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# ACP MEZZANINE LIMITED

*(a public company incorporated with limited liability under the laws of Jersey under registration number 93614)*

Report & Financial Statements for the period ended  
31 December 2006

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## DIRECTORS AND ADVISERS

<b>Directors</b>	Derek Vago Jeff Bennett Christophe Tanghe Graeme Ross George Baird	<i>Non-Executive Director</i> <i>Non-Executive Director</i> <i>Non-Executive Director</i> <i>Non-Executive Director</i> <i>Non-Executive Director</i>
<b>Registered Office</b>	Ordnance House 31 Pier Road St Helier Jersey JE4 8PW Channel Islands	
<b>Company Number</b>	93614	
<b>Secretary</b>	R&H Fund Services (Jersey) Limited Ordnance House 31 Pier Road St Helier Jersey, JE4 8PW Channel Islands	
<b>Auditors</b>	Kingston Smith LLP Devonshire House 60 Goswell Road London EC1M 7AD United Kingdom	
<b>Registrars</b>	Computershare Investor Services (Channel Islands) Limited Ordnance House 31 Pier Road St Helier Jersey, JE4 8PW Channel Islands	
<b>Broker</b>	Collins Stewart Limited 9th Floor 88 Wood Street London EC2V 7QR United Kingdom	
<b>Nominated Adviser</b>	Collins Stewart Limited 9th Floor 88 Wood Street London EC2V 7QR United Kingdom	
<b>Legal Advisers</b>	Mishcon de Reya Summit House 12 Red Lion Square London WC1R 4QD United Kingdom	Walkers PO Box 72, 44 Esplanade St Helier Jersey, JE4 8PN Channel Islands
<b>Bankers</b>	Deutsche Bank International Limited PO Box 727 St Paul's Gate New Street St Helier Jersey, JE4 8ZB Channel Islands	

## DIRECTOR'S STATEMENT

Derek Vago, Director of the Company and Chief Executive Officer of ACP Capital Limited, the parent of ACP Mezzanine Limited's investment manager, said:

"ACP Mezzanine has made a strong start and was almost fully invested in less than six months from listing.

The Company has exceeded expectations with respect to the origination volumes and dividends set out at the time of listing.

Importantly, ACP Mezzanine has reached two important milestones during the Period:

- It successfully executed its first underwriting during the period. As it seeks to differentiate itself from its peers, ACP Mezzanine's strategy of underwriting financing solutions for borrowers in the SME sector will be a key competitive advantage in its origination efforts; and
- The Nordsee refinancing demonstrates the advantages of pursuing an integrated finance strategy alongside ACP Capital Limited and its strategic platforms and vehicles.

The Nordsee refinancing is a great example of the power of providing complete financing solutions for the SME sector, with ACP Mezzanine providing senior and mezzanine financing alongside ACP Capital Limited's equity investment and provision of a part of the senior debt. ACP Mezzanine intends to continue to develop its underwriting efforts through this integrated finance strategy alongside ACP Capital in an effort to further ramp-up and diversify ACP Mezzanine's portfolio."

## REPORT OF THE DIRECTORS FOR THE PERIOD ENDED 31 DECEMBER 2006

The Directors present their report with the financial statements of ACP Mezzanine Limited (the "**Company**") and its subsidiaries (together, the "**Group**") for the period ended 31 December 2006 (the "**Period**"). The Company was incorporated on 31 May 2006. Separate financial statements for the Company have not been produced.

### PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The Company is a Jersey-incorporated limited liability public company which listed on AIM in July 2006 and whose strategy is to operate as a mezzanine lender, originating, structuring and underwriting the majority of its mezzanine investments. The Company's investment strategy is implemented and managed by a subsidiary of ACP Capital Limited ("ACP Capital") through an Investment Management Agreement. The Company's strategy is different from that followed by a number of participants in the mezzanine financing market, which focus on acquiring assets directly from third parties through a syndication process.

The Company lends primarily across Europe, with origination arising through a direct integrated finance approach alongside ACP Capital's strategic platforms and managed vehicles, and, to a lesser extent, purchases assets in the secondary market if the expected risk adjusted returns are attractive. It is expected that the integrated finance approach will account for the majority of the Company's investments over time.

### FINANCIAL HIGHLIGHTS

The Company generated Revenue of €3.0 million and Profit for the Period of €2.0 million. Diluted earnings per share for the Period were 2 Euro cents. The Directors are recommending a dividend for the Period of 2 Euro cents per share, which exceeds the minimum targeted level of 1 Euro cent per share as stated in the Company's AIM admission document.

The Company has successfully increased its investments by more than 135% since the time of its listing, ending the Period with €107.5 million of investments. The origination of an additional €62.5 million of investments translates into an annualised run-rate origination volume of approximately €145 million, which is approximately 20% above the Company's year one target at listing.

The Company also completed its first underwriting during the Period, jointly underwriting a €100 million debt package alongside ACP Capital for Nordsee GmbH ("**Nordsee**"), Europe's largest fish specialty restaurant chain. Nordsee was recently acquired by IFR Capital plc, an AIM listed food retail acquisition vehicle in which ACP Capital, the parent of the Company's investment manager, currently owns a 17.1% interest. The transaction represents the Company's first underwriting transaction since its listing and demonstrates the Company's ability to rapidly and competitively take advantage of its integrated finance strategy alongside ACP Capital and its strategic platforms and vehicles. The debt package contains €80 million of senior debt and the extension of the maturity of two existing mezzanine loans to Nordsee totalling €20 million of principal.

Given the significant increase in investments, the Company has recently accessed its €125 million leverage facility with The Royal Bank of Scotland, borrowing €19.3 million to finance the purchase of additional investments. Borrowings under the facility helped increase the current net running yield of the Company's portfolio to approximately 11%, given the lower cost of borrowing relative to the yield on investments purchased with such borrowings. The Company is also in advanced discussions with another bank regarding an additional leverage facility, which is expected to have a longer maturity and other terms which are expected to increase the net running yield of the portfolio, as well as provide greater flexibility. The Company expects to close this new facility by the end of February 2007.

It should be noted that past performance cannot be relied on as a guide to future performance.

## PORTFOLIO HIGHLIGHTS

At 31 December 2006, the Company's portfolio consisted of €107.5 million of investments broken down as follows:

Asset Type		Rating		Interest Rate		Geography		Currency	
Corporate SME	59%	BBB	0%	Fixed	19%	UK	12%	EUR	86%
RMBS	7%	BB	31%	Floating	81%	Germany	56%	GBP	12%
CDO	34%	B	8%			Other	32%	USD	2%
		CCC	0%	Total	100%				
Total	100%	NR	61%			Total	100%	Total	100%
		Total	100%						

The portfolio consisted of 14 assets from 10 borrowers, with an average exposure of €7.7 million, the largest asset totalling €40 million and the smallest asset totalling €1.2 million. The largest single borrower is Nordsee with three loans totalling €60 million of principal, of which €40 million represents an underwriting exposure, consistent with the Company's stated underwriting limits, which is expected to be syndicated or refinanced in the near term.

## DIVIDEND RECOMMENDATION

The Directors are proposing to recommend a dividend for the Period of 2 Euro cents per share, which exceeds the minimum targeted level of 1 Euro cent per share stated in the Company's AIM admission document. The dividend is subject to shareholder approval at the Annual General Meeting to be held on 28 February 2007, and will be paid on 9 March 2007 to all shareholders on the register at close of business on 16 February 2007.

It should be noted that past performance cannot be relied on as a guide to future performance.

## LIQUIDITY ANALYSIS

At the end of the Period, the Company had €15.8 million of cash, although this is expected to reduce to approximately €2.7 million in the near term given the purchase of two additional assets totalling approximately €11.1 and the payment of the recommended dividend. The Company expects to generate additional cash for investments through the syndication or refinancing of the Nordsee senior loan, together with the ability to borrow against unrated assets under the expected new leverage facility.

## NET-ASSET VALUE CALCULATION

The Company's net asset value at 31 December 2006 was equal to €0.98 per share.

## DIRECTORS AND THEIR INTERESTS

The Directors during the Period and at the date of this report were:

Derek Vago	(appointed 14 June 2006)
Jeff Bennett	(appointed 30 November 2006)
Christophe Tanghe	(appointed 14 June 2006)
Graeme Ross	(appointed 14 June 2006)
George Baird	(appointed 14 June 2006)

All the Directors hold non executive positions on the Board. There are no executive directors on the Board.

Directors' interests in the Company at 31 December 2006 were as follows:

<i>Name</i>	<i>Number of ordinary shares</i>	<i>Percentage of issued share capital</i>	<i>Number of shares under option</i>
Derek Vago *	1,000,000	0.99	--
Jeff Bennett	480,000	0.47	483,000
Christophe Tanghe	700,000	0.69	--

*\* through Rakison Services Limited*

*There have been no changes in these interests since 31 December 2006*

## **SUBSTANTIAL SHAREHOLDINGS**

At 10 January 2007 the Company had been notified of the following interests in its issued share capital:

ACP Capital Limited	46.3%
Artemis Investment Management Limited	10.1%
UBS Fund Management	3.6%
SG Option Europe	3.5%

## **CREDITORS PAYMENT POLICY**

Group operating companies are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted. It is Group policy that payments to suppliers are made in accordance with all relevant terms and conditions.

## **DIRECTORS LIABILITY INSURANCE**

The Group maintains liability insurance to indemnify the Directors for losses that may arise from their duties as directors of the Company or subsidiary companies.

## **THE ANNUAL GENERAL MEETING**

The Notice of the Annual General Meeting of the Company and the circular dealing with the special business to be considered at the Annual General Meeting has been dispatched to shareholders separately.

## **DISCLOSURE OF INFORMATION TO AUDITORS**

So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware. The Directors have taken all the steps they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

## **AUDITORS**

Kingston Smith LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

Graeme Ross  
Director  
8 February 2007

## **CORPORATE GOVERNANCE**

The Directors are committed to maintaining high standards of corporate governance. The Company is incorporated in Jersey. The Companies (Jersey) Law 1991 does not contain a mandatory code of corporate governance, although it does impose statutory obligations on directors to act in good faith and with a view to the best interests of the Company. The Company currently complies with applicable corporate governance requirements in Jersey.

The Directors acknowledge the importance of the principles of corporate governance set out in The Combined Code issued by the Financial Reporting Council in June 2006. Although the Combined Code is not compulsory for AIM listed companies, the Directors have applied the principles as far as practicable and appropriate for a relatively small public company as follows:

### **Board operation**

The Board meets regularly and is responsible for strategy, performance, approval of investments where such investments do not fall within the discretion granted to ACP Investment Management Limited (the "Investment Manager") pursuant to the Investment Management Agreement with the Investment Manager, and the framework of internal controls. The Board has a formal schedule of matters specifically reserved to it for decision. To enable the Board to discharge its duties, all Directors receive appropriate and timely information. Briefing papers are distributed to all Directors in advance of Board meetings. All Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The appointment and removal of the Company Secretary is a matter for the Board as a whole. In addition, procedures are in place to enable the Directors to obtain independent professional advice in the furtherance of their duties, if necessary, at the Company's expense. The Directors are satisfied that the balance of the Board is such that no individual or small group of individuals can dominate the Board's decision making. There are no executive directors on the board. Executive functions are carried out by the Company's investment manager.

The Board met 5 times during the Period.

### **Re election of Directors**

Directors are subject to re-election by the shareholders at Annual General Meetings. The Articles of Association provide that a certain proportion of the Directors will be subject to re-election at each Annual General Meeting.

### **Board Committees**

#### **Nomination Committee**

A nomination committee is not considered appropriate because of the size of the Board and the Company, but all appointments or potential appointments are fully discussed by all Board members. All new directors and senior management are given a comprehensive introduction to the Company's business. Any training which is deemed by the Board to be necessary will be provided at the Company's expense. Consideration will be given by the Board as to whether the Board has the skills required to manage the Company effectively, and particularly its relationship with the Corporate Administrator. The Directors do not consider that it is necessary at present for formal procedures to be in place to enable the Board to conduct a formal annual performance evaluation of itself or individual members of the Board.

## Remuneration Committee

The Directors do not intend to establish a remuneration committee, as such committee would not be appropriate given the nature of the Company's board structure and operations. The Board will review annually the remuneration of the Directors and agree reasonable and market standard levels of non-executive fees, based upon market information sourced from appropriate external consultants.

## Audit Committee

The Directors do not consider it necessary to establish an audit committee given the nature of the Company's board structure and operations. The Board will undertake all functions that would normally be delegated to the audit committee including reviewing annual and interim results, receiving reports from its auditors, agreeing the auditors' remuneration and assessing the effectiveness of the audit and internal control environment. Where necessary, the Board will obtain specialist external advice from either its auditors or other advisers. The Board are satisfied that these procedures will ensure that there are no matters that would compromise the independence of the auditors or affect the performance of their statutory duties.

The Board is satisfied that none of the non-audit services provided by Kingston Smith LLP in the Period gave rise to problems with auditor independence or other conflicts of interest.

## Regulatory Compliance

The Company will take all reasonable steps to ensure compliance by the Directors with the provisions of the AIM Rules relating to dealings in securities of the Company and has adopted a share dealing code for this purpose. The Company is also aware of the C1SX Model Code for Securities transactions by directors of a listed company and will take all reasonable steps to ensure compliance by the Directors with the relevant provisions of this code.

## Internal Financial Control

The Board is responsible for establishing and maintaining the Company's system of internal financial control and places importance on maintaining a strong control environment. Procedures which the Directors have established with a view to providing effective internal financial control include:

- the Company's organisational structure has clear lines of responsibility;
- quarterly results and activity reports are closely monitored by the Directors;
- the Board is responsible for identifying the major business risks faced by the Company and for determining the appropriate courses of action to manage those risks; and
- oversight of the performance of the Investment Manager and its compliance with the Investment Management Agreement.

The Directors recognise, however, that such a system of internal financial control can only provide reasonable, not absolute, assurance against material misstatement or loss.

## Relations with Shareholders

Communications with shareholders are given high priority. In addition to the regular announcements, including the Company's announcement of the preliminary year end results and at the half year, the Board also issues reports in respect of the Company's Net Asset Value to its shareholders on a quarterly basis. The Board uses the Annual General Meeting to communicate with investors and welcomes their participation. The Board aims to ensure that at least one Director is available at Annual General Meetings to answer questions.

## DIRECTOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the financial statements. The Companies (Jersey) Law 1991 permits the Company and its subsidiaries (the "Group") to prepare financial statements which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity and the related notes in accordance with International Financial Reporting Standards and Article 4 of the IAS Regulation.

International Accounting Standard 1 "Presentation of financial statements" requires that financial statements present fairly for each financial period the Company's financial position, financial performance and cash flows. This requires the faithful presentation of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the Preparation and Presentation of Financial Statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to:

- properly select accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in International Reporting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at all times the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps to ensure the prevention and detection of fraud and other irregularities.

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

### Going Concern

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

## REPORT ON DIRECTORS' REMUNERATION

### Remuneration Committee

The Company has not and does not intend to establish a remuneration committee, as such committee would not be appropriate given the nature of the Company's board structure and operations. The Board will review annually the remuneration of the Directors and agree reasonable and market standard levels of non-executive fees, based upon market information sourced from appropriate external consultants. No director is involved in determining his or her own level of remuneration.

### Directors' terms of service

There are no executive directors on the Board. None of the Directors have service contracts with the company. Their terms of appointment are governed by letters of appointment. Directors are appointed for an initial period of three years and for the majority of the Directors this may be terminated by either the Company or the Director serving three months written notice on the other at any time and is further subject to rotational retirement rules. The written notice Period for Derek Vago and Jeff Bennett is six months.

In the initial period of three years no fees are payable to the Directors, except for £12,000 of annual fees which are payable to George Baird and £12,000 of annual fees which are payable to R&H Fund Services (Jersey) Limited (in respect of the duties undertaken by Graeme Ross as a director), in accordance with the Administration Agreement.

### Directors Fees

Directors' fees paid during the period ending 31 December 2006 were as follows:

George Baird	£6,608
R&H Fund Services (Jersey) Limited	£6,608

### Directors' Interests

The Directors' interests in the Ordinary Shares of the Company are set out in the Directors' Report on page 5.

### Directors' Options

Jeff Bennett, on appointment as a director, was granted options to subscribe for 483,000 Ordinary Shares in the Company at an exercise price of one Euro cent per Ordinary Share. He will also be entitled to receive further options to subscribe for no less than 483,000 Ordinary Shares in each case, at a similar nominal exercise price (or a scheme which provides equivalent financial incentives) on 31 December 2007 and 2008, subject to his continued employment by the Company. Each option is only exercisable by Jeff Bennett at the end of a three-year period following the achievement of various performance targets (which will include the Company meeting certain annual total shareholder returns).

On behalf of the Board

Graeme Ross  
Director  
8 February 2007

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS

We have audited the financial statements of ACP Mezzanine Limited for the period ended 31 December 2006 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with the relevant financial reporting framework, and whether the financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We are not required to consider whether the directors' statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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

### **Basis of audit opinion**

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

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

## Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2006 and of its profit for the period then ended;
- the financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991;
- the information given in the Directors' Report is consistent with the financial statements.

9 February 2007

Kingston Smith LLP  
Chartered Accountants & Registered Auditors

Devonshire House  
60 Goswell Road  
London  
EC1M 7AD

**ACP Mezzanine Limited**  
**Consolidated Income Statement**  
**For the period from 31 May 2006 to 31 December 2006**

	Notes	€
<b>Revenue</b>		
Investment income		3,035,995
Fees receivable		<u>2,885</u>
		3,038,880
Interest payable and other related financing costs	5	(67,401)
Exchange movements		(42,398)
Equity-settled share-based payments	13	(41,069)
Investment manager's fees	6	(753,460)
Other operating expenses	6	<u>(96,838)</u>
<b>Profit before tax</b>		<u>2,037,714</u>
Income taxes	8	-
<b>Profit for the period attributable to the equity shareholders</b>		<u><u>2,037,714</u></u>
<b>Earnings per share</b>		
Basic	12	2.01 cents
Diluted	12	1.99 cents

All activities relate to continuing operations

There are no recognised gains and losses other than the profit for the period stated above. Accordingly, a separate consolidated statement of recognised income and expense is not presented in these financial statements.

The movement in equity in the period is disclosed in note 11

**ACP Mezzanine Limited**  
**Consolidated Balance Sheet**  
**As at 31 December 2006**

	Notes	€
<b>Assets</b>		
<b>Non-current assets</b>		
Investments		
Loans and receivables	9	107,522,875
		<u>107,522,875</u>
<b>Current assets</b>		
Trade and other receivables	10	1,507,980
Cash and cash equivalents		15,798,227
<b>Total current assets</b>		<u>17,306,207</u>
<b>Total assets</b>		<u>124,829,082</u>
<b>Equity &amp; Reserves</b>		
Issued capital	11	-
Share premium	11	95,783,580
Share-based payment reserve	11	1,781,071
Retained earnings	11	2,037,714
<b>Equity Shareholders' funds</b>		<u>99,602,365</u>
<b>Non-current liabilities</b>		
Loans and borrowings	14	19,265,934
<b>Total non-current liabilities</b>		<u>19,265,934</u>
<b>Current liabilities</b>		
Trade and other payables	15	5,960,783
<b>Total current liabilities</b>		<u>5,960,783</u>
<b>Total liabilities</b>		<u>25,226,717</u>
<b>Total equity and liabilities</b>		<u>124,829,082</u>

The financial statements were approved by the Board of Directors on 8 February 2007 and were signed on its behalf by:

**Graeme Ross**  
**Director**

**ACP Mezzanine Limited**  
**Consolidated Cash Flow Statement**  
**For the period from 31 May 2006 to 31 December 2006**

	€
<b>Cash flow from operating activities</b>	
Purchase of investments	(101,850,248)
Investment income	1,566,230
Investment manager's fee	(607,627)
Other operating expenses	(57,246)
<b>Net cash outflow from operations</b>	<u>(100,948,891)</u>
<b>Cash flow from financing activities</b>	
Proceeds from issues of share capital	100,000,000
Costs of issues of share capital	(2,476,418)
Drawdown of bank loan facilities	19,265,934
<b>Net cash inflow from financing activities</b>	<u>116,789,516</u>
Effect of exchange rate fluctuations	(42,398)
<b>Closing cash and cash equivalents</b>	<u>15,798,227</u>

**ACP Mezzanine Limited**  
**Notes to the financial statements**  
**For the period from 31 May to 31 December 2006**

**1 General Information**

ACP Mezzanine Limited (the “Company”) is a company incorporated on 31 May 2006 and registered in Jersey under registration number 93614. The Company’s shares were admitted to trading on AIM on 26 July 2006. The Company carries on the business of an investment holding and management company. The business of the subsidiaries is the holding of mezzanine assets and other investments.

These Group consolidated financial statements were authorised for issue by the Board of Directors on 8 February 2007.

**2 Basis of preparation**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and their interpretations issued or adopted by the International Accounting Standards Board as adopted for use in the European Union (“IFRS”). The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the period ended 31 December 2006. These consolidated financial statements also show a true and fair view of the profit of the company for the period and of the state of the company’s affairs at the end of the period and otherwise comply with the requirements of the Companies (Jersey) Law 1991; accordingly, separate financial statements for the company have not been presented.

The financial statements are presented in Euro, the functional currency of the Company and its subsidiaries. They are prepared under the historical cost convention. The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on the experience of the directors and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

The most significant techniques for estimation are described in the accounting policies or notes to the financial statements.

**3 Accounting policies**

The accounting policies have been consistently applied across the Group entities for the purpose of producing these consolidated financial statements. The significant accounting policies applied are as follows:

**Investments**

Investments are recognised and derecognised on a date where the purchase or sale of an investment is under a contract whose terms require the delivery or settlement of the investments. Investments classified as loans and receivables are initially measured at fair value which equates to cost and are subsequently carried in the balance sheet at amortised cost less impairment.

Income from loans and receivables is recognised as it accrues by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash flows through the expected life of the financial asset to that asset’s carrying value.

**Other assets**

Assets, other than those specifically accounted for under a separate policy, are stated at their cost less impairment. Losses are reviewed at each balance sheet date to determine whether there is any indication of impairment.

**ACP Mezzanine Limited**  
**Notes to the financial statements (continued)**  
**For the period from 31 May to 31 December 2006**

**3 Accounting policies (continued)**

**Cash & cash equivalents**

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the cash flow statement, cash and cash equivalents comprise cash and short-term deposits as defined above and other short-term highly liquid investments that are readily convertible into cash and are subject to an insignificant risk of changes in value, net of bank overdrafts.

**Loans**

All loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowings. After initial recognition, these are subsequently measured at amortised cost using the effective interest method, which is the rate that exactly discounts the estimated future cash flows through the expected life of the liabilities. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

**Other liabilities**

Liabilities, other than those specifically accounted for under a separate policy, are stated based on the amounts which are considered to be payable in respect of goods or services received up to the balance sheet date.

**Share-based payments**

The cost of awards to employees that take the form of shares or rights to shares is charged to the income statement on a straight line basis over the period to which the employee's performance relates and a corresponding amount is reflected in revenue reserves in shareholders' equity. The charge is calculated as being the fair value of the shares or rights to shares at the date of grant, reduced by any consideration payable by the employee. Fair value is measured using a Black-Scholes option pricing model based and is based on a reasonable expectation of the extent to which performance criteria will be met.

Equity-settled share-based payments for services supplied are measured at fair value by reference to the fair value of the shares or rights to shares at the date of grant to the supplier. The resultant fair value measured is charged to the income statement and a corresponding amount is reflected in revenue reserves in shareholders' equity. Share-based payments relating to share issues are taken directly to reserves in shareholders' equity.

**Equity instruments**

Equity instruments issued by the Group are recognised at the proceeds or fair value received with the excess of the amount received over nil par value being credited to the share premium account. Direct issue costs are deducted from equity.

**Exchange differences**

Transactions in currencies different from the functional currency of the Group entity entering into the transaction are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Euro at the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. The principal exchange rates used at 31 December 2006 were:

British Pound	0.673
US Dollar	1.319

**4 Segment reporting**

The Group operates in only one business and geographical segment and, accordingly, no additional segment analysis is disclosed.

**ACP Mezzanine Limited**  
**Notes to the financial statements (continued)**  
**For the period from 31 May to 31 December 2006**

<b>5</b>	<b>Interest payable</b>	<b>€</b>
	Interest on loans and borrowings	31,404
	Amortised cost of financing	35,997
		67,401

**6 Operating expenses**

Operating expenses include the following amounts:

**Investment manager's fees**

	<b>€</b>
Fees charged under Investment Management Agreement (note 17)	753,460

**Services provided by the Group's auditor**

During the period the Group obtained the following services from the Group's auditors, Kingston Smith LLP:

	<b>Audit services</b>	<b>€</b>
	Statutory audit	29,592
	<b>Non-audit services</b>	
	Due diligence in respect of Admission to Trading on AIM	37,900
	Assurance services	5,800
		73,292

**Non-audit services**

Work is allocated to the auditors only if it does not impact the independence of the audit team. Due diligence provided by the auditors is carried out by teams which are independent of the audit process.

Assurance services are services which it is most efficient for the auditors to provide and are allocated to them subject to consideration of any impact on their independence.

<b>7</b>	<b>Staff costs</b>	<b>€</b>
	Directors' Remuneration	19,630
	Share-based payment cost (note 13)	41,069
		60,699

The Group does not employ staff. Administration is undertaken by the Investment Manager.

**ACP Mezzanine Limited**  
**Notes to the financial statements (continued)**  
**For the period from 31 May to 31 December 2006**

**8 Income taxes**

The Company and both subsidiaries are registered in Jersey as exempt companies and are, therefore, not liable to Jersey income tax on profits derived outside Jersey. Confirmation has been obtained from the Comptroller of Income Tax in Jersey that, by concession, the companies will be liable to tax in Jersey only in respect of income arising in Jersey other than bank interest income. During the period no income, other than bank interest income, arose in Jersey.

**9 Loans and receivables**

	€
Additions at cost	107,615,185
Exchange movements	<u>(92,310)</u>
<b>Closing book value</b>	<b><u><u>107,522,875</u></u></b>

Loans and receivables are represented by unlisted debt instruments.

During the period, investments with a book cost of €31,051,037 were transferred to the Royal Bank of Scotland in a Total Return Swap arrangement under which the bank has provided funding of approximately 61% of the book value of the assets transferred (Note 14). The risks and rewards from those investments principally remain with the Group. Accordingly those investments continue to be included as part of the Company's portfolio.

**10 Trade and other receivables**

	€
Accrued Interest receivable from investments	1,469,765
Prepayments and other accrued income	<u>38,215</u>
	<b><u><u>1,507,980</u></u></b>

**ACP Mezzanine Limited**  
**Notes to the financial statements (continued)**  
**For the period from 31 May to 31 December 2006**

**11 Movement in equity**

	Share capital €	Share premium €	Share-based payment reserve €	Retained earnings €	Total €
Profit for the period	-	-	-	2,037,714	2,037,714
Issue of shares	-	100,000,000	-	-	100,000,000
Costs of share issue	-	(2,476,418)	-	-	(2,476,418)
Equity settled share -based payments	-	(1,740,002)	1,781,071	-	41,069
At 31 December 2006	<u>-</u>	<u>95,783,580</u>	<u>1,781,071</u>	<u>2,037,714</u>	<u>99,602,365</u>

**Share capital**

€

Authorised, called up and fully paid.

101,412,000 ordinary shares of no par value.

All proceeds from the issue of shares are dealt with in Share premium.

There is no limit on the number of shares that may be issued by the Company.

**Share premium**

This comprises shares issued in the period:

	Date	Shares Issued	Proceeds (Net of issue costs) €
Issued to certain directors and key personnel within the Investment Manager at €0.50 per share	15 June 2006	2,824,000	1,412,000
Issued on Placing in conjunction with admission to AIM at €1 per share	26 July 2006	98,588,000	96,111,582
		<u>101,412,000</u>	<u>97,523,582</u>
Equity settled share-based payments for issue costs			(1,740,002)
At 31 December 2006			<u>95,783,580</u>

**12 Earnings per share**

The calculation of the basic earnings and diluted earnings per share attributable to the equity shareholders of the Company is based on the following data:

€

**Earnings**

Earnings for the purposes of basic earnings per share being profit attributable to equity shareholders of the Company

2,037,714

**Number of shares**

Weighted average number of ordinary shares for the purposes of basic earnings per share

101,412,000

Effect of dilutive potential ordinary shares

Share options

944,480

Weighted average number of ordinary shares for the purposes of diluted earnings per share

102,356,480

**ACP Mezzanine Limited**  
**Notes to the financial statements (continued)**  
**For the period from 31 May to 31 December 2006**

**13 Share -based payments**

During the period, the Company granted options to purchase ordinary shares of the Company to the following:

	Number of options	Exercise price €
ACP Capital Limited	10,141,200	1.00
Collins Stewart Limited	515,880	1.00
Jeff Bennett	483,000	0.01
	<u>11,140,080</u>	

No options were exercised in the period.

Details of the options are as follows:

*ACP Capital Limited*

The options are fully vested and exercisable between July 2008 and July 2011.

*Collins Stewart Limited*

The options can be exercisable in whole or in part at any time until July 2011.

*Jeff Bennett*

The options are only exercisable after the end of a three year period following the achievement of various performance targets, which will include the Company meeting certain total shareholder returns. Details are disclosed in the Directors Remuneration Report.

The Company recognised the following total expenses and costs in respect of equity settled share payments in the period:

	€
Recognised immediately as an expense and charged to Income statement	41,069
Recognised as cost of raising finance in respect of Placing of shares and taken directly to shareholders equity	1,740,002
	<u>1,781,071</u>

The total fair value of options granted in the period was € 1,986,331

The inputs into the Black Scholes model used to calculate the fair values are as follows:

Expected Volatility	5%
Expected Life	5 years
Discount for newly listed company	20%
Dividend yield	0%

**14 Loans and Borrowings**

	€
<b>Bank loans</b>	
Due within 1-2 years	<u>19,265,934</u>

ACP Mezzanine Asset Holdings 1 Limited entered into a Total Return Swap arrangement with the Royal Bank of Scotland whereby the Company has swapped a basket of investment assets in return for finance. Under the facility the bank has financed approximately 61% of the book cost of the assets swapped. The Company has the right to repurchase the assets by December 2008 on the same terms as those by which the assets were swapped. The Company pays the bank a floating interest rate of 1.25% over the relevant EURIBOR/LIBOR/US LIBOR base rate.

**ACP Mezzanine Limited**  
**Notes to the financial statements (continued)**  
**For the period from 31 May to 31 December 2006**

**15 Trade and other payables**

	<b>€</b>
Trade payables	5,889,787
Accruals	70,996
	5,960,783

Trade payables include €5,472,033 payable in January 2007 in respect of investments acquired in December 2006.

**16 Financial risk management**

**Liquidity risk**

The Group had cash resources of €15,798,227 at the period end. Additionally, the Group had available to it unutilised Total Return Swap facilities of approximately €106,000,000 at 31 December 2006. The directors currently view liquidity risk as low.

**Derivative financial instruments**

Other than the Total Return Swap facilities detailed in notes 9 and 14, the Group had no other derivative assets or liabilities at 31 December 2006.

**Currency rate exposure**

The Group invests in assets denominated in currencies other than Euro. The value of such investments may therefore be affected by fluctuations in foreign exchange rates.

**Interest rates**

In the event of a significant rise in interest rates, defaults on the Group's investments may occur. Interest rates are highly sensitive to many factors outside of the Group's control.

**Default of borrower**

A significant portion of the Group's investments consist of limited recourse securities that are subordinated in right of payment and ranked junior to other securities that are secured by or represent ownership in the same pool of assets. In the event of a default, the Group may not be able to entirely recover its original investment in such assets.

**Foreign exchange risk**

The Group's exposure to foreign currencies at 31 December 2006 was as follows:

	Euro	US Dollar	Sterling	Total
Total Assets	99,664,707	4,652,848	20,511,527	124,829,082
Total Liabilities	(13,591,586)	(1,423,451)	(10,211,680)	(25,226,717)
Net assets	86,073,121	3,229,397	10,299,847	99,602,365

**Interest rate risk**

The interest rate profile of the interest bearing financial assets and liabilities of the Group is shown below in the table by the earlier of the contractual repricing or maturity date.

	Within 1 year €	1 - 2 years €	Over 5 years €	Total €
Fixed rate				
Loans and receivables	20,000,000	-	-	20,000,000
Floating rate				
Loans and receivables	40,000,000	-	47,522,875	87,522,875
Cash and cash equivalent	15,798,227	-	-	15,798,227
Loans and borrowings	-	(19,265,934)	-	(19,265,934)
	75,798,227	(19,265,934)	47,522,875	104,055,168

**ACP Mezzanine Limited**  
**Notes to the financial statements (continued)**  
**For the period from 31 May to 31 December 2006**

**17 Related parties**

*ACP Capital Limited*

ACP Capital Limited holds 47,000,000 ordinary shares in the Company, representing 46.3% of the issued share capital of the Company at 31 December 2006.

During the period, ACP Capital Limited was granted 10,141,200 options to acquire ordinary shares in the Company at an exercise price of €1 per share. The options are not exercisable until July 2008.

During the period, the Company acquired the entire issued share capital of ACP Mezzanine Asset Holdings 1 Limited and ACP Mezzanine Holdings 2 Limited from ACP Capital Limited for a cash consideration of €38,281,000, thereby acquiring the initial investment portfolio of the Group. The consideration paid was deemed to be the fair value of the underlying investment assets held by the companies acquired.

*ACP Investment Management Limited*

During the period, the Company entered into an Investment Management Agreement with ACP Investment Management Limited, a wholly owned subsidiary of ACP Capital Limited. Under the Agreement, ACP Investment Management Limited was appointed Investment Manager for an initial period of 3 years and given discretion to deal with the company's assets subject to certain guidelines. The annual management fee chargeable by the Investment Manager is currently €1,750,000 based on 1.75% of gross shareholders' equity. The charge in the period amounted to €753,460. Additionally, the Investment Manager is entitled to a performance fee equivalent to 25% above a benchmark return (minimum 2% per quarter). A performance fee was not payable for the period. At 31 December 2006, €145,830 was due to ACP Investment Management Limited in respect of the management fee.

**18 Subsidiary companies**

Name	Country of incorporation and registration	Percentage owned
ACP Mezzanine Asset Holdings 1 Limited	Jersey	100%
ACP Mezzanine Asset Holdings 2 Limited	Jersey	100%

The principal activity of both companies is the holding of mezzanine assets and other investments.

Both of the above subsidiary undertakings are fully consolidated in the financial statements of the Group.

**19 Fair Value**

The directors' consider that the carrying amounts of assets and liabilities in the financial statements approximate to their fair value.

**20 Dividends**

A dividend in respect of the period ended 31 December 2006 of 2 Euro cents per share, amounting to a total dividend of €2,028,240, is to be proposed at the annual general meeting on 28 February 2007. These financial statements do not reflect this dividend payable.