the US\$ Class (2010: 84.27p for the £ Class and 75.79c for the US\$ Class).

#### Share Capital

The Fund is authorised to create three classes of Shares, designated Dollar Shares, Euro Shares and Sterling Shares, each of which is denominated in the specified currency and which rank pari passu to each other. Each Share Class would hold an undivided share in a single portfolio of assets held by the Fund but may have certain assets or liabilities attributable solely to the Share Class, such assets and liabilities to include, but not be limited to, forward foreign exchange agreements utilised by the Investment Manager for currency hedging purposes. At the date of these financial statements, shares in the Sterling Class and US Dollar Class had been issued.

At the Extraordinary General Meeting of the Fund held on 28 January 2010, Shareholders authorised the Fund to buy back up to 14.99% of the Participating Redeemable Preference Shares in issue at 28 January 2010. This authority remained in place until 30 June 2011.

**Report of the Directors (continued)**

**Directors**

The Directors, all of whom are non-executive directors, are as listed on page 33. Christopher Harris was appointed as a Director on 1 August 2010. Andrew Duquemin retired from the Board on 1 October 2010, following the completion of the 31 March 2010 financial statements of all of the Cells of the ICC, in order to avoid any conflicts of interest, since his firm (Elysium Fund Management Limited) (“Elysium”) is the Fund’s new Administrator. During the year, business relationships existed between the Directors of the Fund and Related Parties to the Fund.

At 31 March 2011 and at the date of signing this report, the Directors had no interests in the Shares of the Fund.

**Substantial Interests**

On 30 June 2011, the following interests in 5% or more of the issued Participating Redeemable Preference Shares had been notified to the Fund:

	<i>Number of Participating Redeemable Preference Shares</i>	<i>Percentage of share capital</i>
<b><u>Sterling Share Class</u></b>		
CF Arch Cru Investment Portfolio	17,844,987	78.02%
CF Arch Cru Balanced Fund	2,055,000	8.98%
<b><u>US Dollar Share Class</u></b>		
Premium Buyout Investment LP	12,000,000	45.59%
CF Arch Cru Investment Portfolio	10,350,671	39.33%
HSBC Global Custody Nominee (UK) Limited	1,915,000	7.28%

**Going Concern**

After making reasonable enquiries, and assessing all data relating to the Fund’s liquidity, the Directors have a reasonable expectation that the Fund has adequate resources to continue in operational existence for the foreseeable future and do not consider there to be any threat to the going concern status of the Fund. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

**Future Prospects**

The Directors believe that the Fund’s Investment Objective can be met in the stated five-year timeframe. Further details are given in the Investment Manager’s Report.

**Litigation**

So far as the Directors are aware, no litigation or claim of material importance is pending or threatened against the Fund.

Together with the legal advisors to the ICC and its Cells, the new Board is continuing to review the past governance of the ICC and its Cells (of which the Fund is one such Cell). Questions have and are being raised with the former managers, officers and advisors in this regard. The Fund has not commenced proceedings of any material importance.

**Corporate Governance**

As a listed Guernsey incorporated entity and under the CISX Rules, the Fund is not required to comply with The Combined Code on Corporate Governance published by the Financial Reporting Council (the “2008 FRC Code”). However, the Directors place a high degree of importance on ensuring that high standards of Corporate Governance are maintained and that the Fund complies with the Guidance on Corporate Governance in the Finance Sector in Guernsey, issued by the Guernsey Financial Services Commission. As a result, many of the principles set out in the 2008 FRC Code have been adopted and these are summarised below, together with the areas of non-compliance.

The Fund complied throughout the year with the provisions of the 2008 FRC Code, except in the following aspects:

- A.1.3 The Directors have not met separately, without the Chairman present, to appraise the Chairman’s performance. The Board decided that this was not appropriate given the size and composition of the Board.

## Report of the Directors (*continued*)

### Corporate Governance (*continued*)

- A.3.3 The Chairman, Mr Aldous, is the senior non-executive Director. This is not in accordance with provision A3.3 of the 2008 FRC Code but is felt to be appropriate for the size and nature of the Fund and the size and composition of the Board.
- A.4.1 The Board has not established a nomination committee as it does not consider it to be appropriate to the size and composition of the Board.
- A.6.1 The Board did not undertake a formal appraisal of the Board, its committees or the individual Directors during the year. The Board decided that this was not appropriate given the size and composition of the Board.
- A.7.2 The Directors have not been appointed for specific terms as this was not felt to be appropriate for the size and nature of the Fund or the size and composition of the Board.
- B.2.1 The Board has not established a remuneration committee as it does not have any executive directors and does not consider it to be appropriate for the size and composition of the Board.

### Board Responsibilities

The Board currently comprises three members, all of whom are independent non-executive Directors. The Fund has no executive directors. As all the Directors are non-executive, the Chairman (Mr Aldous) is the senior non-executive Director.

The Board has engaged external companies to undertake the investment management, administrative and custodial activities of the Fund. Clear documented contractual arrangements are in place with these firms, which define the areas where the Board has delegated responsibility to them.

The Board meets monthly to review the Fund's investments and all other important issues to ensure control is maintained over the Fund's affairs. The Directors are kept fully informed of investment and financial controls, and other matters that are relevant to the business of the Fund and that should be brought to the attention of the Directors. The Directors also have access to the Company Secretary and, where necessary in the furtherance of their duties, to independent professional advice at the expense of the Fund.

The Board has a breadth of experience relevant to the Fund and the Directors believe that any changes to the Board's composition can be managed without undue disruption. With any new appointment of a Director to the Board, consideration will be given as to whether a formal induction process is appropriate. The Board believes that the mix of skills, experience, ages and length of service are appropriate to the requirements of the Fund.

The Board considers agenda items laid out in the notice of agenda, which are formally circulated to the Board in advance of a meeting as part of the Board papers and, therefore, Directors may request any agenda items to be added that they consider appropriate for Board discussion. Additionally, each Director is required to inform the Board of any potential or actual conflicts of interest prior to Board discussion.

Since all the Directors are non-executive, the Fund is not required to state how it applied B.1 to B.3 of the 2008 FRC Code on directors' remuneration. However, the fee that was paid to each Director during the year is shown in note 7 to the financial statements.

### Board Committees

The Fund has used a number of committees to control its operations. Each committee has formal written terms of reference, which clearly define their responsibilities.

### Audit Committee

The Audit Committee comprises all the Directors of the Fund and meets at least twice a year. Mr Duquemin was chairman of the Audit Committee until his resignation on 1 October 2010, when Mr Scott was appointed as chairman. It provides a forum through which the Fund's auditor reports to the Board.

## Report of the Directors (*continued*)

### **Risk Committee**

The Risk Committee comprises all the Directors of the Fund and meets at least once a year. Mr Scott was chairman of the Risk Committee until 1 October 2010, when Mr Harris was appointed as chairman. The function of the Risk Committee is to monitor the level of various risks to which the Fund is exposed, including the risk of litigation and other legal actions.

### **Board Meetings**

All members of the Board are expected to attend each Board meeting and to arrange their schedules accordingly, although non-attendance is unavoidable in certain circumstances. Directors' attendance at Board and committee meetings for the year ended 31 March 2011, by reference to the number of meetings held whilst each Board member was actually a Director, is set out in the following table:

	<i>Board meetings</i>	<i>Audit Committee meetings</i>	<i>Other Committee meetings</i>
Hugh Aldous	13/17	0/2	0/2
William Scott	17/17	2/2	2/2
Christopher Harris ( <i>appointed on 1 August 2010</i> )	12/12	2/2	1/2
Andrew Duquemin ( <i>resigned on 1 October 2010</i> )	7/7	1/1	1/1

### **Dialogue with Shareholders**

The Directors are always available to enter into dialogue with Shareholders. The Board stays abreast of Shareholders' views via regular updates from the Investment Manager as to meetings it may have held with Shareholders.

### **Internal Control and Financial Reporting**

The Board is responsible for establishing and maintaining the Fund's system of internal control. Internal control systems are designed to meet the particular needs of the Fund and the risks to which it is exposed, and, by their very nature, provide reasonable, but not absolute, assurance against material misstatement or loss. The key procedures which have been established to provide effective internal controls are as follows:

- The Administrator is responsible for the provision of administration and company secretarial duties;
- The duties of investment management, accounting and the custody of assets are segregated. The procedures are designed to complement one another;
- The Non-Executive Directors of the Fund clearly define the duties and responsibilities of their agents and advisers in the terms of their contracts;
- The Board reviews financial information produced by the Investment Manager and the Administrator on a regular basis;
- On an ongoing basis, compliance reports are provided at each Board meeting by the Administrator; and
- A Valuation Committee, comprising members of the Administrator meets at least once a month to agree and review valuation methodologies to ensure that valuations are calculated in accordance with the Fund's valuation and accounting policies and with International Financial Reporting Standards.

The Fund does not have an internal audit department. All of the Fund's management functions are delegated to independent third parties and it is therefore felt that there is no need for the Fund to have an internal audit function.

The internal control systems are designed to meet the Fund's particular needs and the risks to which it is exposed. Accordingly, the internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and by their nature can only provide reasonable and not absolute assurance against misstatement and loss.

### **Payment to Creditors**

Amounts due to suppliers and service providers are settled promptly within the terms of the payment, except in cases of dispute. The Fund does not have any trade creditors.

## Report of the Directors (*continued*)

### Financial Risk Profile

The Fund's financial instruments comprise investments, cash and various items such as payables and receivables that arise directly from the Fund's operations. The main purpose of these instruments is the investment of Shareholders' funds.

The main risks are market risk (comprising price risk, foreign currency risk and interest rate risk), credit risk and liquidity risk. Further details are given in note 17 to the financial statements.

### Material Contracts

The Fund's material contracts are with Spearpoint Limited ("Spearpoint"), which acts as Investment Manager, Elysium Fund Management Limited ("Elysium"), which acts as Administrator, Company Secretary and CISX Sponsor, ABN AMRO (Guernsey) Limited, which acts as Custodian, and Anson Registrars Limited, which acts as Registrar.

### Investment Manager

Details of the fees payable to the Investment Manager are disclosed in note 5.

The Investment Manager's appointment may be terminated on six months' notice given by either party or immediately at any time by the Fund upon material breach of the Investment Management Agreement by the Investment Manager, the insolvency, liquidation (save for the purpose of a previously approved winding up) or receivership of the Investment Manager or if the Investment Manager ceases to be qualified to act as such or, if for good and sufficient reason, the Fund is of the opinion that a change of manager is desirable in the interests of Shareholders and an Extraordinary Resolution is passed removing the Investment Manager.

The Directors believe that Spearpoint has performed creditably since its appointment as Investment Manager on 1 December 2009. In the opinion of the Directors, it is in the interests of Shareholders as a whole to retain the services of Spearpoint.

It appears that there may have been an error in the calculation of the outstanding investment management fees by the former Administrator and/or the double-charging of investment management fees arising from cross-investment by certain Cells of the ICC in certain other Cells of the ICC (the "cross investment fees"). Together with our legal advisors, the Board is continuing to investigate this potential contingent asset and its implications (if any) for the ICC and its Cells.

### Administrator

Bordeaux Services (Guernsey) Limited had been appointed as Administrator of the Fund pursuant to an Administration Agreement dated 28 December 2006 and had also been appointed to act as Company Secretary of the ICC and the Fund. With effect from 1 August 2010, Bordeaux Services (Guernsey) Limited resigned as Administrator and Company Secretary to the Fund and Elysium Fund Management Limited was appointed in its place.

Details of the fees payable to the Administrator are disclosed in note 6.

The Directors believe that Elysium has performed creditably since its appointment as Administrator, Company Secretary and CISX Sponsor. In the opinion of the Directors, it is in the interests of Shareholders as a whole to retain the services of Elysium.

### Custodian

The Fund appointed ABN AMRO (Guernsey) Limited (formerly MeesPierson (C.I.) Limited) as the Custodian of the Fund under the terms of a Custodian Agreement dated 29 December 2006. The appointment of the Custodian can be terminated by the Fund or the Custodian (subject to the appointment of a replacement) upon not less than 90 days' prior written notice or earlier upon default by either party.

### Taxation

The Income Tax Authority of Guernsey has granted the Fund exemption from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 and the income of the Fund may be distributed or accumulated without deduction of Guernsey income tax. Exemption under the above mentioned Ordinance entails payment by the Fund of an annual fee of £600 for each year in which the exemption is claimed. It should be noted, however, that interest and dividend income accruing from the Fund's investments may be subject to withholding tax in the country of origin.

## Report of the Directors (*continued*)

### Taxation (*continued*)

The Fund has not suffered any withholding tax in the year on its direct investments, although withholding tax may have been suffered within certain investments held by the Fund.

### Auditor

Ernst & Young LLP has indicated its willingness to continue in office and a resolution concerning its reappointment will be proposed at the Fund's forthcoming Annual General Meeting.

### Directors' Responsibilities in Respect of the Financial Statements

The Directors are responsible for preparing the Report of the Directors and the financial statements in accordance with applicable laws and regulations. The Companies (Guernsey) Law, 2008 as amended requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Fund and of the profit or loss of the Fund for that year. In preparing these financial statements the Directors are required to:

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

The Directors confirm that the financial statements comply with the above requirements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Fund and to enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 2008 as amended, The Protection of Investors (Bailiwick of Guernsey) Law, 1987 and the Fund's Principal Documents. They are also responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. To the best of our knowledge and belief:

- The financial statements have been prepared in accordance with International Financial Reporting Standards, The Companies (Guernsey) Law, 2008 as amended and The Protection of Investors (Bailiwick of Guernsey) Law, 1987 and give a true and fair view of the assets, liabilities, financial position and profit of the Fund;
- The Investment Manager's Report includes a review of the development, performance and position of the Fund during the year; and
- The financial statements include an analysis of the principal risks and uncertainties faced by the Fund.

### Disclosure of Information to Auditors

The Directors who held office at the date of approval of this Report of the Directors confirm that, so far as they are aware, there is no relevant audit information of which the Fund's auditor is unaware and each Director has taken all steps that he ought to have taken as a Director to establish that the Fund's auditor is aware of that information.

On behalf of the Board.

Hugh Aldous  
Director  
8 August 2011

William Scott  
Director  
8 August 2011

## Independent Auditor's Report to the Members of SPL Parallel Private Equity (PE2) IC Limited

We have audited the consolidated financial statements of SPL Parallel Private Equity (PE2) IC Limited for the year ended 31 March 2011 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 21. These financial statements have been prepared on the basis of the accounting policies set out herein.

This report is made solely to the Fund's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008 as amended. Our audit work has been undertaken so that we might state to the Fund's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the Fund'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 the preparation of the financial statements in accordance with applicable Guernsey law, as set out in the Directors' Responsibilities in respect of the Financial Statements.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies (Guernsey) Law, 2008 as amended. We also report to you if, in our opinion, the Fund has not kept proper accounting records, if the financial statements are not in agreement with the accounting records, or if we have not received all the information and explanations we require for our audit.

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

### Basis of audit opinion

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

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

### Basis of disclaimer of audit opinion on comparative information for the Statement of Comprehensive Income and the Cash Flow Statement

With respect to the comparative figures for the Statement of Comprehensive Income and the Cash Flow Statement for the year ended 31 March 2010, the audit evidence available to us was limited as we were not able to obtain adequate evidence in respect of the timing or magnitude of adjustments which may have been necessary to the financial position for the year ended 31 March 2009, prior to our appointment as auditor of the Fund. Owing to the timing of, and circumstances surrounding, the replacement of the directors and investment manager, we were unable to obtain sufficient audit evidence regarding the Statement of Comprehensive Income and the Cash Flow Statement for the year ended 31 March 2010. We were unable to satisfy ourselves on these matters by performing other audit procedures.

### Disclaimer of audit opinion on comparative Statement of Comprehensive Income and Cash Flow Statement

Because of the significance of the above matter in relation to the results of the Fund's operations for the year to 31 March 2010 we did not express an opinion on the results of its operations or its cash flows for the year then ended.

**Independent Auditor's Report to the Members of SPL Parallel Private Equity (PE2) IC Limited**  
***(continued)***

**Opinion on results and financial position for the year ended 31 March 2011**

In our opinion the financial statements:

- give a true and fair view of the state of the Fund's affairs as at 31 March 2011 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards; and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

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

We have nothing to report in respect of the following matters for the year ended 31 March 2011, where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

**Emphasis of matter – carrying value of investments**

In forming our opinion on the Fund's financial position at 31 March 2011, which is not modified, we have considered the adequacy of the disclosure made in note 3 to the financial statements concerning the uncertainties involved in estimating impairments for those investments where fair value can no longer be reliably measured and in respect of those investments with outstanding commitments where failure to meet those commitments may materially affect the existing carrying value. The matters explained in note 3 to the financial statements indicate the existence of a significant uncertainty about the carrying value of such investments, which are classified as at the lower of cost and impairment value. The amounts eventually recovered may differ from the carrying value but the difference cannot presently be determined.

Ernst & Young LLP  
Guernsey, Channel Islands  
8 August 2011

SPL Parallel Private Equity (PE2) IC Limited

**Statement of Comprehensive Income**  
for the year ended 31 March 2011

	Note	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
<b>Expenses</b>			
Investment management fees	5	(339)	(430)
Legal fees		(73)	-
Administration fees	6	(66)	(39)
Directors' fees	7	(38)	(9)
Audit fees		(24)	(29)
Custodian fees		(22)	(15)
Other expenses		(17)	(25)
<b>Total expenses</b>		<b>(579)</b>	<b>(547)</b>
<b>Investment gains and losses</b>			
Realised gains/(losses) from sale of investments	11	505	(85)
Movement in unrealised loss on revaluation of investments	11	3,015	(2,857)
<b>Total investment gains and losses</b>		<b>3,520</b>	<b>(2,942)</b>
<b>Net profit/(loss) from operating activities before gains and losses on foreign currency exchange</b>		<b>2,941</b>	<b>(3,489)</b>
Net foreign exchange losses		-	(1,277)
<b>Total comprehensive profit/(loss) for the year attributable to holders of Participating Redeemable Preference Shares</b>		<b>2,941</b>	<b>(4,766)</b>
Comprehensive profit/(loss) attributable to holders of £ Class		£1,749	(£1,579)
Comprehensive profit/(loss) attributable to holders of US\$ Class		US\$1,910	(US\$4,842)
<b>Earnings/(loss) per Participating Redeemable Preference Share - £ Class: basic and diluted</b>	9	<b>7.65p</b>	<b>(6.90)p</b>
<b>Earnings/(loss) per Participating Redeemable Preference Share - US\$ Class: basic and diluted</b>	9	<b>7.26c</b>	<b>(10.95)c</b>

All items in the above statement are derived from continuing operations.

There was no other comprehensive income in the year.

The accompanying notes on pages 19 to 31 form an integral part of these financial statements.

SPL Parallel Private Equity (PE2) IC Limited

**Statement of Changes in Equity**  
**Attributable to Holders of Participating Redeemable Preference Shares**  
**for the year ended 31 March 2011**

	<i>Distributable reserve £'000</i>	<i>Participating Redeemable Preference Shares £'000</i>	<i>Total £'000</i>
At 1 April 2010	(5,421)	37,828	32,407
Net profit for the year	2,941	-	2,941
	-----	-----	-----
<b>At 31 March 2011</b>	<b>(2,480)</b>	<b>37,828</b>	<b>35,348</b>
	-----	-----	-----

**for the year ended 31 March 2010**

	<i>Distributable reserve £'000</i>	<i>Participating Redeemable Preference Shares £'000</i>	<i>Total £'000</i>
At 1 April 2009	(655)	37,828	37,173
Net loss for the year	(4,766)	-	(4,766)
	-----	-----	-----
<b>At 31 March 2010</b>	<b>(5,421)</b>	<b>37,828</b>	<b>32,407</b>
	-----	-----	-----

*The accompanying notes on pages 19 to 31 form an integral part of these financial statements.*

SPL Parallel Private Equity (PE2) IC Limited

**Statement of Financial Position**  
as at 31 March 2011

	<i>Note</i>	<i>31 March 2011</i> <i>£'000</i>	<i>31 March 2010</i> <i>£'000</i>
<b>Current assets</b>			
Investments at cost less impairment	11	34,169	32,233
Other receivables and prepayments	12	8	3
Cash and cash equivalents		1,316	288
<b>Total assets</b>		<b>35,493</b>	<b>32,524</b>
<b>Current liabilities</b>			
Other payables	13	(145)	(117)
<b>Total liabilities</b>		<b>(145)</b>	<b>(117)</b>
<b>Net assets</b>		<b>35,348</b>	<b>32,407</b>
<b>Capital and reserves attributable to owners of the Fund</b>			
Share capital – Management Shares	14	-	-
Participating Redeemable Preference Shares	14	37,828	37,828
Distributable reserve		(2,480)	(5,421)
<b>Total equity attributable to owners of the Fund</b>		<b>35,348</b>	<b>32,407</b>
<b>Net Asset Value per Participating Redeemable Preference Share £ Class</b>			
	15	<b>91.92p</b>	<b>84.27p</b>
<b>Net asset value per Participating Redeemable Preference Share US\$ Class</b>			
	15	<b>87.22c</b>	<b>75.79c</b>

These financial statements were approved by the Board of Directors on 8 August 2011 and were signed on its behalf by

Hugh Aldous  
Director  
8 August 2011

William Scott  
Director  
8 August 2011

*The accompanying notes on pages 19 to 31 form an integral part of these financial statements.*

SPL Parallel Private Equity (PE2) IC Limited

**Statement of Cash Flows**  
for the year ended 31 March 2011

	<i>Year ended</i> <i>31 March 2011</i> <i>£'000</i>	<i>Year ended</i> <i>31 March 2010</i> <i>£'000</i>
<b>Cash flows from operating activities</b>		
Total comprehensive profit/(loss) for the year attributable to holders of Participating Redeemable Preference Shares	2,941	(4,766)
<i>Adjustments for:</i>		
Realised (gains)/losses from sale of investments	(505)	85
Movement in unrealised loss on revaluation of investments	(3,015)	2,857
Purchase of investments	(171)	(444)
Sale proceeds from disposal of investments	1,755	86
	-----	-----
<b>Net cash inflow/(outflow) from operating activities before working capital changes</b>	<b>1,005</b>	<b>(2,182)</b>
(Increase)/decrease in receivables	-	24
Increase/(decrease) in payables	28	(1)
	-----	-----
<b>Net cash inflow/(outflow) from operating activities</b>	<b>1,033</b>	<b>(2,159)</b>
	-----	-----
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>1,033</b>	<b>(2,159)</b>
	-----	-----
Cash and cash equivalents at beginning of year	288	2,718
Increase/(decrease) in cash and cash equivalents	1,033	(2,159)
Effect of exchange rates on cash and cash equivalents	(5)	(271)
	-----	-----
<b>Cash and cash equivalents at end of year</b>	<b>1,316</b>	<b>288</b>
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*The accompanying notes on pages 19 to 31 form an integral part of these financial statements.*

## Notes to the Financial Statements

### 1. General information

SPL Parallel Private Equity (PE2) IC Limited (the “Fund”) is an incorporated cell of SPL Guernsey ICC Limited (the “ICC”), a closed-ended incorporated cell company registered with limited liability and domiciled in Guernsey on 21 December 2006 and authorised by the Guernsey Financial Services Commission under the Incorporated Cell Companies Ordinance, 2006. On 9 February 2010, the Fund changed its name from Arch Parallel Private Equity IC Limited to SPL Parallel Private Equity (PE2) IC Limited. The Fund was registered with limited liability on 21 December 2006 and listed on the Channel Islands Stock Exchange (the “CISX”) on 31 January 2007 (£ Class) and 27 April 2007 (US\$ Class).

The Fund has elected to be an “authorised” investment scheme under the Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended.

The Investment Manager manages the Fund’s portfolio with a view to realising its assets within the shortest period of time, consistent with achieving a reasonable realisation price for such assets and with the intention of disposing of all such assets within five years. Realisations are managed, as far as possible, with a view to ensuring regular and consistent distributions of proceeds to Shareholders.

### 2. Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), issued by the International Accounting Standards Board (“IASB”), interpretations issued by the IFRS Interpretations Committee and applicable legal and regulatory requirements of Guernsey Law and reflect the accounting policies laid out in note 3.

These financial statements were approved by the Board of Directors on 8 August 2011.

### 3. Significant accounting policies

#### a) Basis of preparation

The financial statements have been prepared on a historical cost basis, except for the measurement at fair value or deemed cost less impairment of investments.

#### b) Functional and presentation currency

The performance of the Fund is measured and reported to investors in Sterling. The Directors consider Sterling to be the currency that most accurately represents the economic effects of the underlying transactions, events and conditions. The financial statements are presented in Sterling, which is the Fund’s functional and presentation currency.

#### c) Foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income. Translation differences on non-monetary financial assets and liabilities, such as financial assets at fair value through profit or loss, are recognised in the Statement of Comprehensive Income.

#### d) Financial assets and liabilities

The financial assets and liabilities of the Fund are defined as investments, cash and cash equivalents, other receivables and payables and gain/loss on forward foreign currency contracts. The currency exposure of the Fund’s net financial assets is disclosed in note 17 (ii).

## Notes to the Financial Statements (*continued*)

### 3. Significant accounting policies (*continued*)

#### d) Financial assets and liabilities (*continued*)

The Fund classifies its investments at fair value through profit or loss when fair value can be reliably measured. The Directors consider that fair values can be reliably measured when it would be possible to redeem an investment at either the published net asset value or, if this is not available, the latest estimate of net asset value from the administrator or manager of the investment.

When it is no longer possible to redeem an investment at its net asset value, whether due to suspension of redemptions, liquidation or otherwise, the Directors consider whether net asset value is a reliable estimate of fair value. In circumstances where it is not, the investment is included in the financial statements at the most recent net asset value at which it could have been redeemed. This amount is deemed to be a new cost for the investment. The Directors review such cost for subsequent impairments, and reduce the carrying value accordingly.

Impairment arises if subsequent published or estimated net asset values are lower than deemed cost or other information becomes available that indicates that the Fund will not be able to recover the carrying value of the investment. Impairments and reversals thereof on investments are included in the Statement of Comprehensive Income.

The Directors identify fair values and impairments to carrying values based upon the latest information available to the Fund by the fund manager or administrator of the funds held in the Fund's investment portfolio. The valuation date of such funds may not always be coterminous with the reporting date of the Fund and, in such cases, fair value adjustments and impairments or impairment reversals are based on the most recent valuation date of the funds. The net asset values reported by the fund manager or administrator may be unaudited and may differ from the amounts which would have been realised from a redemption of the investment in the relevant fund as, in some cases, the notified net asset values are based on estimates. The Directors may make adjustments to the notified net asset values where it is deemed appropriate to do so after considering the circumstances of the funds held. Further information can be found in note 4.

The Fund recognises a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument.

#### **Recognition**

Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e., the date that the Fund commits to purchase or sell the asset.

#### **Derecognition**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar assets) is derecognised where:

- The rights to receive cash flows from the asset have expired; or
- The Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and
- Either (a) the Fund has transferred substantially all the risks and rewards of the asset, or (b) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Fund has transferred its rights to receive cash flows from an asset (or has entered into a pass-through arrangement) and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Fund's continuing involvement in the asset.

The Fund derecognises a financial liability when the obligation under the liability is discharged, cancelled or expires.

#### e) Significant estimates and judgements

The Directors make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out in note 4.

## Notes to the Financial Statements (*continued*)

### 3. Significant accounting policies (*continued*)

#### f) Cash and cash equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value. For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash in hand and bank deposits with original maturities of three months or less.

#### g) Receivables and prepayments

Receivables are carried at the original invoice amount, less allowance for doubtful receivables. Provision is made when there is objective evidence that the Fund will be unable to recover balances in full. Balances are written-off when the probability of recovery is assessed as being remote.

#### h) Participating Redeemable Preference Shares

The Fund is closed-ended and Shareholders are not entitled to require the Fund to redeem their shares at any time. Accordingly, the Participating Redeemable Preference Shares have been classified as equity in accordance with IAS 32 'Financial Instruments: Presentation'.

If the Participating Redeemable Preference Shares cease to have all of the features or meet all of the conditions set out to be classified as equity, the Fund will reclassify them as financial liabilities and measure them at fair value at the date of reclassification, with any differences from the previous carrying amount recognised in equity. If the Participating Redeemable Preference Shares subsequently have all the features and meet the conditions to be classified as equity, the Fund will reclassify them as equity instruments and measure them at the carrying amount of the liabilities at the date of the reclassification.

#### i) Segmental reporting

The Directors are of the opinion that the Fund is engaged in a single business segment, being investment in private finance.

#### j) Income and expenses

Bank interest and investment interest are recognised on a time-proportionate basis using the effective interest rate method.

Dividend revenue is recognised when the Fund's right to receive the payment is established. Dividend revenue is presented gross of any non-recoverable withholding taxes, which are disclosed separately in the Statement of Comprehensive Income.

All expenses are recognised on an accruals basis. All of the Fund's expenses (with the exception of share issue costs, which are charged directly to distributable reserves) are charged through the Statement of Comprehensive Income in the period in which they are incurred.

#### k) Taxation

The Fund is exempt from taxation in Guernsey. However, in some jurisdictions, investment income and capital gains are subject to withholding tax deducted at the source of the income. The Fund presents the withholding tax separately from the gross investment income in the Statement of Comprehensive Income. For the purpose of the Statement of Cash Flows, cash inflows from investments are presented net of withholding taxes when applicable.

#### l) Changes in accounting policy and disclosures

##### ***New and amended standards and interpretations***

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations adopted in the year commencing 1 April 2010:

- IFRS 2: *Share-based payment: Group cash-settled share-based payment transactions*, effective 1 January 2010.
- IFRS 3: *Business combinations (revised)* and IAS 27: *Consolidated and separate financial statements (amended)*, effective 1 July 2009, including consequential amendments to IFRS 7, IAS 21, IAS 28, IAS 31 and IAS 39.
- IAS 39: *Financial instruments: Recognition and measurement – eligible hedged items*, effective 1 July 2009.
- IFRIC 17: *Distributions of non-cash assets to owners*.

During the year, the Fund did not adopt any standards or interpretations that had an impact on the financial statements or performance of the Fund.

## Notes to the Financial Statements (*continued*)

### 3. Significant accounting policies (*continued*)

#### m) Standards, interpretations and amendments issued but not yet effective

The IASB has issued/revised a number of relevant standards and interpretations with an effective date after the date of these financial statements. The Directors have chosen not to early adopt these standards and interpretations and they do not anticipate that they would have a material impact on the Fund's financial statements in the period of initial application.

#### **IAS 24: Related party disclosures (amendment)**

The amended standard is effective for annual periods beginning on or after 1 January 2011. It has clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard has introduced a partial exemption of disclosure requirements for government-related entities or for the entire standard.

#### **IFRS 9: Financial instruments: classification and measurement**

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. A full assessment of the impact of IFRS 9 has not yet been performed.

#### **IFRIC 19: Extinguishing financial liabilities with equity instruments**

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case this cannot be reliably measured, they are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Fund.

#### **Improvements to IFRSs (issued in May 2010)**

The IASB issued *Improvement to IFRSs, an omnibus of amendments to its IFRSs*. The amendments have not been adopted as they become effective for annual periods commencing on or after either 1 July 2010 or 1 January 2011.

- IFRS 3: *Business combinations*
- IFRS 7: *Financial instruments: disclosure*
- IAS 1: *Presentation of financial statements*
- IAS 27: *Consolidated and separate financial statements*
- IFRIC 13: *Customer loyalty programmes*

The Fund expects there to be no impact from the adoption of the amendments on its financial position or performance. The adoption of the amendment to IFRS 7 is expected to have a limited impact on the disclosure of credit risk.

### 4. Judgements and estimates

The preparation of the Fund's financial statements requires the Directors to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements and disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability in future periods.

#### **Judgements**

In the process of applying the Fund's accounting policies, management has made the following judgements, which have had the most significant effects on the amounts recognised in the financial statements:

## Notes to the Financial Statements (*continued*)

### 4. Judgements and estimates (*continued*)

#### *Going concern*

The Directors have made an assessment of the Fund's ability to continue as a going concern and are satisfied that the Fund has the resources to continue in business for the foreseeable future. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Fund's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

#### *Estimates and assumptions*

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below. The Fund based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Fund. Such changes are reflected in the assumptions when they occur.

#### *Fair value of financial instruments*

The principal estimates and judgments in the Fund's financial statements involve the classification of investments between those that are measured at fair value and those that are measured at deemed cost less impairment and the estimation of impairment for those that are measured at deemed cost less impairment. There is no active market for such investments and fair value cannot be reliably measured. Consequently the estimation of impairment and carrying value involves judgment. The Directors use the most recent net asset value, including those post year end, as a basis for assessing impairment. They also consider the underlying assets of the Fund's investments including the extent to which they are fair valued. These assessments are often based on unaudited information as audited financial statements for the Fund's investments are not generally available at the time of completion of the Fund's own financial statements and material information about the assets and liabilities of the Fund's investments may not have come to light at the time. Equally, changes in market conditions generally and in relation to specific investments may cause recoverable amounts to be different from those estimated by the Directors. These circumstances, combined with the complicated factors applicable to each investment as described earlier by both the Investment Manager and the Chairman, give rise to significant uncertainty in ascertaining the recoverable amounts of the Fund's investments carried at cost less impairment.

The significant judgments made in applying the accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended 31 March 2010.

The Fund has commitments outstanding to certain investment funds held within its portfolio, disclosed in the Commitments note below. It is not possible to estimate when, if at all, such commitments will be called. If they are called, the Fund does not currently have sufficient resources to meet the full outstanding commitment. Failure to meet a call could result in the Fund's existing holding being forfeited with a corresponding loss in value. The Directors have a variety of options at their disposal to raise resources to meet calls, although there are no formal arrangements in place. It is the Directors' judgement that they would be able to arrange sufficient resources and consequently that no adjustment to the carrying value of investments is required. Should any future calls not be met, the carrying value of these investments at 31 March 2011 would need to be adjusted and the difference could be material.

### 5. Investment management

#### *Investment management fees*

Spearpoint Limited (the "Investment Manager") was appointed as Investment Manager to the Fund on 1 December 2009. The Investment Manager is entitled to an investment management fee equal to one twelfth of 1.00% of the Gross Asset Value of the Fund as at the close of business on the last business day of the relevant calendar month (the "Valuation Point"). Gross Asset Value is defined as the aggregate value of the assets held by the Fund as at the relevant Valuation Point prior to the deduction of any accrued and unpaid administration, custody or investment management fees, but after the deduction of any other accrued but unpaid fees payable by the Fund and any other liabilities of the Fund as at the relevant Valuation Point. Any investment into other funds managed by the Investment Manager is excluded from the calculation of investment management fees.

## Notes to the Financial Statements (*continued*)

### 5. Investment management (*continued*)

The investment management fee is payable monthly in arrears. In the year ended 31 March 2011, a total of £339,000 (2010: £430,000) was incurred in respect of investment management fees, of which, £89,000 was payable at the financial reporting date (2010: £80,000).

#### **Former Investment Manager**

In addition to the investment management fees due to Spearpoint Limited, since its appointment on 1 December 2009, certain fees were payable during the year ended 31 March 2010 to the former Investment Manager, Arch Financial Products LLP.

Robert Addison, who was a Director of the Fund during 2009 until his resignation on 31 December 2009, is a partner in the former Investment Manager. The Fund was responsible for the continuing fees of the former Investment Manager.

The former Investment Manager was entitled to receive an investment management fee during the year ended 31 March 2010, up to its resignation on 1 December 2009, of 1.00% per annum of the NAV of the Fund. In the year ended 31 March 2011, no investment management fees were due to Arch Financial Products LLP (2010: nil). As at 31 March 2011, no investment management fee was payable to Arch Financial Products LLP (2010: nil).

Pursuant to an agreement reached in late 2009 between Arch Financial Products LLP, Spearpoint Limited and the old Board of Directors of the ICC and its Cells:

- Arch Financial Products LLP agreed to forgo outstanding investment management fees, then calculated to be worth approximately £3.4 million (across all of the Cells of the ICC), that were otherwise considered to be due to it;
- Spearpoint Limited agreed to take on the management of the ICC and its Cells for a take-on fee of £2.5 million; and
- The ICC and its Cells agreed to provide Arch Financial Products LLP with a limited release in relation to certain cross investment fees (which the ICC considered ought otherwise to be repaid to the Cells), then calculated to be worth approximately £1.0 million.

### 6. Administration fees

Until its resignation as Administrator and Secretary on 1 August 2010 and CISX listing sponsor on 1 July 2010, Bordeaux Services (Guernsey) Limited ("Bordeaux") was entitled to receive an administration fee calculated by reference to the overall NAV of the ICC, subject to a minimum fee of £40,000 per annum, pro-rated by reference to the Fund's NAV.

Elysium Fund Management Limited ("Elysium") was appointed as Administrator and Secretary on 1 August 2010 and CISX listing sponsor on 1 July 2010 and is entitled to an administration fee from the Fund at the rate of 0.125% on the first £100 million of net assets and 0.10% thereafter, per annum, subject to a minimum annual fee of £20,000. Elysium is also entitled to a sponsor fee of £2,000 per annum, payable quarterly in arrears.

In the year ended 31 March 2011, a total of £66,000 (Bordeaux: £15,000; Elysium: £51,000) (2010: £39,000) was incurred in respect of administration fees, of which, £14,000 was payable at the financial reporting date (2010: £10,000).

Included in the £66,000 administration fees for the year was £22,000 in respect of work undertaken by the Administrator which was outside the scope of the administration agreement.

### 7. Directors' fees

The Directors are each entitled to receive an annual Director's fee of £80,000 for the ICC and its Cells. In addition, Hugh Aldous is entitled to receive £25,000 as Chairman and William Scott and Christopher Harris are entitled to receive £15,000 each as Chairman of the Audit Committee and the Risk Committee respectively. All such fees are pro-rated by reference to the Fund's NAV. Directors' fees for the year ended 31 March 2011 were £38,000 (31 March 2010: £9,000) with Directors' fees payable at 31 March 2011 of £11,000 (31 March 2010: £nil).

**Notes to the Financial Statements (continued)****7. Directors' fees (continued)**

The Directors' fees allocated to the Fund during the year were as follows:

	2011 £'000	2010 £'000
Hugh Aldous <i>(appointed on 31 December 2009)</i>	12.9	2.9
William Scott <i>(appointed on 31 December 2009)</i>	11.7	2.6
Christopher Harris <i>(appointed on 1 August 2010)</i>	8.0	-
Andrew Duquemin <i>(appointed on 31 December 2009, resigned on 1 October 2010)</i>	5.4	2.6
Peter Radford <i>(resigned on 28 January 2010)</i>	-	0.5
Neal Meader <i>(resigned on 28 January 2010)</i>	-	0.4
Robert Addison <i>(resigned on 28 January 2010)</i>	-	-
	38.0	9.0

No bonus or pension contributions were paid or payable on behalf of the Directors. None of the Directors have any interests in the share capital of the Fund.

**8. Taxation**

The Income Tax Authority of Guernsey has granted the Fund exemption from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 and the income of the Fund may be distributed or accumulated without deduction of Guernsey income tax. Exemption under the above mentioned Ordinance entails payment by the Fund of an annual fee of £600 for each year in which the exemption is claimed. It should be noted, however, that interest and dividend income accruing from the Fund's investments may be subject to withholding tax in the country of origin.

The Fund has not suffered any withholding tax in the year on its direct investments, although withholding tax may have been suffered within certain investments held by the Fund.

**9. Loss per Participating Redeemable Preference Share – basic and diluted**

The basic and diluted return per Participating Redeemable Preference Share ("Share") is based on the net comprehensive profit of £1,749,000 for the £ Class, US\$1,910,000 for the US\$ Class (2010: loss of £1,579,000 for the £ Class, loss of US\$4,842,000 for the US\$ Class) and on a weighted average number of Shares in issue throughout the year of 22,872,877 for the £ Class, 26,319,835 for the US\$ Class (2010: 22,872,877 for the £ Class, 26,319,835 for the US\$ Class).

**10. Dividends paid**

No dividends were paid in respect of the year (2010: nil). The Directors do not propose the payment of a final dividend (2010: nil).

Notes to the Financial Statements (*continued*)

## 11. Investments

	31 March 2011			31 March 2010		
	<i>Investments at cost less impairment</i>	<i>Investments at fair value through profit or loss</i>	<i>Total</i>	<i>Investments at cost less impairment</i>	<i>Investments at fair value through profit or loss</i>	<i>Total</i>
	£'000	£'000	£'000	£'000	£'000	£'000
Opening cost	36,723	-	36,723	-	36,450	36,450
Reclassification	-	-	-	36,450	(36,450)	-
Purchases	171	-	171	444	-	444
Sales	(1,755)	-	(1,755)	(86)	-	(86)
Realised gains/(losses) on sale of investments	505	-	505	(85)	-	(85)
<b>Closing cost</b>	<b>35,644</b>		<b>35,644</b>	<b>36,723</b>	<b>-</b>	<b>36,723</b>
Closing unrealised loss on investments	(1,475)	-	(1,475)	(4,490)	-	(4,490)
<b>Closing valuation</b>	<b>34,169</b>	<b>-</b>	<b>34,169</b>	<b>32,233</b>	<b>-</b>	<b>32,233</b>

Prior to the reclassification of investments from "fair value through profit or loss" to "cost less impairment" in the year ended 31 March 2010, all of the investments would have been classified as Level 3 under IFRS 7's fair value hierarchy. The fair values of investments categorised as Level 3 under IFRS 7's fair value hierarchy are based on inputs that are not based on observable market data (unobservable inputs).

## 12. Other receivables and prepayments

	2011	2010
	£'000	£'000
Prepayments	7	2
Other receivables	1	1
<b>Other receivables and prepayments</b>	<b>8</b>	<b>3</b>

## 13. Other payables

	2011	2010
	£'000	£'000
Investment management fees	89	80
Audit fees	14	22
Administration fees	14	10
Directors' fees	11	-
Custodian fees	6	5
Other payables	11	-
<b>Other payables</b>	<b>145</b>	<b>117</b>

Notes to the Financial Statements (*continued*)

## 14. Share capital

	2011	2010
	£	£
<b>Authorised share capital:</b>		
Management Shares of £1 each	2	2
Unlimited unclassified Shares of no par value that may be issued as Participating Redeemable Preference Shares	-	-
	-----	-----
	<b>2</b>	<b>2</b>
	-----	-----

## Issued share capital:

## i) Management Shares

	2011		2010	
	Number	£	Number	£
Opening and closing balance	2	2	2	2
	-----	-----	-----	-----

## ii) Participating Redeemable Preference Shares

	2011			2010		
	Number	Number	£'000	Number	Number	£'000
	US\$ Class	£ Class		US\$ Class	£ Class	
Opening and closing balance	26,319,835	22,872,877	37,828	26,319,835	22,872,877	37,828
	-----	-----	-----	-----	-----	-----

## 15. Net asset value per Participating Redeemable Preference Share

The NAV per Participating Redeemable Preference Share is based on the net assets attributable to holders of each Participating Redeemable Preference Share of £21,025,000 for the £ Class, US\$22,957,000 for the US\$ Class (2010: NAV of £19,275,000 for the £ Class, NAV of US\$19,948,000 for the US\$ Class) and on Participating Redeemable Preference Shares in issue at the end of the year of 22,872,877 for the £ Class, 26,319,835 for the US\$ Class (2010: 22,872,877 for the £ Class, 26,319,835 for the US\$ Class).

## 16. Segmental analysis

In accordance with IFRS 8: *Operating Segments*, it is mandatory for the Fund to present and disclose segmental information based on the internal reports that are regularly reviewed by the Board in order to assess each segment's performance and to allocate resources to them.

The Board has identified that the Fund has one operating segment, being investment in private finance. Management information for the Fund as a whole is provided internally to the Board for decision-making purposes. The asset allocation decisions are based on a single integrated portfolio.

There were no changes in the reportable segments during the year ended 31 March 2011.

The financial results from this segment are equivalent to the financial results of the Fund as a whole.

## Notes to the Financial Statements (*continued*)

### 17. Financial risk management

The Investment Manager manages the Fund's portfolio with a view to realising its assets within the shortest period of time consistent with achieving a reasonable realisation price for such assets and with the intention of disposing of all such assets within five years. Realisations are managed, as far as possible, with a view to ensuring regular and consistent distributions of proceeds to Shareholders.

Risk is inherent in the Fund's activities, but it is managed through a process of ongoing identification, measurement and monitoring. The Fund is exposed to market risk (which includes currency risk, interest rate risk and price risk), credit risk and liquidity risk from the financial instruments it holds. Risk management procedures are in place to minimise the Fund's exposure to these financial risks, in order to create and protect shareholder value.

#### ***Risk management structure***

The Investment Manager is responsible for identifying and controlling risks. The Board of Directors supervises the Investment Manager and is ultimately responsible for the overall risk management approach within the Fund.

#### ***Excessive risk concentration***

Concentration indicates the relative sensitivity of the Fund's performance to developments affecting a particular industry or geographical location. Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of liquidity risk may arise from the repayment terms of financial liabilities, sources of borrowing facilities or reliance on a particular market in which to realise liquid assets. Concentrations of foreign exchange risk may arise if the Fund has a significant net open position in a single foreign currency, or aggregate net open positions in several currencies that tend to move together.

The Fund has significant counterparty risk exposure to Parallel Private Equity Limited Partnership ("Parallel"). The total exposure represents 100% of the Fund's portfolio.

As the Fund's portfolio is being managed with a view to realising the assets within the shortest period of time consistent with achieving a reasonable realisation price for such assets and with the intention of disposing of all such assets within five years, concentration risk, as investments are realised, will increase but will not be mitigated.

#### ***Market risk***

##### *(i) Price risk*

Price risk exposure arises from the uncertainty about future prices of financial instruments held. It represents the potential loss that the Fund may suffer through holding market positions in the face of price movements. All investments present a risk of loss of capital. The price risk for the Fund has been amplified as its investments are illiquid. Although the Investment Manager has not been able to fully mitigate the price risk, as the investment portfolio is in realisation, the investments are managed with a view to being sold as and when a fair price can be achieved.

At 31 March 2011, if investment valuations had moved by 5% with all other variables remaining constant, the change in net assets attributable to holders of Participating Redeemable Preference Shares for the year would amount to approximately +/- £1,708,000 (2010: +/- £1,612,000). The Board does not limit the exposure to any one industry sector or security as the Fund is in the process of disposing of its assets, in accordance with the Investing Policy. The maximum price risk resulting from financial instruments is equal to the carrying value of the financial instruments.

##### *(ii) Foreign currency risk*

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Fund's functional currency. The Fund does not currently invest in securities that are denominated in currencies other than Sterling. Accordingly, the value of the Fund's assets are not currently, nor were they during the year, affected favourably or unfavourably by fluctuations in currency rates and therefore the Fund is not currently subject to foreign exchange risks.

Notes to the Financial Statements (*continued*)17. Financial risk management (*continued*)**Market risk (*continued*)***(iii) Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Fund is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial instruments and cash flow. Cash and cash equivalents are the only interest bearing financial instruments.

The Investment Manager manages the Fund's exposure to interest rate risk, paying heed to prevailing interest rates and economic conditions, market expectations and its own views as to likely moves in interest rates.

	<i>Variable interest</i>	<i>Non-interest</i>	<i>Total</i>
	<i>£'000</i>	<i>bearing</i>	<i>£'000</i>
		<i>£'000</i>	
<b>2011</b>			
<b>Financial Assets</b>			
Investments	-	34,169	34,169
Other receivables	-	1	1
Cash and cash equivalents	1,316	-	1,316
	-----	-----	-----
<b>Total financial assets</b>	<b>1,316</b>	<b>34,170</b>	<b>35,486</b>
	-----	-----	-----
<b>Financial Liabilities</b>			
Other payables	-	(145)	(145)
	-----	-----	-----
<b>Total financial liabilities</b>	<b>-</b>	<b>(145)</b>	<b>(145)</b>
	-----	-----	-----
<b>Total interest sensitivity gap</b>	<b>1,316</b>	<b>34,025</b>	<b>35,341</b>
	-----	-----	-----

	<i>Variable interest</i>	<i>Non-interest</i>	<i>Total</i>
	<i>£'000</i>	<i>bearing</i>	<i>£'000</i>
		<i>£'000</i>	
<b>2010</b>			
<b>Financial Assets</b>			
Investments	-	32,233	32,233
Other receivables	-	2	2
Cash and cash equivalents	289	-	289
	-----	-----	-----
<b>Total financial assets</b>	<b>289</b>	<b>32,235</b>	<b>32,524</b>
	-----	-----	-----
<b>Financial Liabilities</b>			
Other payables	-	(117)	(117)
	-----	-----	-----
<b>Total financial liabilities</b>	<b>-</b>	<b>(117)</b>	<b>(117)</b>
	-----	-----	-----
<b>Total interest sensitivity gap</b>	<b>289</b>	<b>32,118</b>	<b>32,407</b>
	-----	-----	-----

## Notes to the Financial Statements (*continued*)

### 17. Financial risk management (*continued*)

#### **Market risk (*continued*)**

##### *(iii) Interest rate risk (*continued*)*

At 31 March 2011, if interest rates had moved by 50 basis points on variable interest rate balances with all other variables remaining constant, the change in net assets attributable to holders of Participating Redeemable Preference Shares for the year would have amounted to approximately +/- £7,000 (2010: +/- £1,000), arising entirely from cash and cash equivalents.

#### **Credit risk**

Credit risk is the risk that a counterparty to a financial instrument will cause a financial loss for the Fund by failing to discharge an obligation. The Fund is exposed to the risk of credit-related losses than can occur as a result of a counterparty or issuer being unable or unwilling to honour its contractual obligations. These credit exposures exist within financing relationships, derivatives and other transactions.

It is the Fund's policy that the Investment Manager closely monitors each counterparty's creditworthiness as well as the fair value of the collateral held and upon unfavourable change will seek to terminate the agreement or to obtain additional collateral (where possible). Credit risk related to unsettled transactions is considered to be minimal as transactions are settled or paid for upon delivery. Payments on securities acquired are only made after the broker has received the securities. Securities sold are only delivered after the broker has received the payment.

Credit risk also arises where the Fund has applied to redeem shares in a fund but has not yet received those redemption proceeds. The Investment Manager is aware of this risk, which is outside of the Fund's control.

Impairment provisions are provided for losses that have been incurred by the financial reporting date, if any. The Fund's total credit exposure is limited to the carrying amount of cash and cash equivalents recognised at the financial reporting date, which amounted to £1,316,000 (2010: £289,000). At 31 March 2011, the Fund's maximum credit exposure to any one counterparty was £1,316,000 (2010: £289,000).

#### **Liquidity risk**

Liquidity risk is defined as the risk that the Fund will encounter difficulties in realising assets or otherwise raising funds to meet financial commitments. The Fund is closed-ended and therefore is not exposed to the risk of redemptions by investors. The principal liquidity risk is contained in unmatched liabilities. In the opinion of the Directors, the current liquidity risk at 31 March 2011 was low since the ratio of cash and cash equivalents to unmatched liabilities was 9:1 (2010: 2:1).

In addition, the Fund had undrawn capital commitments relating to one of its investments, Parallel, amounting to £2.2 million (2010: £2.4 million). Taking this into account, the adjusted liquidity risk was <0.6:1 (2010: <0.1:1). This would imply a more significant risk based on cash and cash equivalents versus current liabilities and undrawn capital commitment at the year end, but this risk is managed through the use of a variety of measures and is dependent on the timing of future calls by Parallel against the undrawn capital commitment. Based on historic calls by Parallel, calls are undertaken with sufficient notice and in sizes manageable by the Fund, which are serviced through the active management of liquidity by the Investment Manager.

### 18. Related parties

The relationships between the Fund, Spearpoint Limited and Elysium Fund Management Limited are disclosed in notes 5 and 6. Also disclosed in note 6 are the transactions with the previous Administrator, Company Secretary and CISX Sponsor, Bordeaux Services (Guernsey) Limited.

All of the transactions with related parties were undertaken on terms equivalent to those that prevail in an arms length transaction.

**Notes to the Financial Statements (*continued*)**

**19. Contingent assets and contingent liabilities**

There were no contingent assets or contingent liabilities in existence at the year end (2010: nil).

**20. Events after the financial reporting date**

The Board is in advanced negotiations to sell its main private equity investments. If approved, the transaction will transfer all of the Fund's investments at cost less impairment into cash and more liquid securities. This transaction would considerably improve the Fund's liquidity and enable us to pursue more effectively our objective of returning capital to Shareholders.

There were no other significant events after the financial reporting date.

**21. Capital commitments**

The Fund had undrawn capital commitments relating to one of its investments, Parallel, amounting to £2.2 million (2010: £2.4 million). The liquidity risk is managed through the use of a variety of measures and is dependent on the timing of future calls by Parallel against the undrawn capital commitment. Based on historic calls by Parallel, calls are undertaken with sufficient notice and in sizes manageable by the Fund, which are serviced through the active management of liquidity by the Investment Manager.



## Directors

### **Hugh Aldous**

Hugh Aldous is Chairman of Capita Sinclair Henderson Limited and a director of Polar Capital Holdings plc, Innospec Inc., Henderson TR Pacific Investment Trust plc, The Eastern European Trust plc and Elderstreet VCT plc. He was Chairman of Melorio plc up to its acquisition by Pearson plc in July 2010. He is a former partner in Grant Thornton UK LLP, managing partner of a predecessor firm and Chairman of RSM International. He was a member of the Competition Commission and a DTI Inspector with various appointments from 1987 to 2003.

### **William Scott**

William Scott is an independent non-executive director of a number of investment companies and funds. After being an assistant investment manager with a large public sector pension scheme, he joined Rea Brothers, a private banking group, in 1989. From 1997 until 2002 he was director in charge of the Rea Brothers group's Guernsey-based offshore private client investment management activities. Rea Brothers became part of the Close Brothers group in 1999 and during that period he was also a director of Close Bank Guernsey Limited. From 2003 to 2004 he was a senior vice president with FRM Investment Management Limited, a leading manager of funds of hedge funds in Guernsey. He is a Chartered Accountant and is a Member of the Chartered Institute for Securities & Investment. He is resident in Guernsey.

### **Christopher Harris**

Christopher Harris studied at Cambridge University. He then trained as a solicitor with a leading City firm before joining a law practice in Jersey. Following the sale of the firm's trust company to Rathbone Brothers plc he became managing director of Rathbone Trust Company (Jersey) Limited from 2002 to 2004 and a director of Rathbone Investment Management (Channel Islands) Limited from 2003 to 2006. He is currently a director of TP5 (VCT) plc.

## Directors

Hugh Aldous (non-executive Chairman)  
William Scott (non-executive Director)  
Christopher Harris (non-executive Director), appointed on 1 August 2010

## Advisers

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### Administrator, Secretary and CISX

#### Listing Sponsor

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