# HGCAPITAL TRUST PLC Company No 1525583

## Annual Report
## (year ended 31 December 2006)

# HgCapital Trust plc

Private equity investment trust of the year
*Investment Week Awards 2005 and 2006*

Annual report and accounts
31 December 2006

HgCapital

# Contents

# Investment objective

The objective of the Company is to provide shareholders with long-term capital appreciation in excess of the FTSE All-Share Index by investing in unquoted companies.

The Company provides investors with exposure to a diversified portfolio of private equity investments primarily in the UK and Continental Europe.

# Financial highlights



**+21%** The strong growth in net assets (including dividend) continues

**+27%** Share price and dividend (total return) versus the FTSE All-Share Index total return of 17%

**+18%** Ten year total return per annum versus 8% per annum from the FTSE All-Share Index

**>5x** Ten year investment return for every £1 invested

**£62m** Another record year for realisations

**£45m** Deep sector knowledge has helped us to identify attractive new investment opportunities

## [Chairman's statement]

# HgCapital Trust has rewarded its shareholders well for more than a decade and we believe it will continue to do so through exposure to an asset class that offers attractive long-term prospects for growth

### Performance

I am pleased to report that over the year to 31 December 2006 the Company's total return to shareholders (in terms of net asset value plus dividend) was 21%, while the total return (share price growth plus dividend) was 27% This performance compares with a total return by the FTSE All-Share Index of 17%

The Company received £62 3 million from the realisation of investments and reinvested a total of £45 3 million in new and follow-on investments - both new records The Company's net asset value (NAV) per ordinary share grew by 20%, from 621 3p to 743 0p The share price of HgCapital Trust rose from 583 5p to 731 0p

At year-end the market capitalisation of the Company had risen to £184 million Liquidity in the Company's shares has continued to improve with the result that the Company is now well-established as a constituent of the FTSE All-Share Index

The Board is recommending a final dividend for the year of 14 0p per share (2005 10 0p), out of earnings per share of 17 9p (2005 11 8p)

### Investment strategy

The Company's investment manager, HgCapital, has a long track record of successful investment in mid-market buy-outs, which it defines currently as transactions with an enterprise value between £50 million and £350 million The Board believes that this continues to be a fruitful area for investment, which, whilst remaining competitive, is largely unaffected by the very large buy-out funds that have recently been raised and which, by necessity, must focus on very large deals

While our Manager's origins lie in the UK market, it has carefully and progressively grown its footprint in Continental Europe HgCapital is now well-established in the German market, where some other UK private equity firms have found it difficult to make progress, some 31% of the Company's portfolio by value was in Germany at year-end During 2005 HgCapital established a team to source opportunities in the Benelux market and opened an office in Amsterdam HgCapital also made its first investment in the Nordic region, through a public offer for Visma By year-end more than half the Company's portfolio by value was based outside the UK, compared with a third a year earlier

## Performance record

| Year ended 31 December | Net assets attributable to ordinary shareholders £'000 | Net asset value per ordinary share p | Ordinary share price p | Gross revenue £'000 | Revenue available for ordinary shareholders £'000 | Earnings per ordinary share p | Dividends per ordinary share p |
|---|---|---|---|---|---|---|---|
| 1995 | 49,029 | 189 1 | 140 0 | 2,948 | 1,478 | 5 7 | 4 50 |
| 1996 | 60,313 | 232 6 | 176 0 | 2,717 | 1,276 | 4 9 | 4 50 |
| 1997 | 66,796 | 257 6 | 193 0 | 3,563 | 1,688 | 6 5 | 4 95 |
| 1998 | 66,851 | 257 8 | 208 0 | 2,495 | 1,359 | 5 2 | 4 95 |
| 1999 | 89,863 | 346 5 | 289 0 | 3,901 | 2,481 | 9 6 | 8 00 |
| 2000 | 103,521 | 411 0 | 356 5 | 7,332 | 4,623 | 17 9 | 14 50 |
| 2001 | 95,795 | 380 3 | 294 0 | 3,893 | 2,420 | 9 6 | 8 00 |
| 2002 | 83,837 | 332 9 | 219 5 | 3,528 | 2,148 | 8 5 | 8 00 |
| 2003 | 99,987 | 397 0 | 289 5 | 7,106 | 3,969 | 15 8 | – |
| 2004 | 122,040 | 484 5 | 451 5 | 4,905 | 2,649 | 10 5 | 12 00 |
| 2005 | 156,487 | 621 3 | 583 5 | 4,963 | 2,965 | 11 8 | 8 00 |
| **2006** | **187,135** | **743 0** | **731 0** | **7,769** | **4,519** | **17 9** | **10 00*** |

** Final dividend for the year ended 31 December 2005, declared on 13 March 2006, paid on 2 May 2006*

The Board believes that this trend will help the Manager to source a regular flow of increasingly varied buy-out opportunities, in spite of increasing competition in the private equity market

In 2004 the Manager formed a team to focus on opportunities in renewable power across Europe The Board agreed to participate with other major clients of HgCapital in investments in this area, in the knowledge that, if the concept was proven, the Manager was likely to raise a fund which the Board could then consider for the Company A formula was agreed with the Manager to determine the price at which the Company's investments could be transferred into the fund, if the Board decided to do so Since then it has become generally recognised that renewable energy has a large and enduring potential market and during 2006 HgCapital successfully raised the largest fund of its kind in Europe The Board considered carefully the potential for this fund and decided that it would be in shareholders' interests to consolidate all the Company's assets in this area by committing €21 million to the fund and transferring existing investments into it at the formula price

2006 was another very good year for realisations The Board believes it is instructive for it, as well as the Manager, to understand clearly how value has been created and we regularly invite the Manager to take the Board through its analysis of value creation within portfolio companies It is pleasing to note that the major source of value creation is growth in the underlying profitability and rating of our investments, rather than financial engineering or arbitrage This analysis informs the Board's judgment as to the degree, and nature, of risk within the portfolio

The Manager's strong historic performance and the base which it has for further progress were recognised when the Company was, for the second consecutive year, chosen as Private Equity Investment Trust of the Year in the Investment Week Awards We congratulate the Manager and its entire staff for their hard and dedicated work in maintaining the Company's excellent performance

Recognition of the Company's success helps to build liquidity in the Company's shares, which in turn can help to avoid the shares trading at a discount to their net asset value The Board believes it is in shareholders' interests to encourage greater understanding of the private equity market and the potential benefits to long-term investors of investing in private equity investment trusts, such as HgCapital Trust To this end the Board was pleased to support the Manager's proposal to establish the Initiative for Private Equity Investment Trusts (iPEIT) and has agreed to make a small contribution to its running costs, financed by savings elsewhere We are particularly pleased that other private equity investment trusts have joined the initiative Further information can be found on page 59 of this report or at www ipeit com

Following an excellent series of realisations achieved between 2004 and 2006, the Company ended the year with some £36 6 million in liquid resources, a slightly higher percentage of net assets than the year before We took this opportunity to test the market for bank facilities and as a result, we have negotiated a new £25 million borrowing facility with a different lender on more attractive terms than before The Company is well-placed to take advantage of the flow of new investment opportunities, across a wider geography, that the Manager is bringing forward The Board remains conscious that to fulfil the Company's objective, it and the Manager should endeavour to keep the Company fully invested in growth opportunities If circumstances arise when there appears to be surplus capital and conditions for new investment are unfavourable, the Board will consider returning capital to shareholders, usually through the market purchase of shares It is worth noting in this context that the carried interest, which forms part of the arrangements between the Company and the Manager, reinforces the alignment of interest between shareholders and managers Accordingly, the Board is once again asking shareholders at the forthcoming Annual General Meeting to renew the power to purchase shares in the market for cancellation When conditions for new investment appear favourable, the Board will retain cash to make new investments

**Prospects**

While a large quantity of new money is continuing to flow into the private equity asset class, supported by liquid credit markets, much of this is being targeted at transactions outside the strategy successfully adopted over many years by HgCapital and the Company At the same time, our Manager's strategy, supported by its investment in people and offices to give coverage across Continental Europe, is providing a broader pipeline of potential deals, and the resources to bring them to completion efficiently and diligently

The Board remains confident that, for many investors, an allocation to private equity merits a place in their portfolio, especially where a long-term commitment can be made HgCapital Trust has rewarded its shareholders well for more than a decade and the Board believes that it will continue to provide investors with an efficient vehicle for gaining exposure to an asset class that offers attractive long-term prospects for growth

Roger Mountford
Chairman
12 March 2007

# Ten year track record

## Historical total return* performance

| | One year % p a | Three years % p a | Five years % p a | Seven years % p a | Ten years % p a |
|---|---|---|---|---|---|
| Share price | 27 2 | 39 3 | 23 2 | 17 4 | 18 3 |
| Net asset value | 21 4 | 25 8 | 16 3 | 13 7 | 14 5 |
| FTSE All-Share Index | 16 8 | 17 2 | 8 5 | 3 0 | 7 9 |
| FTSE Small Cap Index | 20 6 | 18 9 | 11 2 | 5 9 | 8 7 |

*Based on the Company's share price at 31 December 2006 and allowing for dividends to be reinvested, an investment of £1,000 ten years ago would now be worth £5,390*
*An equivalent FTSE All-Share Index return would be worth £2,140*
** Total return assumes all dividends have been reinvested*

HgCapital Trust plc gives the investor access to a private equity portfolio run by an experienced and well-resourced Manager who makes investments in fast growing companies over a number of geographies and sectors

We believe our approach will continue to reward investors with superior performance, both relative to the public markets and its peers over the long term.

# Investing in private equity

## Strong performance in absolute terms and relative to other asset classes

### Private equity
Private equity describes securities issued by private and unlisted companies The securities are equity and equity-related, enjoying the full rewards and risks of ownership Investments can be in early-stage businesses, or provide expansion capital for profitable growing businesses, and can be used to finance management or leveraged buy-outs of established businesses The objective is to achieve higher returns than public equity over a rolling period of five to ten years Investments are typically held for three to seven years and are realised through an initial public offering, a trade sale, or a sale to another financial institution Interim proceeds are sometimes possible through recapitalisations

### Investment profile
Private equity investments are less liquid than public equities To compensate for this feature they offer more control and more attractive returns Over the ten years from 1995 to 2005 UK private equity funds outperformed the FTSE All-Share Index by over 8% per annum and outperformed every asset class over this period* The risk profile of an individual private equity investment depends on many factors, the principal ones are the nature of the business, the maturity and stage of the business, its size and the financial structure of the balance sheet A diversified portfolio helps to mitigate some of these risks, more important mitigants are the quality of company selections by the private equity manager and the quality of the management teams running the company

### Advantages of private equity
Compared with investment in the public markets, a private equity investor has significant advantages

- More investment opportunities significantly more private than listed companies
- Better access to information the ability to conduct detailed market, financial, legal and management due diligence
- More control for the private equity manager over the management of the business and the timing of its sale
- Alignment of interest of owners and management, leading to better decision making the opportunity to act like an owner rather than a fund manager, with the benefit of representation on the Board
- Management talent the ability to attract high calibre management and the alignment of management's interests to the success of the investment through equity participation

*Source BVCA Performance Measurement Survey 2005

### Private Equity Investment Trusts (PEITs)
A Private Equity Investment Trust (PEIT) offers the opportunity to participate in a diversified portfolio of mainly unquoted companies that are generally valued at a discount to their quoted peers By buying shares in a PEIT, which are freely traded, the investor benefits from liquidity while participating in the potentially superior returns of a private equity portfolio

The Company's objective is to provide shareholders with long-term capital appreciation rather than dividend growth To maintain its status as an investment trust, it is obliged to distribute a proportion of its income by way of a dividend each year The earnings of a PEIT in any year are affected by various factors, including the structure of the underlying investments Accordingly the revenue earnings per share and the dividend of a PEIT will tend to fluctuate from year to year A PEIT should not be confused with a Venture Capital Trust (VCT) which offers tax advantages to certain investors but is highly constrained in the companies that qualify for investment

### Advantages of investment via an investment trust
PEITs offer investors liquidity in their shares, which can be traded in variable bargain sizes and at any time This is of significant benefit to investors who do not wish to commit to the ten year lock-in and participation required when investing in private equity via limited partnerships

### Share price
The major driver of a PEIT share price is net asset value (NAV), the growth of which is driven by realisations and by revaluation of the unrealised portfolio, based on the profitability of each underlying investment and market ratings The share price of a PEIT usually tracks NAV but it may trade at a premium or discount, depending on the market's view of future realisations and new investments, and the investment strategy of the manager Although not all PEITs will provide high returns, a strong manager with a carefully thought-out investment strategy that offers a diversified portfolio of companies across a number of sectors and geographies can increase the likelihood of success

### Publication of net asset value
Unquoted investments are revalued twice each year, as at December and June, and the NAV is adjusted to reflect these valuations in the following March and September respectively The NAV per share of the Company is calculated monthly with respect to cash, cash equivalents and listed investments in the portfolio, and to reflect any realisations since the previous valuation The NAV is released to the public through the London Stock Exchange's regulatory news service on the fourth day of each month This NAV is then used as the basis for calculation of the discount or premium published in newspapers for the following month

# Investment manager's strategy



## To maximise returns from mid-market private equity through sector specialisation, with the deep resources required to support proactive work with the portfolio

### OUR STRATEGY

**Mid-market**
HgCapital concentrates on mid-market buy-outs with enterprise values of between £50 million and £350 million This market comprises a high volume of companies with proven, reliable track records and defensible market positions Companies in this range are small enough to provide opportunities to drive incremental value through organisational changes and operational improvements, but large enough to attract quality management and offer multiple exit options

**Pan-regional**
Whilst investments across all of Western Europe are considered, we focus primarily on the first-, second- and fourth-largest European markets, namely the UK, Germany and the Benelux region Our network of local offices, combined with centralised investment and portfolio committees, optimises our ability to drive strong performance

**Broad coverage**
HgCapital's dedicated sector teams continue to provide investors with exposure to the substantial majority of private equity activity within its target size range and across the relevant geographies

**Clear investment criteria**
When evaluating an investment opportunity, HgCapital applies a rigorous yet commercial investment selection process This process governs all investment decisions, with the goal of ensuring that only the most attractive investments are completed, irrespective of an opportunity's sector or geography

We look for the following criteria in our investments

- Strong management team or the possibility to replace the existing team with management selected by HgCapital
- Leading market positions in growth markets with high barriers to entry
- Performance improvement and/or consolidation opportunities
- Innovative businesses with stable and proven track records and/or predictable cash flows

### OUR TACTICS

**Sector specialisation**
Well-resourced sector teams seek to combine the domain knowledge and expertise of a strategic buyer with the flexibility of a financial investor Our sector teams (Consumer and Leisure, Healthcare, Industrials, Services and TMT) share a similar top-down approach to screening their respective industries By leveraging on our sector knowledge, we can concentrate our resources on converting prime opportunities and avoid spending time on transactions of less interest or value

In addition, over the last three years we have built a specialist team to identify businesses that will operate, construct and develop renewable energy projects in Western Europe

**Active portfolio management**
We undertake intensive, continuous, informed interaction with our portfolio companies using dedicated portfolio management executives to develop, execute and monitor value-enhancement strategies for each of our investments HgCapital will typically invest as the lead controlling owner of its portfolio companies as part of its hands-on approach to management We appoint HgCapital executives to our companies' boards to participate in business planning and to work with management when needed To monitor and analyse our portfolio companies throughout the investment's life cycle, we operate a Portfolio Review Committee which meets on a monthly basis to discuss our investments' performance Particular attention is given to those that are recent, underperforming or scheduled for exit

**Deep resources**
We invest substantially in all areas of our business to ensure that high quality resources can be applied to each aspect of an investment opportunity Our team of over seventy is well-positioned to produce high absolute returns over the long term from a well-diversified portfolio of investments which, we believe, will continue to be superior to the returns generated by comparable public equity markets

# Investment manager's review

## 2006 was another record year for realisations and investments, with the current portfolio continuing to perform well

The Company invests alongside other clients of HgCapital Typically, the Company's holding forms part of HgCapital's much larger controlling interest in buy-out investments of companies with an Enterprise Value (EV) of between £50 million and £350 million The Investment manager's review generally refers to each transaction in its entirety, apart from the tables detailing the Company's participation or where it specifically says otherwise

The Company's net asset value increased from £156 million to £187 million during the year This arose from unrealised movements and realised proceeds in excess of the book value of £14 4 million and £20 5 million respectively This increase is the result of strong earnings growth and cash generation within the portfolio, as well as a good flow of realisations

We saw strong earnings growth at Hirschmann, The Sanctuary Spa, Elite and Blue Minerva The Company's quoted investments have also performed well, with Raymarine being realised during the period, strong share price growth in Xtx (Xyratex) and the flotation of ClinPhone We realised our investment in Castlebeck and have agreed to sell Worldmark, both at values significantly above their opening book values

A minority of the Company's investments performed below expectations, in particular Eagle Rock, Match and Classic Copyright These investments have been written down accordingly

During the year, the Company invested a total of £45 3 million (2005 £35 million), participating in five new buy-out investments These new investments were made in Visma (Norway, £382 million EV), Paragon (UK, £322 million EV), Surrey (t/a SHL) (UK, £100 million EV), FTSA (Canada, £53 million EV), and Schleich (Germany, €165 million EV)

During the year, the Company also made a €21 million commitment to the €300 million Hg Renewable Power Partners fund The fund's focus is on long-term investments in renewable power projects using proven technologies, including wind, small hydro, landfill gas, and waste-to-energy in Western Europe

The Company realised record proceeds during the year (including gross income received), amounting to £62 3 million (2005 £52 million) These proceeds arose principally from the sale of Castlebeck and Travelsphere and from the sale of quoted shares in Raymarine, Xyratex and ClinPhone

Since the period end, we have completed the sales of Worldmark, South Wharf, Luxfer and Bertrams In aggregate, these realisations have returned proceeds of £6 5 million compared with a December 2006 carrying value of £5 7 million In addition we have agreed to sell the HAC division of Hirschmann, subject to cartel clearance, which is expected towards the end of March Upon completion, this is estimated to result in proceeds and value in the remaining division of £14 4 million for the Company against the December 2006 book value of £10 million

**Attribution analysis of current year movements in net asset value**

| | £'000 |
|---|---|
| Opening net asset value as at 1 January 2006 | 156,487 |
| Gross revenue | 7,769 |
| Expenditure | (3,557) |
| Taxation | (1,227) |
| Dividends paid | (2,519) |
| Realised proceeds in excess of 31 December 2005 book value (excludes gross revenue) | 20,512 |
| Net unrealised appreciation of investments | 14,407 |
| Carried interest | (4,737) |
| **Closing net asset value as at 31 December 2006** | **187,135** |

# Investment manager's review continued

## Strong earnings growth from a diversified, sector-focused portfolio with an increasing exposure to Continental Europe

At the end of 2006 the Company held a portfolio of 42 investments (2005 44), of which the twenty principal investments represented over 90% of the portfolio's value This portfolio of small- and mid-cap stocks combines strong growth with sector and geographic diversification

Following this series of realisations and new investments, the portfolio at year-end was relatively young Around 55% of the portfolio by value had been acquired within the previous two years, compared with 39% a year earlier It is the Company's policy not to revalue any investment upwards until receipt of audited accounts for the trading period following acquisition as a result, some 49% by value of the portfolio at year-end was still held at cost against 37% the year before

Over the last two years, the focus of the portfolio has shifted towards Continental Europe, where we have seen an increasing number of attractive investment opportunities As at December 2006 over half the Company's investments by value were located outside the UK compared with under 25% at the end of 2004

The top 20 investments in aggregate have historically grown both revenues and profits in excess of 20% per annum The portfolio's valuation increased over the year to £148 5 million, benefiting from strong profit growth and positive cash flow

Another year of record new investment activity was accompanied by record realisations The Company ended the year with £36 5 million of liquid resources or 20% of net assets Combined with a £25 million borrowing facility these resources leave the Company well-positioned to exploit new investment opportunities and to support the growth of the portfolio

| Asset class | |
|---|---|
| Unquoted | 72% |
| Cash & other assets | 20% |
| Quoted | 8% |

| Geographic spread by value | |
|---|---|
| UK | 46% |
| Germany | 31% |
| Europe other | 10% |
| Benelux | 7% |
| North America | 5% |
| Ireland | 1% |

| Valuation basis | |
|---|---|
| Cost | 49% |
| Earnings | 28% |
| Quoted | 10% |
| Written down | 9% |
| Net assets | 2% |
| Other | 2% |

| Deal Type by value | |
|---|---|
| Buy out | 90% |
| Expansion | 7% |
| Renewable energy | 1% |
| Fund | 1% |
| Venture | 1% |

| Sector by value | |
|---|---|
| TMT | 40% |
| Industrials | 29% |
| Consumer & Leisure | 13% |
| Healthcare | 11% |
| Services | 5% |
| Renewable energy | 1% |
| Fund | 1% |

| Vintage by value | |
|---|---|
| 2006 | 30% |
| 2005 | 25% |
| 2004 | 17% |
| 2003 | 13% |
| 2002 | 2% |
| 2001 | 2% |
| 2000 | 2% |
| Pre 2000 | 9% |

Percentages shown are by value

# Investments

## During 2006 HgCapital invested a total of £304 million on behalf of its clients, including £45.3 million on behalf of the Company

| Company | Sector | Activity | Deal type | Cost £'000 |
|---|---|---|---|---|
| Visma | TMT | Accounting and business software | Buy-out | 13,268 |
| Paragon | Healthcare | Care homes | Buy-out | 10,746 |
| Surrey (t/a SHL) | Services | Psychometric testing and assessment | Buy-out | 7,534 |
| FTSA | Industrials | Crash test dummies | Buy-out | 6,235 |
| Schleich | Consumer and Leisure | Plastic toy figurines | Buy-out | 4,634 |
| Hg RPP LP | Renewable energy | Renewable energy fund | Fund | 350* |
| New investments | | | | 42,767 |
| | | | | |
| Schenck | Industrials | Industrial measuring and weighing systems | Buy-out | 2,372 |
| Other | | | | 127 |
| Further investments | | | | 2,499 |
| **Total investment by the Company** | | | | **45,266** |

* *This reflects the net investment in the year following the sale of the Company's renewable assets to the Hg RPP fund*

*Figures below refer to the total size of each acquisition, including debt raised from third parties, made by HgCapital on behalf of its clients, including the Company*

### New investments

**Visma**

In May 2006, HgCapital completed the £382 million buy-out of Visma, the number one provider of business software and related services to small and medium-sized enterprises in the Nordic region Headquartered in Oslo, with significant revenues in Sweden, Finland and Denmark, the company provides accounting, resource planning and payroll software in addition to debt collection and procurement services to its customer base of over 200,000 enterprises

**Paragon**

In April 2006, HgCapital completed the £322 million buy-out of Paragon Healthcare Group Paragon owns and operates small community-based homes for adults with learning disabilities and associated physical disabilities, autistic spectrum disorders, complex needs and acquired brain injury The company currently operates 1,600 beds in 242 homes across England and Wales, making it the largest operator in its field

**Surrey (t/a SHL)**

In November 2006, HgCapital completed the £100 million public-to-private acquisition of SHL Group plc SHL provides world-leading psychometric testing products for the workplace in over twenty countries Psychometric testing is increasingly accepted as a proven and fair way to recruit and retain talent in an extremely competitive marketplace SHL has produced consistent revenue growth of 9% per annum for the last five years

**FTSA**

In March 2006, HgCapital completed the £53 million buy-out of FTSA, the global market leader in the design and manufacture of crash test dummies for use in the automotive and aerospace industries It also provides associated technical support and laboratory services, and develops and supplies sophisticated software for computer-simulated crash testing, as well as marketing bespoke engineering services and products to the medical and aerospace industries Its sales are split evenly between North America, Europe and the Far East

**Schleich**

The €165m buy-out of Schleich was completed in December 2006 Schleich is the leading producer of plastic toy figurines such as farm and wildlife animals, historical characters and The Smurfs Its products are sold in over thirty countries, including Germany, the US, the UK and France Toy figurines are an attractive product offering for retailers as they are purchased on different buying occasions throughout the year, in contrast to traditional toy sales' patterns, where typically 50% of sales are made in the two months leading up to Christmas

**Hg Renewable Power Partners fund (Hg RPP)**

The Company made a commitment of €21 million to the Hg RPP fund See page 24 for further details

### Follow-on investments

**Schenck**

In June 2006, Schenck completed the acquisition of Stock Equipment Company (USA) Inc, the world market leader for bulk handling and feeding systems for coal-fired power plants This gives Schenck exposure to one of the key growth industries not previously covered

# Realisations

## During 2006 HgCapital realised total proceeds of £323 million on behalf of its clients, including £62.3 million for the Company

| Company | Sector | Exit route | Cost £'000 | Proceeds + £'000 | 2006 return + £'000 |
|---|---|---|---|---|---|
| Castlebeck | Healthcare | Trade sale | 861 | 28,177 | 27,316 |
| Travelsphere | Consumer and Leisure | Financial | 3,899 | 7,932 | 4,033 |
| Raymarine* | Consumer and Leisure | Quoted share sale | 61 | 4,384 | 4,323 |
| PBR | Healthcare | Trade sale | 3,495 | 2,532 | (963) |
| Other*** | | Liquidation | 6,038 | 211 | (5,827) |
| Full realisations | | | 14,354 | 43,236 | 28,882 |
| | | | | | |
| Xtx (t/a Xyratex)** | TMT | Quoted share sale | 3,823 | 7,622 | 3,799 |
| ClinPhone* | Healthcare | IPO | 1,079 | 5,623 | 4,544 |
| The Sanctuary Spa | Consumer and Leisure | Recapitalisation | 1,948 | 3,865 | 1,917 |
| Other | | | 1,877 | 1,995 | 118 |
| Partial realisations | | | 8,727 | 19,105 | 10,378 |
| **Total realisations by the Company** | | | **23,081** | **62,341** | **39,260** |

*+ Includes gross revenue received during the year*
** Listed on the London Stock Exchange*
*** Traded on NASDAQ*
**** Includes entities liquidated during the year that had previously been written down*

*Figures below refer to the total value of each realisation, including, where appropriate, repayment of third party debt Proceeds to clients including the Company are stated net of any such repayment*

**Full realisations**

Castlebeck
Castlebeck is one of the UK's largest providers of residential healthcare to adults and adolescents with learning difficulties or severely challenging behaviour In July 2006 we sold this investment to Castle Holdings Limited for £255 million Castlebeck has returned 8 6 times the original investment cost in a deal recognised by the industry as the UK and Ireland Deal of the Year at the 2006 EVCA awards

Raymarine
Raymarine is the leading global manufacturer of recreational marine electronic products The business was listed on the stock market in December 2004 and we sold our remaining shares in the company in March 2006 This investment has returned 4 4 times the original investment cost

Travelsphere
Travelsphere is a leading provider of escorted coach tour holidays from the UK to around seventy countries worldwide, focusing on the 45+ age group We sold the business to Electra Partners for £155 million in April 2006 This investment has returned 2 5 times the original investment cost

PBR
PBR is a market leader in the management of complex Phase I and Phase IIA clinical trials of new drugs on behalf of the world's top pharmaceutical and biotechnology firms We sold the business to PRA in July 2006 for €85 million However, our investment was not fully divested HgCapital clients retain a stake in PRA International, who acquired the business and paid partly in cash, partly in equity

**Partial realisations**

Xtx (Xyratex)
In 2006 we took the opportunity to realise 36% of HgCapital clients' holding in Xyratex, the NASDAQ-quoted data storage and network technology business This investment has returned 2 4 times the original cost (including the unrealised value)

ClinPhone
In June 2006, we completed the flotation of ClinPhone on the London Stock Exchange ClinPhone is a leading supplier of technology solutions to the clinical trials industry HgCapital clients have retained a 6 2% stake This investment has returned 3 5 times the original cost (including the unrealised value)

The Sanctuary Spa
The Sanctuary Spa operates the UK's leading women-only day spa and also retails beauty products under its brand During the period the business has been recapitalised, enabling cash to be returned to investors

# a strong track record...

# Review of principal investments

## 1 VISMA

**Sector** TMT **Location** Nordic region
**Year of investment** 2006 **www visma com**

In May 2006, HgCapital completed the £382 million buy-out of Visma, the number one provider of business software in the Nordic region HgCapital holds a 57% stake in this business on behalf of its clients

Headquartered in Oslo, with significant revenues in Sweden, Finland and Denmark, the company provides accounting, resource planning and payroll software, outsourced book-keeping and payroll services, in addition to debt collection and procurement to its customer base of over 200,000 enterprises

## 2 Schenck

**Sector** Industrials **Location** Germany
**Year of investment** 2005 **www schenck net**

In December 2005, HgCapital successfully completed the €205 million buy-out of Schenck and acquired an 85% stake in the business

Schenck is the global market leader for high-tech applications and solutions in industrial weighing, feeding and automation In June 2006 Schenck completed the acquisition of Stock Equipment Company (USA) Inc , the world market leader in handling systems for coal-fired power plants Schenck has activities in more than forty countries and operates eleven state-of-the art assembly facilities globally

## 3 Paragon

**Sector** Healthcare **Location** UK
**Year of investment** 2006 **www milburycare com**

In April 2006, HgCapital completed the £322 million buy-out of Paragon Healthcare Group HgCapital has a 52% stake in this business

Paragon owns and operates small community-based homes for adults with learning disabilities and associated physical disabilities, autistic spectrum disorders, complex needs and acquired brain injury The company uses a variety of techniques as therapy, including working with animals

The company currently operates 1,600 beds in 242 homes across England and Scotland

## 4 Hirschmann Electronics

**Sector** Industrials **Location** Germany
**Year of investment** 2004 **www hirschmann de**

The €115 million buy-out of Hirschmann Electronics from Rheinmetall AG was completed in March 2004, with HgCapital taking an 80% equity stake in the business

Hirschmann supplies electronics equipment and components Principal products include industrial ethernet and networking equipment (Hirschmann Automation Controls), and sophisticated car antenna electronics, television transmission equipment and safety systems for mobile plant equipment such as cranes (Hirschmann Car Communications)

Since the period end HAC has been sold to Belden for €245 million, with the transaction expected to close mid-March We are currently exploring strategic options for the HCC business

### Cost and valuation of the Company's holdings

| Company | Deal type | Residual cost £'000 | Valuation £'000 | Valuation basis | Portfolio value % |
|---|---|---|---|---|---|
| VISMA Holdings * | Buy-out | 13,268 | 12,251 | Cost | 8 2 |
| Schenck Process SA * | Buy-out | 11,698 | 11,537 | Cost | 7 8 |
| Paragon Ltd | Buy-out | 10,746 | 10,746 | Cost | 7 2 |
| Hirschmann Electronics Holdings SA | Buy-out | 2,669 | 10,078 | Earnings | 6 8 |

* *The difference between cost and valuation is due to foreign exchange rate movements*

# Review of principal investments continued

## 5 Xtx t/a Xyratex

**Sector** TMT **Location** UK **Ticker** XRTX US
**Year of investment** 2003 **www xyratex com**

In September 2003, HgCapital completed the £50 million buy-out of Xyratex for a fully-diluted stake of 45%

Since our investment the company has been trading ahead of plan and, in June 2004, completed an initial public offering on NASDAQ

Xyratex is a global provider of enterprise-class data storage subsystems and storage process technology Storage technology provides the means by which business and personal IT data can be captured, processed, stored and retrieved in a digital form

To date, we have received proceeds of £58 5 million from a placing of stock at IPO and subsequent share sales We retain a just under 20% interest in Xyratex

## 6 Elite

**Sector** TMT **Location** Benelux
**Year of investment** 2005 **www sitelsemi com**

The $74 million buy-out of the digital cordless business unit of National Semiconductor Corporation was completed in June 2005 HgCapital acquired an 81% equity stake in the business

Elite creates products and systems to support wireless voice and data applications for the home These include baseband and radio transceivers for cordless DECT (Digital Enhanced Cordless Telephony) telephones and base stations for VoIP (Voice over Internet Protocol) and cordless game pads and voice modules The company, which was formerly part of National Semiconductor Corporation, is based in Den Bosch and Hengelo, Netherlands, and employs approximately seventy people

## 7 Blue Minerva t/a IRIS

**Sector** TMT **Location** UK
**Year of investment** 2004 **www iris co uk**

The £102 million buy-out of IRIS Software was completed in July 2004 HgCapital clients have a 60% equity stake in the business

IRIS Software is one of the largest independent business software providers to UK accountancy practices and SMEs For three consecutive years (2000 to 2002), it was rated the leading software product in independent surveys by the Institute of Chartered Accountants in England and Wales

In 2005, IRIS acquired Exchequer Software, an award-winning independent software house specialising in mid-range accounting software IRIS won 'Business of the Year' in the South East regional finals of the National Business Awards 2005 Following strong performance in the year, HgCapital recapitalised IRIS in December 2005, returning over £26 million to its clients

## 8 Surrey t/a SHL

**Sector** Services **Location** UK
**Year of investment** 2006 **www shl com**

In November 2006, HgCapital completed the £100 million buy-out of SHL, taking a stake of 72%

SHL is the UK market leader in objective psychometric testing and has a global presence The core business consists of the development and sale of 300 psychometric tests to corporate clients, covering areas such as numerical ability, verbal reasoning and personality fit SHL also provides psychologists for the administration and interpretation of tests The company has produced consistent revenue growth of 9% per annum for the last five years

### Cost and valuation of the Company's holdings

| Company | Deal type | Residual cost £'000 | Valuation £'000 | Valuation basis | Portfolio value % |
|---|---|---|---|---|---|
| Xtx Ltd (Xyratex) * | Buy-out | 3,172 | 9,717 | Quoted | 6 5 |
| Elite Holding SA | Buy-out | 5,749 | 9,502 | Earnings | 6 5 |
| Blue Minerva Ltd | Buy-out | 2,957 | 7,613 | Earnings | 5 1 |
| Surrey 1 Ltd | Buy-out | 7,534 | 7,534 | Cost | 5 1 |

* *Traded on NASDAQ*

achieving results...

## 9 W.E.T.

**Sector** Industrials **Location** Germany
**Year of investment** 2003 **www wet de**

The €169 million public-to-private transaction to acquire W E T Automotive Systems AG was declared unconditional in September 2003, with acceptances of over 76 3% HgCapital acquired a 70% equity stake in the business

W E T Automotive Systems is the world market leader for seat-heating systems, supplying most of the major European and North American passenger car seat manufacturers as well as Asia from its Chinese facility

The weak US dollar and a slow North American market have both had an impact on profitability, although within Europe and China the business is performing well A profit-improvement programme has been implemented and the sensors business has been divested

## 10 Addison

**Sector** TMT **Location** Germany
**Year of investment** 2005 **www addison de**

The €78 million buy-out of Addison was completed in June 2005 HgCapital has a 93% equity stake in the business

Addison is a leading, privately-owned German applications software company that provides business-critical solutions for tax accountants and SMEs

It develops, licences and manages standard and sector-specific software for bookkeeping, accounts production, tax, cost accounting, payroll administration and corporate planning

In December 2005, HgCapital made a further investment in Addison of €14 million to fund the acquisition of PBSG, the number three player in the German tax accountant software market

## 11 The Sanctuary Spa

**Sector** Consumer and Leisure **Location** UK
**Year of investment** 1995 **www thesanctuary co uk**

On 8 July 2005, our investment in the Sanctuary Spa Group was acquired by the newly incorporated The Sanctuary Spa Holdings Limited (SSHL) Simultaneously, SSHL acquired the licence to sell beauty products branded The Sanctuary Spa, the rights to which had previously been held by a third party licensee HgCapital has a 79% equity stake in the business

The Sanctuary Spa operates the women's day spa 'The Sanctuary', based in Covent Garden, and also owns a range of beauty products distributed through the spa and Boots the Chemist

In June 2006, £4 million of HgCapital's clients' loan stock was repaid while the remaining £5 million was repaid in December 2006

## 12 FTSA

**Sector** Industrials **Location** North America
**Year of investment** 2006 **www ftss com**

In March 2006, HgCapital completed the £53 million buy-out of FTSA and holds an 80% stake in the business

FTSA is the global market leader in the design and manufacture of crash test dummies for use in the automotive and aerospace industries It also provides associated technical support and laboratory services, and develops and supplies sophisticated software for computer-simulated crash testing, as well as marketing bespoke engineering services and products to the medical and aerospace industries Its sales are split evenly between North America, Europe and the Far East

### Cost and valuation of the Company's holdings

| Company | Deal type | Residual cost £'000 | Valuation £'000 | Valuation basis | Portfolio value % |
|---|---|---|---|---|---|
| W E T Holding Luxembourg SA | Buy-out | 7,590 | 6,625 | Written down | 4 5 |
| Addison Luxembourg SA * | Buy-out | 6,499 | 6,509 | Cost | 4 5 |
| The Sanctuary Spa Holdings Ltd | Expansion | 631 | 6,082 | Earnings | 4 1 |
| FTSA Holdings Ltd * | Buy-out | 6,235 | 6,008 | Cost | 4 0 |

* *The difference between cost and valuation is due to foreign exchange rate movements*

## 13 Clarion Events

**Sector** TMT **Location** UK
**Year of investment** 2004 **www clarionevents co uk**

The £50 million buy-out of Clarion Events, the largest independent exhibition and events business in the UK, completed in October 2004 HgCapital has a 65% equity stake in the business

The company owns, develops and exploits a portfolio of fifty business and consumer shows, including the 'Top Drawer' giftware trade shows, 'Fine Art & Antiques', 'Baby', 'Caravan & Outdoor' and 'House & Garden'

Clarion's subsidiary ATE, acquired in June 2005, runs the leading international show for the amusements and gaming sector, and related conference and publishing services ATE has been integrated into the group and is contributing increased profits in line with expectations

## 14 Sporting Index

**Sector** Consumer and Leisure **Location** UK
**Year of investment** 2005 **www sportingindex com**

The £75 8 million buy-out of Sporting Index was completed in November 2005 We acquired a 70% equity stake in the business

Founded in 1992, Sporting Index is the recognised leader in sports spread betting, with a market share of approximately 70% in the UK It offers a greater variety of bets (approximately 23,000) and more choice than any other sports spread betting company It is also the only sports spread betting company to offer continuous 24-hour betting and sports spread betting on Sky TV It is regulated by the FSA and does not have a US presence

## 15 Hofmann

**Sector** Industrials **Location** Germany
**Year of investment** 2005 **www hofmann-menue de**

In November 2005, HgCapital successfully completed the buy-out of Hofmann-Menu for a consideration of €138 million and now has a 78% equity stake in the business

Hofmann is a market-leading provider of frozen food products as well as related on-site catering for small business canteens and social organisations such as care homes, hospitals and schools in Germany

Hofmann differentiates itself from its competition by focusing on quality and a wide choice of healthy, tasty menus The company's centralised production also allows for significant cost advantages over traditional catering firms

## 16 Schleich

**Sector** Consumer and Leisure **Location** Germany
**Year of investment** 2006 **www schleich-s de**

In December 2006, HgCapital completed the €165 million buy-out of Schleich and acquired an 80% stake in the business

Schleich is the leading producer of plastic toy figurines, such as farm and wildlife animals, historical characters and The Smurfs Its products, trading under the highly recognised name Schleich-S, are sold in over thirty countries, including Germany, the US, the UK and France

The company is trading well ahead of budget, both in terms of sales and profit

### Cost and valuation of the Company's holdings

| Company | Deal type | Residual cost £'000 | Valuation £'000 | Valuation basis | Portfolio value % |
|---|---|---|---|---|---|
| Clarion Events Holdings Ltd | Buy-out | 4,965 | 5,704 | Earnings | 3 8 |
| Sporting Index Group Ltd | Buy-out | 5,428 | 5,428 | Cost | 3 7 |
| Hofmann M M SA * | Buy-out | 4,747 | 4,673 | Cost | 3 1 |
| Schleich Luxembourg SA * | Buy-out | 4,634 | 4,640 | Cost | 3 1 |

* *The difference between cost and valuation is due to foreign exchange rate movements*

# an impressive set of figures...

## 17 Worldmark

**Sector** Industrials **Location** UK
**Year of investment** 2000 **www worldmark com**

The management buy-out of Worldmark (formerly Donprint) from Jarvis Porter completed in January 2000 HgCapital has a 39% equity stake in the business

The company is a leading global supplier of product identification systems, components and service solutions to the electronics and mobile telecommunications industries Its products fall into four key areas intelligent bar code labels, branding products, functional products (in mould design) and security labels The purchase price was £65 5 million and the overall transaction value was £73 million

Subsequent to the period end, Worldmark was sold as a secondary buy-out

## 18 Rolfe & Nolan

**Sector** TMT **Location** UK
**Year of investment** 2003 **www rolfeandnolan com**

In March 2003, HgCapital completed the £17 million public-to-private buy-out of Rolfe & Nolan plc

Rolfe & Nolan is a leading supplier of software to the futures and options industry It supports over 250 bank, brokerage and exchange clients in twenty countries Its software has become business-critical to its customers, enabling them to trade through the global derivatives exchanges

Rolfe & Nolan's customers include UBS, Deutsche Bank, HSBC, EDF Mann and Lehman Brothers

The company is performing ahead of plan In December 2004, Rolfe & Nolan completed a £20 million recapitalisation, equating to 1 4 times cost We retain a 73% holding in the company

## 19 ClinPhone

**Sector** Healthcare **Location** UK **Ticker** CNP LN
**Year of investment** 1996 **www clinphone com**

HgCapital invested in ClinPhone in December 1996 A leveraged recapitalisation of the business in 2001 facilitated full repayment of the original cost of investment HgCapital has a 40% equity stake in the business

ClinPhone provides outsourcing services to pharmaceutical companies and clinical research organisations that are testing new drugs Its telephone-based interactive voice-response system allows rapid communication of data from doctors conducting clinical trials, enabling drugs to be brought to market more quickly

In June 2006, we completed the floatation of ClinPhone on the London Stock Exchange HgCapital clients have retained a 6 2% stake

## 20 Hoseasons

**Sector** Consumer and Leisure **Location** UK
**Year of investment** 2003 **www hoseasons co uk**

HgCapital acquired Hoseasons in a buy-out in May 2003 for an enterprise value of £40 million HgCapital has a 72% equity stake in the business

Hoseasons is a leading independent self-catering holiday agency in the UK, selling through high-street agents, direct marketing and, increasingly, over the web

The company aims to build on a firm but low-growth UK business with a high return on capital and a strong brand by expanding its product offering in Continental Europe In 2006, sales increased and profitability stabilised after several years of decline In order to improve profitability, the company has invested in a new website and reservation system designed to capitalise on the industry shift from sales through travel agents to online bookings

### Cost and valuation of the Company's holdings

| Company | Deal type | Residual cost £'000 | Valuation £'000 | Valuation basis | Portfolio value % |
|---|---|---|---|---|---|
| Worldmark International Ltd | Buy-out | 2,389 | 3,214 | Other** | 2 2 |
| Rolfe & Nolan Holdings Plc | Buy-out | 238 | 2,366 | Earnings | 1 6 |
| ClinPhone Plc * | Expansion | 7 | 2,027 | Quoted | 1 4 |
| Hoseasons Group Ltd | Buy-out | 2,197 | 1,929 | Written down | 1 3 |

* *Listed on the London Stock Exchange*

** *Based on sales proceeds less a 10% discount applied*

## Hg Renewable Power Partners LP

In June 2006 the Company made a commitment of €21 million to Hg Renewable Power Partners LP, a dedicated renewable energy fund managed by HgCapital The €300 million fund is the largest raised to date for renewables investment in Europe The fund's focus is on long-term investments in renewable power projects using proven technologies, including wind, small hydro, landfill gas and waste-to-energy in Western Europe

At the time of entering the fund, the Company transferred its previously-held direct investments in Wind Direct, Tir Mostyn and Sorne Wind to the fund Since June the fund has completed three further investments in the European renewables sector In total these generate enough energy to provide electricity for over 50,000 homes

Renewable energy continues to benefit from a highly favourable regulatory and policy environment with climate change moving up the political agenda The investment in the fund will give the Company exposure to a diversified portfolio of assets offering both income and capital appreciation in a rapidly-growing sector

The fund's portfolio now includes the following

### Tir Mostyn
An operating wind farm in North Wales (value £8 2 million)

### Sorne Wind
An operating wind farm in Donegal, Ireland (value €4 1 million)

### Picardy Wind
A portfolio of wind farms in Northern France in operation or under construction (value €6 2 million)

### Wind Direct
A business that installs, owns and operates wind turbines on UK industrial sites (value £4 4 million)

### Rewind
Expansion capital of €0 9 million provided in return for options to acquire a portfolio of Italian wind farms

Since the period end, the fund has completed an expansion capital investment of €1 2 million in Aufwind in return for the option to invest in long-term German biogas and wind projects

### Cost and valuation of the Company's holdings

| Company | Deal type | Residual cost £'000 | Valuation £'000 | Valuation basis | Portfolio value % |
|---|---|---|---|---|---|
| Hg Renewable Power Partners LP | Fund | 1,725 | 1,553 | Net Assets | 1 0 |

*The difference between cost and valuation is due to establishment and running costs, fees, and foreign exchange movements in the fund*

*As at 31 December 2006 all underlying investments in the fund were held at cost*

# generating superior returns...

# [Investment portfolio]

| Company | Sector | Location | Residual cost £'000 | Valuation £'000 | Year of investment | Portfolio value % | Cum value % |
|---|---|---|---|---|---|---|---|
| 1 VISMA Holdings + | TMT | Europe Other | 13,268 | 12,251 | 2006 | 8.2% | 8.2% |
| 2 Schenck Process SA + | Industrials | Germany | 11,698 | 11,537 | 2005 | 7.8% | 16.0% |
| 3 Paragon Ltd + | Healthcare | UK | 10,746 | 10,746 | 2006 | 7.2% | 23.2% |
| 4 Hirschmann Electronics Holdings SA + | Industrials | Germany | 2,669 | 10,078 | 2004 | 6.8% | 30.0% |
| 5 Xtx Ltd (t/a Xyratex) ** | TMT | UK | 3,172 | 9,717 | 2003 | 6.5% | 36.5% |
| 6 Elite Holding SA + | TMT | Benelux | 5,749 | 9,502 | 2005 | 6.5% | 43.0% |
| 7 Blue Minerva Ltd (t/a IRIS Software) + | TMT | UK | 2,957 | 7,613 | 2004 | 5.1% | 48.1% |
| 8 Surrey 1 Ltd (t/a SHL) + | Services | UK | 7,534 | 7,534 | 2006 | 5.1% | 53.2% |
| 9 W E T Holding Luxembourg SA + | Industrials | Germany | 7,590 | 6,625 | 2003 | 4.5% | 57.7% |
| 10 Addison Luxembourg SA + | TMT | Germany | 6,499 | 6,509 | 2005 | 4.5% | 62.2% |
| 11 The Sanctuary Spa Holdings Ltd + | Consumer and Leisure | UK | 631 | 6,082 | 1995 | 4.1% | 66.3% |
| 12 FTSA Holdings Ltd + | Industrials | North America | 6,235 | 6,008 | 2006 | 4.0% | 70.3% |
| 13 Clarion Events Holdings Ltd + | TMT | UK | 4,965 | 5,704 | 2004 | 3.8% | 74.1% |
| 14 Sporting Index Group Ltd + | Consumer and Leisure | UK | 5,428 | 5,428 | 2005 | 3.7% | 77.8% |
| 15 Hofmann M M SA + | Industrials | Germany | 4,747 | 4,673 | 2005 | 3.1% | 80.9% |
| 16 Schleich Luxembourg SA + | Consumer and Leisure | Germany | 4,634 | 4,640 | 2006 | 3.1% | 84.0% |
| 17 Worldmark International Ltd | Industrials | UK | 2,389 | 3,214 | 2000 | 2.2% | 86.2% |
| 18 Rolfe & Nolan Holdings plc + | TMT | UK | 238 | 2,366 | 1996 | 1.6% | 87.8% |
| 19 ClinPhone plc * | Healthcare | UK | 7 | 2,027 | 2003 | 1.4% | 89.2% |
| 20 Hoseasons Group Ltd + | Consumer and Leisure | UK | 2,197 | 1,929 | 2004 | 1.3% | 90.5% |
| 21 Doc M SARL | Healthcare | Germany | 1,956 | 1,857 | 2004 | 1.3% | 91.8% |
| 22 Axiom Holdings Ltd | TMT | UK | 1,805 | 1,805 | 2001 | 1.2% | 93.0% |
| 23 Hg Renewable Power Partners LP + | Renewable energy | Europe Other | 1,725 | 1,553 | 2006 | 1.0% | 94.0% |
| 24 PRA International Inc *** | Healthcare | Benelux | 1,478 | 1,504 | 2002 | 1.0% | 95.0% |
| 25 Classic Copyright (Holdings) Ltd t/a Boosey & Hawkes + | TMT | UK | 6,033 | 1,486 | 2003 | 1.0% | 96.0% |
| 26 Bertram Group Holdings Ltd + | Consumer and Leisure | UK | 2,848 | 1,482 | 1999 | 1.0% | 97.0% |
| 27 Weston Presidio Capital III LP | Fund | North America | 1,867 | 1,201 | 1998 | 0.8% | 97.8% |
| 28 South Wharf plc ^ | Industrials | Ireland | 47 | 992 | 1992 | 0.7% | 98.5% |
| 29 Eagle Rock Group Ltd + | TMT | UK | 3,856 | 916 | 2001 | 0.6% | 99.1% |
| 30 Orbiscom Ltd | TMT | Ireland | 3,063 | 599 | 2001 | 0.4% | 99.5% |
| 31 Euroknights III LP | Fund | Europe Other | 1,455 | 408 | 1996 | 0.3% | 99.8% |
| 32 Match Holdings Ltd | Healthcare | UK | 3,854 | 335 | 1999 | 0.2% | 100.0% |
| 33 PARC Group Ltd | Services | Ireland | 42 | 166 | 1995 | 0.0% | 100.0% |
| 34 ACT Venture Capital Ltd | Fund | Ireland | - | 40 | 1994 | 0.0% | 100.0% |
| 35 Orbis plc * | Services | UK | 3,378 | 15 | 1997 | 0.0% | 100.0% |
| 36 Burns e-Commerce Solutions | TMT | UK | 3,244 | - | 2001 | 0.0% | 100.0% |
| 37 SGI (Holdings) Ltd + | Services | UK | 1,972 | - | 1999 | 0.0% | 100.0% |
| 38 Profiad Ltd + | Healthcare | UK | 1,653 | - | 1999 | 0.0% | 100.0% |
| 39 Newchurch Ltd | Healthcare | UK | 1,296 | - | 2000 | 0.0% | 100.0% |
| 40 Azinger Ltd | Services | Ireland | 204 | - | 1993 | 0.0% | 100.0% |
| 41 Luxfer Holdings plc + | Industrials | UK | 46 | - | 1996 | 0.0% | 100.0% |
| 42 Weston Presidio Capital II LP | Fund | North America | - | - | 1995 | 0.0% | 100.0% |
| **Total** | | | **145,175** | **148,542** | | **100.0%** | |

* *Listed on the London Stock Exchange*

^ *Listed on the Dublin and London Stock Exchange*

** *Traded on NASDAQ*

*** *Traded on NASDAQ The shares are subject to dealing restrictions that expire in July 2007*

\+ *HgCapital controls more than 50% of the voting equity shares through its management of the Company and other funds*

# Financial statements

# Income statement

for the year ended 31 December 2006

| | Note | Revenue return 2006 £'000 | Revenue return 2005 £'000 | Capital return 2006 £'000 | Capital return 2005 £'000 | Total return 2006 £'000 | Total return 2005 £'000 |
|---|---|---|---|---|---|---|---|
| Gains on investments and government securities | 10 | – | – | 34,919 | 37,706 | 34,919 | 37,706 |
| Carried interest | 3(b) | – | – | (4,737) | (2,976) | (4,737) | (2,976) |
| Income | 2 | 7,769 | 4,963 | – | – | 7,769 | 4,963 |
| Investment management fee | 3(a) | (730) | (587) | (2,191) | (1,761) | (2,921) | (2,348) |
| Other expenses | 4(a) | (636) | (498) | – | – | (636) | (498) |
| **Return on ordinary activities before taxation** | | 6,403 | 3,878 | 27,991 | 32,969 | 34,394 | 36,847 |
| Taxation on ordinary activities | 6 | (1,884) | (913) | 657 | 528 | (1,227) | (385) |
| **Transfer to reserves** | | 4,519 | 2,965 | 28,648 | 33,497 | 33,167 | 36,462 |
| **Return per ordinary share** | 7 | 17 94p | 11 77p | 113 74p | 132 99p | 131 68p | 144 76p |

*The total return column of this statement represents the Company's Income Statement The supplementary revenue and capital return columns are prepared under guidance published by the Association of Investment Companies All recognised gains and losses are disclosed in the Revenue and the Capital columns of the Income Statement and as a consequence no Statement of Total Recognised Gains and Losses has been presented*
*The movements in reserves are set out in note 17 to the financial statements*
*All revenue and capital items in the above statement derive from continuing operations*
*No operations were acquired or discontinued during the year*

*The notes on pages 31 to 39 form part of these financial statements*

# Balance sheet

as at 31 December 2006

| | Note | 2006 £'000 | 2005 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments held at fair value | | | |
| Quoted at market valuation | | 14,255 | 18,736 |
| Unquoted at Directors' valuation | | 134,287 | 109,504 |
| | 9 | 148,542 | 128,240 |
| **Current assets** | | | |
| Debtors | 11 | 10,005 | 6,609 |
| Government securities | 12 | 34,284 | 24,515 |
| Cash | 13(a) | 2,268 | 867 |
| | | 46,557 | 31,991 |
| Creditors – amounts falling due within one year | 14 | (7,964) | (3,744) |
| Net current assets | | 38,593 | 28,247 |
| Net assets | | 187,135 | 156,487 |
| **Capital and reserves** | | | |
| Called up share capital | 16 | 6,296 | 6,296 |
| Share premium account | 17 | 14,123 | 14,123 |
| Capital redemption reserve | 17 | 1,248 | 1,248 |
| Capital reserve – realised | 17 | 152,787 | 122,191 |
| Capital reserve – unrealised | 17 | 2,985 | 4,933 |
| Revenue reserve | 17 | 9,696 | 7,696 |
| Total equity shareholders' funds | | 187,135 | 156,487 |
| Net asset value per ordinary share | 7 | 743 0p | 621 3p |

*The financial statements on pages 28 to 39 were approved and authorised for issue by the Board of Directors on 12 March 2007 and signed on its behalf by*

Roger Mountford, Chairman
Timothy Amies, Director

*The notes on pages 31 to 39 form part of these financial statements*

# Cash flow statement

for the year ended 31 December 2006

| | Note | 2006 £'000 | 2005 £'000 |
|---|---|---|---|
| Net cash (outflow)/inflow from operating activities | 4(b) | (2,273) | 1,542 |
| Taxation recovered | | 2,666 | 352 |
| Capital expenditure and financial investment | | | |
| Purchase of fixed asset investments | | (45,266) | (35,376) |
| Proceeds from the sale of fixed asset investments | | 59,805 | 48,831 |
| Net cash inflow from capital expenditure and financial investment | | 14,539 | 13,455 |
| Equity dividends paid | | (2,519) | (2,015) |
| Net cash inflow before management of liquid resources | | 12,413 | 13,334 |
| Management of liquid resources | | | |
| Purchase of government securities | | (111,342) | (50,890) |
| Sale/redemption of government securities | | 100,334 | 37,246 |
| Net cash outflow from management of liquid resources | | (11,008) | (13,644) |
| Increase/(decrease) in cash in the period | 13 | 1,405 | (310) |

# Reconciliation of movements in shareholders' funds

for the year ended 31 December 2006

| | Note | Called up share capital £'000 | Share premium account £'000 | Capital redemption reserve £'000 | Capital reserves £'000 | Revenue reserve £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| At 31 December 2005 | | 6,296 | 14,123 | 1,248 | 127,124 | 7,696 | 156,487 |
| Net return from ordinary activities after tax | | – | – | – | 28,648 | 4,519 | 33,167 |
| Dividends paid | 8 | – | – | – | – | (2,519) | (2,519) |
| At 31 December 2006 | 16,17 | 6,296 | 14,123 | 1,248 | 155,772 | 9,696 | 187,135 |
| | | | | | | | |
| At 31 December 2004 | | 6,296 | 14,123 | 1,248 | 93,627 | 6,746 | 122,040 |
| Net return from ordinary activities after tax | | – | – | – | 33,497 | 2,965 | 36,462 |
| Dividends paid | 8 | – | – | – | – | (2,015) | (2,015) |
| At 31 December 2005 | 16,17 | 6,296 | 14,123 | 1,248 | 127,124 | 7,696 | 156,487 |

*The notes on pages 31 to 39 form part of these financial statements*

# Notes to the financial statements

**1 Principal activity**

The principal activity of the Company is that of an investment company within the meaning of section 266 of the Companies Act 1985 and section 842 of the Income and Corporations Taxes Act 1988

Basis of preparation
The accounts have been prepared in accordance with applicable Accounting Standards and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' (SORP), dated January 2003 and revised in December 2005 All of the Company's operations are of a continuing nature

Associated undertakings
Certain venture capital investments deemed to be associated undertakings are carried at fair value in accordance with the Company's Investments accounting policy and Financial Reporting Standard (FRS) 9

Investment income and interest receivable
Income from equity investments, including taxes deducted at source, is included in revenue by reference to the date on which the investment is quoted ex-dividend Where the Company elects to receive dividends in the form of additional shares rather than cash dividends, the equivalent of the cash dividend is recognised as income in the revenue account and any excess in the value of the shares received over the amount of the cash dividend is recognised in Capital reserve - realised Interest income is accounted for on an accruals basis Dividends receivable on equity shares where there is no ex-dividend date and on non-equity shares are brought into account when the Company's right to receive payment is established

Management fee and finance costs
The annual investment management fee and finance costs are charged 75% to Capital reserve - realised and 25% to the revenue account This is in line with the board's expected split of long-term returns, in the form of capital gains and income respectively, from the investment portfolio of the Company

Expenses
All expenses are accounted for on an accruals basis All administrative expenses, excluding the management fee, are charged wholly to the revenue account Expenses that are incidental to the purchase or sale of an investment are included within the cost or deducted from the proceeds of the investment

Foreign currency
All transactions in foreign currencies are translated into sterling at the rates of exchange ruling at the dates of such transactions Foreign currency assets and liabilities at the balance sheet date are translated into sterling at the exchange rates ruling at that date Exchange differences arising on the translation of foreign currency assets and liabilities are taken to Capital reserve - realised

Taxation
Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future, or the right to pay less, have occurred at the balance sheet date This is subject to deferred assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted Timing differences are differences between the Company's taxable profits and its results, as stated in the financial statements, which are capable of reversal in one or more suitable periods

Investments
The general principle applied is that investments should be reported at "fair value" in accordance with FRS26 and the International Private Equity and Venture Capital Association (IPEVCA) valuation guidelines issued jointly by the British Venture Capital Association (BVCA) and the European Venture Capital Association (EVCA) in February 2005

Quoted Quoted investments are designated as held at fair value, which is deemed to be bid market prices

Unquoted Unquoted investments are also designated as held at fair value and are valued using the following criteria

(i) initially, investments are fair valued at cost, including fees and transaction costs,

(ii) after the receipt of the first audited financial statements following initial investment, companies are valued on the level of maintainable earnings and an appropriate earnings multiple A marketability discount is applied to the value attributable to shareholders, ranging from 20% to 30%

(iii) where more appropriate, investments are valued with reference to their net assets rather than earnings, and

(iv) appropriate provisions are made against all individual valuations where necessary to reflect unsatisfactory financial performance leading to diminution in value

Both realised and unrealised gains and losses arising on investments are taken to capital reserves

Capital reserves
Capital reserve - realised
The following are accounted for in this reserve
(i) gains and losses on the realisation of investments
(ii) losses on investments within the portfolio where there is little prospect of realisation or recovering any value,
(iii) realised exchange differences of a capital nature, and
(iv) expenses, together with the related taxation effect, charged to this reserve in accordance with the above policies

Capital reserve - unrealised
The following are accounted for in this reserve
(i) increases and decreases in the valuation of investments held at the year end, and
(ii) unrealised exchange differences of a capital nature

Organisational structure
In May 2003, the Company entered into a partnership agreement with HGT General Partner Limited and MUST 4 Carry LP A limited partnership, HGT LP, was constituted to carry on the business of an investor with the Company being the sole limited partner in this entity

Under the partnership agreement, the Company made a capital commitment of its non-cash investment portfolio to HGT LP with the result that all fixed asset investments are now held through HGT LP Note 9 and the investment portfolio on page 26 present the underlying investments held in HGT LP The income and capital accruals relating to the investments held in HGT LP are shown in notes 11 and 14 Carried interest paid to the Founder Partner is shown on the face of the Income Statement as it is the first charge on investment gains

The agreement stipulates that the associated income and capital profits, after payment of the carried interest and the General Partner share, are distributed to the Company and consequently these amounts (including the associated cash flows) are shown in the appropriate lines within the Income Statement, Cash Flow Statement and the related notes

## 2 Income

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Income from investments | | |
| UK unquoted investment income | 5,370 | 2,251 |
| UK dividends | 82 | 833 |
| Overseas dividends | - | 18 |
| | 5,452 | 3,102 |
| Other income | | |
| Gilt interest | 2,056 | 1,692 |
| Deposit interest | 95 | 146 |
| Other interest income | 166 | - |
| Underwriting commission | - | 23 |
| | 2,317 | 1,861 |
| Total income | 7,769 | 4,963 |
| Total income comprises | | |
| Dividends | 82 | 851 |
| Interest | 7,687 | 4,089 |
| Underwriting commission | - | 23 |
| | 7,769 | 4,963 |

## 3 (a) Investment management fee

| | Revenue return | | Capital return | | Total return | |
|---|---|---|---|---|---|---|
| | 2006 £'000 | 2005 £'000 | 2006 £'000 | 2005 £'000 | 2006 £'000 | 2005 £ 000 |
| Investment management fee | 621 | 500 | 1,865 | 1,499 | 2,486 | 1,999 |
| Irrecoverable VAT thereon | 109 | 87 | 326 | 262 | 435 | 349 |
| | 730 | 587 | 2,191 | 1,761 | 2,921 | 2,348 |

Details of the investment management, custodian and administration contracts are disclosed in the Directors' report on pages 45 and 46
The investment management fee is levied quarterly in arrears Investment management fees are charged 75% to capital and 25% to revenue

## 3 (b) Carried interest

| | Revenue return | | Capital return | | Total return | |
|---|---|---|---|---|---|---|
| | 2006 £'000 | 2005 £ 000 | 2006 £'000 | 2005 £'000 | 2006 £'000 | 2005 £ 000 |
| Carried interest | - | - | 4,737 | 2,976 | 4,737 | 2,976 |

The carried interest payable ranks as a first distribution of capital gains on the investments held in HGT LP, a limited partnership established solely to hold the Company's investments, and is deducted prior to such gains being paid to the Company in its capacity as Limited Partner The gross amount of capital gains of HGT LP during the period is shown on the Income Statement Details of the carried interest contract are disclosed in the Directors' report on page 45

#### 4 Other expenses

(a) Operating expenses

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Custodian and administration fees | 197 | 137 |
| Directors' remuneration (note 5) | 104 | 98 |
| Auditors' remuneration - audit services | 27 | 24 |
| - non-audit services | 4 | 15 |
| Other administration costs | 304 | 224 |
| | 636 | 498 |
| The Company's total expense ratio, (TER) calculated as a percentage of average net assets and including expenses, after relief for taxation, was | 1 45% | 1 43% |

(b) Reconciliation of net return before taxation to net cash flow from operating activities

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Total return before taxation | 34,394 | 36,847 |
| Gains on investments held at fair value | (34,919) | (37,706) |
| Movement on carried interest | 1,761 | 2,976 |
| (Increase)/decrease in accrued income | (3,613) | 77 |
| Increase in debtors | (20) | - |
| Increase/(decrease) in creditors | 385 | (250) |
| Tax on investment income included within gross income | (261) | (402) |
| Net cash (outflow)/inflow from operating activities | (2,273) | 1,542 |

#### 5 Directors' remuneration

The aggregate remuneration of the Directors, excluding VAT where applicable, for the year to 31 December 2006 was £103,500 (2005 £98,000) Further information on the Directors' remuneration is disclosed in the Directors' remuneration report on page 48

**6 Taxation on ordinary activities**

| (a) Analysis of charge in the year | Revenue return 2006 £'000 | Revenue return 2005 £'000 | Capital return 2006 £'000 | Capital return 2005 £'000 | Total return 2006 £'000 | Total return 2005 £'000 |
|---|---|---|---|---|---|---|
| Current tax | | | | | | |
| UK corporation tax | 1,896 | 913 | (657) | (528) | 1,239 | 385 |
| Prior year adjustment | (12) | - | - | - | (12) | - |
| **Total current tax (note 6(b))** | **1,884** | 913 | (657) | (528) | 1,227 | 385 |

(b) Factors affecting current tax charge for the period
The tax assessed for the period is lower than the standard rate of corporation tax in the UK for a large company (30%)
The differences are explained below

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Revenue return on ordinary activities before taxation | 6,403 | 3,878 |
| UK corporation tax at 30% thereon | 1,921 | 1,163 |
| Effects of | | |
| Non taxable UK dividends | (25) | (250) |
| Tax deductible expenses in capital | (657) | (528) |
| Tax relief to the capital account | 657 | 528 |
| Tax in relation to the prior year | (12) | - |
| | (37) | (250) |
| **Current revenue tax charge for the period (note 6(a))** | 1,884 | 913 |

In the opinion of the Directors the Company has complied with the requirements of Section 842 ICTA 1988 and will therefore be exempt from corporation tax on any capital gains made in the year

**7 Return and net asset value per ordinary share**

| | 2006 | 2005 |
|---|---|---|
| Revenue and capital returns per share are shown below and have been calculated using the following | | |
| Net revenue attributable to equity shareholders after taxation | £4,519,000 | £2,965,000 |
| Net capital gains for the year | £28,648,000 | £33,497,000 |
| Number of shares in issue | 25,186,755 | 25,186,755 |

| | Revenue return 2006 | Revenue return 2005 | Capital return 2006 | Capital return 2005 | Total return 2006 | Total return 2005 |
|---|---|---|---|---|---|---|
| Return per ordinary share | 17 94p | 11 77p | 113 74p | 132 99p | 131 68p | 144 76p |

The net asset value per share of 743 0p (2005 621 3p) was calculated by dividing equity shareholders' funds of £187,135,000 (2005 £156,487,000) by the number of shares in issue at the year end of 25,186,755 (2005 25,186,755)

**8 Dividends on ordinary shares**

| | Register date | Payment date | 2006 £'000 | 2005 £'000 |
|---|---|---|---|---|
| Final dividend (8 00p) for the year ended 31 December 2004 | 18 March 2005 | 29 April 2005 | - | 2,015 |
| Final dividend (10 00p) for the year ended 31 December 2005 | 24 March 2006 | 2 May 2006 | 2,519 | - |
| | | | 2,519 | 2,015 |

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

The total dividends payable in respect of the financial year, which form the basis of the retention test as set out in section 842 of the Income and Corporation Taxes Act 1988, are set out below

| | 2006 £'000 |
|---|---|
| Revenue available for distribution by way of dividend for the year | 4,519 |
| Proposed final dividend of 14 0p for the year ended 31 December 2006 (based on 25,186,755 ordinary shares in issue at 31 December 2006) | (3,526) |
| Undistributed revenue for section 842 purposes * | 993 |

** Undistributed revenue comprises 13 2% of income from investments of £7,508,000 (see note 2)*

**9 Investments held at fair value**

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Investments held at fair value through profit and loss | | |
| Investments quoted on the London and Dublin Stock Exchanges | 3,034 | 3,961 |
| Investments quoted on NASDAQ | 11,221 | 14,775 |
| Unquoted investments | 134,287 | 109,504 |
| | 148,542 | 128,240 |
| Equity shares | 85,803 | 80,029 |
| Convertible securities | 1,401 | 925 |
| Fixed income securities | 61,338 | 47,286 |
| | 148,542 | 128,240 |

| | Quoted £ 000 | Unquoted £'000 | Total £ 000 |
|---|---|---|---|
| Opening valuation | 18,736 | 109,504 | 128,240 |
| Opening unrealised (appreciation)/depreciation | (8,254) | 3,004 | (5,250) |
| Opening book cost | 10,482 | 112,508 | 122,990 |
| Movements in the year | | | |
| Additions at cost | - | 45,266 | 45,266 |
| Transfer from unquoted to quoted at cost | 1,504 | (1,504) | - |
| Disposals - proceeds | (16,391) | (44,735) | (61,126) |
| - realised gains on sales | 12,487 | 25,558 | 38,045 |
| Closing book cost of investments | 8,082 | 137,093 | 145,175 |
| Closing unrealised appreciation/(depreciation) | 6,173 | (2,806) | 3,367 |
| Closing valuation of investments | 14,255 | 134,287 | 148,542 |

During the year the Company incurred transaction costs on the sale of investments totalling £13,000 (2005 £33,000) The gains on investments are shown after deducting such transaction costs

The Company has equity holdings of 10% or more of the following classes of share in the companies listed below

| Company | Country of incorporation | Shareholding | % of class* |
|---|---|---|---|
| Addison Luxembourg SA | Luxembourg | Class A Shares | 19 5% |
| Bertram Group Holding Ltd | England | A Ordinary Shares | 14 6% |
| Bertram Group Holding Ltd | England | B Ordinary Shares | 10 2% |
| Bertram Group Holding Ltd | England | C Ordinary Shares | 14 2% |
| Clarion Events Holding Ltd | England | A Ordinary Shares | 17 0% |
| Classic Copyright Holdings Ltd | England | A Ordinary Shares | 15 8% |
| Eagle Rock Entertainment Ltd | England | A Ordinary Shares | 18 1% |
| Elite Holding SA | Luxembourg | Ordinary Shares | 15 9% |
| FTSA Holdings Limited | England | Ordinary Shares (USD0 01) | 19 8% |
| Hirschmann Electronics Holdings SA | Luxembourg | A Redeemable Shares | 12 6% |
| Hirschmann Electronics Holdings SA | Luxembourg | B Redeemable Shares | 12 6% |
| Hirschmann Electronics Holdings SA | Luxembourg | C Redeemable Shares | 12 6% |
| Hirschmann Electronics Holdings SA | Luxembourg | D Ordinary Shares | 12 6% |
| Hofmann M M SA | Luxembourg | Ordinary Shares | 15 1% |
| Hoseasons Group Ltd | England | Ordinary Shares | 12 0% |
| Newchurch Ltd | England | Subordinated £1 shares | 11 0% |
| Orbiscom Ltd | Ireland | Non - Convertible Redeemable Prefs | 23 0% |
| Orbiscom Limited | Ireland | Ordinary Shares | 12 8% |
| Profiad Ltd | England | B Ordinary Shares | 13 9% |
| Rolfe & Nolan Holdings plc | England | Hg Preferred Ordinary Shares | 16 8% |
| Schenck MPT SA | Luxembourg | Ordinary Shares | 19 5% |
| Schleich Luxembourg SA | Luxembourg | Ordinary Equity | 10 0% |
| SGI Holdings Ltd | England | A Ordinary Shares | 14 8% |
| Sporting Index Group Ltd | England | Ordinary Shares | 13 7% |
| The Sanctuary Spa Holdings Limited | England | Ordinary Shares | 29 4% |
| W E T Holding (Luxembourg) SA | Luxembourg | Ordinary Shares | 14 5% |

** Investee companies may issue a number of different classes of share The percentage of the total issued ordinary share capital of the ten largest investments held by the Company is shown in the table on page 40*

Further information on those investments which, in the opinion of the Directors, have a significant effect on the Company's financial statements, is contained in the Review of principal investments on pages 15 to 23

### 10 Gains on investments and government securities

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Realised gains on sales | 20,516 | 14,728 |
| Foreign exchange losses | (4) | (3) |
| Change in unrealised appreciation | 14,407 | 22,981 |
| | 34,919 | 37,706 |

### 11 Debtors

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Taxation recoverable | - | 1,558 |
| Sales for future settlement | 1,321 | - |
| Prepayments and accrued income | 8,664 | 5,051 |
| Other debtors | 20 | - |
| | 10,005 | 6,609 |

### 12. Government securities

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Investments held at fair value through profit and loss | | |
| Opening valuation | 24,515 | 11,884 |
| Purchases at cost | 111,342 | 50,591 |
| Sales and redemptions | (100,334) | (37,246) |
| Movement in unrealised capital losses | (65) | (282) |
| Realised capital losses | (1,174) | (432) |
| Closing valuation | 34,284 | 24,515 |

### 13 Movement in net funds

(a) Reconciliation of net cash flow to movement in net funds

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Change in net funds | 1,405 | (310) |
| Exchange movements | (4) | (3) |
| Net funds at 1 January | 867 | 1,180 |
| Net funds at 31 December | 2,268 | 867 |

| (b) Analysis of changes in net funds | At 1 Jan 2006 £'000 | Cash flows £ 000 | Exchange Movements £'000 | At 31 Dec 2006 £'000 |
|---|---|---|---|---|
| Cash | 867 | 1,405 | (4) | 2,268 |

## 14 Creditors - amounts falling due within one year

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Carried interest | 4,737 | 2,976 |
| Corporation taxation payable | 2,287 | 213 |
| Sundry creditors | 940 | 555 |
| | 7,964 | 3,744 |

## 15 Risk

The following disclosures relating to the risks faced by the Company are provided in accordance with Financial Reporting Standard 25 and 26, "Derivatives and other financial instruments disclosures"

Financial instruments and risk profile
The Company's primary investment objective is to achieve long-term capital appreciation by investing in unquoted companies, mostly in the UK and Europe Additionally, the Company holds gilts, cash and short-term deposits and items such as debtors and creditors arising directly from its operations The numerical disclosures below exclude short-term debtors and creditors By their very nature, investment activities undertaken to achieve the Company's objective involve certain inherent risks, primarily valuation risk These are considered further below

Valuation risk
The Company's exposure to valuation risk comprises mainly movements in the value of its underlying investments, the majority of which are unquoted A breakdown of the Company's portfolio is given on page 26 In accordance with the Company's accounting policies, all underlying unquoted investments are valued by the Directors with regard to the current guidelines issued by the International Private Equity and Venture Capital Association The Company does not hedge against movements in the value of these investments The Company has exposure to interest rate movements, through cash and gilt holdings

In the opinion of the Directors, the diversified nature of the Company's portfolio significantly reduces the risks of investing in unquoted companies

Currency risk
The Company is exposed to currency risk as a result of investing in funds and companies in foreign currencies The sterling value of these assets can be significantly influenced by movements in foreign exchange rates The Company does not normally hedge against foreign currency movements affecting the value of its investments, but takes account of this risk when making investment decisions

Interest rate risk
The Company has exposure to interest rate movements on both interest receivable from funds awaiting investment and interest payable on borrowings

Liquidity risk
Investments in unquoted companies, which form the majority of the Company's investments, may not be as readily realisable as investments in quoted companies

Financial assets of the Company

| | 2006 Fixed rate £'000 | 2006 Floating rate £'000 | 2006 Non interest-bearing £'000 | 2006 Total £'000 | 2005 Fixed rate £'000 | 2005 Floating rate £'000 | 2005 Non interest-bearing £'000 | 2005 Total £'000 |
|---|---|---|---|---|---|---|---|---|
| Sterling | 72,996 | 2,268 | 28,524 | 103,788 | 52,977 | 867 | 38,558 | 92,402 |
| Euro | 19,000 | - | 39,138 | 58,138 | 18,824 | - | 25,476 | 44,300 |
| Norwegian Kroner | 5,027 | - | 16,940 | 21,967 | - | - | - | - |
| US dollar | - | - | 1,201 | 1,201 | - | - | 16,920 | 16,920 |
| Total | 97,023 | 2,268 | 85,803 | 185,094 | 71,801 | 867 | 80,954 | 153,622 |

The fixed rate assets comprise gilts and fixed rate lendings to investee companies Fixed rate lendings have a weighted average interest rate of 11 3% per annum (2005 11 3%) and a weighted average life to maturity of 6 8 years (2005 7 2 years) The floating rate assets consist of cash

The non interest-bearing assets represent the equity content of the investment portfolio

The Company did not have any outstanding borrowings at the year end (2005 nil)

Currency exposure
The currency denomination of the Company's financial assets is shown above Short-term debtors and creditors, which are excluded, are predominantly in sterling, the functional currency of the Company

**16 Share capital**

| | 2006 Nominal No '000 | 2006 £'000 | 2005 Nominal No 000 | 2005 £ 000 |
|---|---|---|---|---|
| Authorised | | | | |
| 40,000,000 ordinary shares of 25p each | 40,000 | 10,000 | 40,000 | 10,000 |
| Allotted, called up and fully paid | | | | |
| Ordinary shares | | | | |
| At 1 January & 31 December | 25,187 | 6,296 | 25,187 | 6,296 |

**17 Share premium account and reserves**

| | Share premium account £'000 | Capital redemption reserve £'000 | Capital reserve realised £'000 | Capital reserve unrealised £'000 | Revenue reserve £'000 |
|---|---|---|---|---|---|
| As at 1 January 2006 | 14,123 | 1,248 | 122,191 | 4,933 | 7,696 |
| Transfer on disposal of investments | - | - | 16,355 | (16,355) | - |
| Losses on sale of government securities | - | - | (1,174) | - | - |
| Foreign exchange losses | - | - | (4) | - | - |
| Net gain on sale of investments | - | - | 21,690 | - | - |
| Net movement in unrealised appreciation of investments | - | - | - | 14,407 | - |
| Dividends paid | - | - | - | - | (2,519) |
| Net revenue for the year after tax | - | - | - | - | 4,519 |
| Carried interest | - | - | (4,737) | - | - |
| Management fee charged to capital, after taxation | - | - | (1,534) | - | - |
| As at 31 December 2006 | 14,123 | 1,248 | 152,787 | 2,985 | 9,696 |

**18 Contingent liabilities**

As at 31 December 2006, investment purchases of £12,941,000 (31 December 2005 £680,000) had been authorised and contractually committed, including uncalled commitment to Hg Renewable Power Partners LP

# Top ten investments

| Company | Accounting date | Currency | Turnover | PBIT* | Net assets/ (liabilities) | Income accrued 2006 £'000 | % of total share capital held by the Company | % of portfolio 2006 | 2005 |
|---|---|---|---|---|---|---|---|---|---|
| Addison Luxembourg SA | Dec-05 | €m | 22 4 | 6 9 | 12 6 | 676 | 18 1% | 4 5% | 5 2% |
| Blue Minerva Limited | Apr-06 | £'m | 32 0 | 13 5 | (7 9) | 539 | 9 5% | 5 1% | 4 1% |
| Elite Holding SA | Dec-05 | S'm | ** | ** | ** | 977 | 15 6% | 6 5% | 4 7% |
| Hirschmann Electronics Holdings SA | Dec-05 | €m | 286 8 | 22 4 | 61 3 | 664 | 12 6% | 6 8% | 3 2% |
| Paragon Limited | Mar-06 | £'m | 98 4 | 16 1 | (16 4) | 926 | 7 9% | 7 2% | - |
| Schenck Process SA | Dec-05 | €m | 235 1 | 22 8 | 321 6 | 1,009 | 16 6% | 7 8% | 7 3% |
| Surrey 1 Limited | Dec-05 | £'m | 68 2 | 10 0 | ** | 122 | 9 0% | 5 1% | - |
| Visma Holdings | Dec-05 | NOK'm | 1,907 0 | 184 6 | 1,378 0 | 333 | 9 2% | 8 2% | - |
| W E T Holding Luxembourg SA | Jun-06 | €m | 180 6 | 24 0 | ** | - | 11 1% | 4 5% | 5 3% |
| Xtx Ltd | Nov-06 | S'm | 983 6 | 72 6 | 234 5 | - | 3 1% | 6 5% | 11 5% |

* *Profit Before Interest and Taxation and, where applicable, before amortisation of goodwill*
** *Not applicable as there was no requirement to prepare audited financial statements for the full year in respect of these businesses*

*This table does not form part of the financial statements*

# Analysis of registered shareholders as at 31 December 2006

| By type of holder | Number of shares | % of total 2006 | 2005 | Number of holders | % of total 2006 | 2005 |
|---|---|---|---|---|---|---|
| Nominee companies | 20,244,141 | 80 4 | 78 6 | 369 | 54 2 | 53 6 |
| Direct private investors | 1,876,760 | 7 5 | 6 6 | 260 | 38 2 | 39 2 |
| Others | 3,065,844 | 12 1 | 14 8 | 52 | 7 6 | 7 2 |
| | 25,186,755 | 100 0 | 100 0 | 681 | 100 0 | 100 0 |

| By size of holding | Number of shares | % of total 2006 | 2005 | Number of holders | % of total 2006 | 2005 |
|---|---|---|---|---|---|---|
| 1 – 5,000 | 729,167 | 2 9 | 2 8 | 460 | 67 5 | 67 8 |
| 5,001 – 50,000 | 2,656,071 | 10 6 | 9 7 | 151 | 22 2 | 22 2 |
| 50,001 – 100,000 | 1,792,739 | 7 1 | 7 7 | 24 | 3 5 | 4 1 |
| Over 100,000 | 20,008,778 | 79 4 | 79 8 | 46 | 6 8 | 5 9 |
| | 25,186,255 | 100 0 | 100 0 | 681 | 100 0 | 100 0 |

*This table does not form part of the financial statements*

# Governance and other information

# Board of Directors

**Roger Mountford (Chairman)**
Aged 58, Roger Mountford was appointed to the Board in 2004 and became Chairman in April 2005 He spent thirty years as a merchant banker in the City of London and in the Far East, latterly as Managing Director in the Corporate Finance Department of SG Hambros He now serves on several boards, including the Civil Aviation Authority, where he is chairman of the CAA Pension Scheme

**Timothy Amies**
Aged 68, Timothy Amies was appointed to the Board in 1991 He is a chartered accountant with over thirty years' experience of working in the City He was a partner at Laurie Milbank & Co, stockbrokers for sixteen years prior to its acquisition by Chase Manhattan Bank He then became a director of Chase Investment Bank involved in mergers and acquisitions He is Chairman of the Audit and Valuation Committee of the Company

**Piers Brooke**
Aged 66, Piers Brooke was appointed to the Board in 2001 He worked for thirty-eight years in both commercial and merchant banking, holding a variety of general management positions in the UK, Continental Europe, the Far East and North America Most recently he was Director of Financial Strategy at National Westminster Bank He is a non-executive director of Focus Solutions Group plc and Lothbury Property Trust

**Peter Gale**
Aged 51, Peter Gale was appointed to the Board in 1991 and is Deputy Chairman of the Company He has worked in many divisions of National Westminster Bank, specialising in investment management In 1990 he became responsible for the investment management of National Westminster Bank Group Pension Funds, which subsequently became RBS Pension Trustee Ltd Upon the purchase of Gartmore Investment Management plc in 1996, he became a principal of the enlarged fund management company and in 2003 became Managing Director of Gartmore Private Equity

**Andrew Munson**
Aged 58, Andrew Munson was appointed to the Board in 2004 He was Senior Bursar of Peterhouse, Cambridge for nine years and spent the previous twelve years as a principal in private equity partnerships in the USA Prior to that he was a fund manager, financial journalist and investment banker in the City of London He now serves on the board of Aberdeen Growth Opportunities Venture Capital Trust plc and is Chairman of the JPMorgan European Investment Trust plc

All Directors are members of the Audit and Valuation, Nomination, Directors' Remuneration and Management Engagement Committees

All Directors are non-executive

# Directors' report

The Directors present the annual report and financial statements of the Company for the year ended 31 December 2006

## BUSINESS REVIEW

### Background

The business review has been prepared in accordance with Section 234ZZB of the Companies Act 1985 Inclusion of a business review in the annual report and accounts became mandatory for all UK companies in respect of accounting periods commencing on or after 1 April 2005

The purpose of the business review is to provide an overview of the business of the Company by

- Analysing development and performance using appropriate key performance indicators (KPIs)
- Outlining the principal risks and uncertainties affecting the Company
- Describing how the Company manages these risks
- Explaining the future business plans of the Company

### Principal activity and business review

The principal activity of the Company is to operate as an investment trust providing access to a diversified portfolio of private equity investments A review of the business for the year is given in the Chairman's statement on pages 4 and 5 and in the Investment manager's review, which begins on page 10

### Status of the Company

The Inland Revenue has accepted the Company as an investment trust for the purposes of section 842 of the Income and Corporation Taxes Act 1988 (ICTA) for the year ended 31 December 2004 In the opinion of the Directors, the Company has conducted its affairs so as to enable it to continue to maintain acceptance as an investment trust since that date It is the Company's intention to continue to seek authorisation under section 842 of ICTA

The Company is not a close company within the meaning of the provisions of ICTA

The Company is an investment company within the meaning of section 266 of the Companies Act 1985

The Company's shares are eligible investments within the stocks and shares component of an Individual Savings Account (ISA)

### Going concern

The Company is in a position to meet all of its liabilities from its liquid assets and consequently the accounts of the Company have been produced on a going concern basis

### Business and strategy

The objective of the Company is to provide shareholders with long-term capital appreciation in excess of the FTSE All-Share Index by investing in unquoted companies The strategy of the Manager is to maximise returns from mid-market private equity through sector specialisation and proactive work with portfolio companies It concentrates on buy-outs in Western Europe with enterprise values between £50 million and £350 million

No material change will be made to the investment policy without shareholder approval

### Gearing

The Company has a £25 million borrowing facility which it may use from time to time to exploit investment opportunities The Board regularly reviews cash flow and the use of gearing

### Performance

In the year to 31 December 2006, the Company's net asset value per share (including dividends re-invested) increased by 21 4% This compares with a rise in the FTSE All-Share Index (total return) of 16 8% The Company's ordinary share price increased by 27 2% on a total return basis

### Results and dividend

The total return for the Company is set out in the Income statement on page 28 The total return for the year, after taxation, was £33,167,000 (2005 £36,462,000) of which £4,519,000 is revenue return (2005 £2,965,000)

The Directors recommend the payment of a final dividend of 14 0p per ordinary share for the year ended 31 December 2006 (2005 10 0p) Subject to approval of this dividend at the forthcoming Annual General Meeting (AGM), it will be paid on 1 May 2007 to shareholders on the register of members at the close of business on 23 March 2007

### Key performance indicators

Each Board meeting conducts a detailed review of the portfolio and reviews a number of indices and ratios to understand the impact on the Company's performance of the individual portfolio holdings The key performance indicators (KPIs) used to measure the progress and performance of the Company over time and which are comparable to those reported by other investment trusts include net asset value per share, share price, earnings per share, average monthly trading volumes and cash flow The Directors recognise that it is in the long-term interest of shareholders that shares do not trade at a significant discount to the prevailing NAV and they also monitor the Company's discount or premium regularly

**Principal risks**

The key risks faced by the Company are set out below The Board regularly reviews and agrees policies for managing each risk, as summarised below

Performance risk

The Board is responsible for deciding the investment strategy to fulfil the Company's objectives and for monitoring the performance of the Manager An inappropriate strategy may lead to poor performance To manage this risk the Manager provides an explanation of all investment decisions and the rationale for the composition of the investment portfolio The Board monitors and maintains an adequate spread of investments, based on the diversification requirements inherent in the Company's investment policy, in order to minimise the risks associated with particular countries or factors specific to particular sectors

Income/dividend risk

The amount of dividends and future dividend levels will depend on the income received from the Company's underlying portfolio

Regulatory risk

The Company operates as an investment trust in accordance with section 842 of the ICTA 1988 As such, the Company is exempt from capital gains tax on the profits realised from the sale of its investments The Manager monitors investment movements, the level and type of forecast income and expenditure, and the amount of retained income (if any) to ensure that the provisions of section 842 are not breached The results are reported to the Board at each meeting

Operational risk

In common with most other investment trust companies, the Company has no employees The Company therefore relies upon the services provided by third parties and is dependent upon the control systems of the Manager and the Company's other service providers The security, for example, of the Company's assets, dealing procedures, accounting records and maintenance of regulatory and legal requirements, depend on the effective operation of these systems These are regularly tested and monitored and an internal control report, which includes an assessment of risks together with procedures to mitigate such risks, is prepared by the Manager and reviewed by the Audit and Valuation Committee twice a year

Financial risks

The Company's investment activities expose it to a variety of financial risks that include valuation risk, liquidity risk, market price risk, foreign exchange risk and interest rate risk Further details are disclosed in note 15 on page 38, together with a summary of the policies for managing these risks

Liquidity risk

The Company, by the very nature of its investment objective, invests in unquoted companies, and liquidity in their securities can be constrained, making the investments difficult to realise at, or near, the Directors' published valuation at any one point in time The Manager has regard to the liquidity of the portfolio when making investment decisions, and the Company manages its liquid resources to ensure sufficient cash is available to meet its contractual commitments

**Future prospects**

The Board's main focus is on the achievement of capital growth and the future of the Company is dependent upon the success of the investment strategy The outlook for the Company is discussed in the Chairman's statement and the Investment manager's review, beginning on pages 4 and 10 respectively

**DERIVATIVE TRANSACTIONS**

The Company has not entered into any derivative transactions during the year

**DIRECTORS**

The Directors of the Company are listed on page 42 There were no changes to the Board during the year

The Board undertook a review of committee membership and the resultant position is detailed in the Corporate governance and Directors' responsibilities report, beginning on page 49

In accordance with the Articles of Association, Mr Gale will retire by rotation at the Company's AGM and, being eligible, offers himself for re-election He has been a Director of the Company for over fifteen years

The Board has considered Mr Gale's performance as part of its evaluation process and recommends that he be proposed for re-election given his extensive industry knowledge and his valuable contribution Peter Gale is professionally responsible for the selection and monitoring of a wide range of private equity managers on behalf of a major institutional investor

As part of its long-term succession planning the Board intends to identify an additional director, who will then stand for election by shareholders in 2008 The Chairman, Mr R Mountford, is seeking re-election at the AGM to be held in April 2007, a year earlier than required By taking steps to ensure that the re-election of Directors is not concentrated in any year it will be easier to achieve the planned and progressive refreshing of the Board over time, as recommended by the Combined Code on Corporate Governance

The Board considers that Mr Mountford has proven business and leadership skills, which he has exercised over a long career in merchant banking both in the UK and Far East In addition, he has excellent knowledge of financial markets and corporate governance Through his role as Chairman, Mr Mountford uses this experience and skill to ensure that the Board discharges its duties in an effective manner at all times

Messrs Brooke and Munson will stand for re-election next year

None of the Directors has a service contract with the Company

**Directors' Interests**

The interests of those persons who were Directors at the end of the year in the ordinary shares of the Company were as follows (all holdings are beneficial unless stated otherwise)

| | 31 December 2006 | 1 January 2006 |
|---|---|---|
| T J Amies | 30,000 | 30,000 |
| P L Brooke | – | – |
| P Gale | 4,000 | 4,000 |
| R P Mountford | 10,000 | 6,000 |
| A H Munson | – | – |

No notification of any change in the above interests has been received from 31 December 2006 to the date of this report

**Substantial interests**

The Company is aware that the following shareholders had an interest in 3% or more of the voting rights of the Company on 12 March 2007

| | Ordinary shares | % of voting rights |
|---|---|---|
| Hg Investment Managers Ltd* | 1,610,583 | 6 4 |
| Hg Pooled Management Ltd** | 1,019,619 | 4 0 |
| East Riding Pension Fund | 1,750,000 | 6 9 |
| The Scottish Investment Trust plc | 1,200,000 | 4 8 |
| Oxfordshire County Council | 900,000 | 3 6 |
| Legal & General Investment Managers Ltd | 855,629 | 3 4 |

* Includes 1,095,651 shares (4 4%) held by HgCapital staff The remaining shares are managed on behalf of discretionary clients under a delegation agreement from BlackRock Investment Management (UK) Limited

** Managed on behalf of RW SPLP LP, where the beneficial owner is the BBC Pension Trust Limited Fund RW

The Company is not aware that any other shareholder had an interest of 3% or more in the Company's ordinary share capital as at 12 March 2007

**Investment management and administration**

Under the management arrangements implemented in May 2003, the Company's assets, excluding cash and government securities, are held in HGT Limited Partnership which is managed by Hg Pooled Management Ltd (HgCapital) At the time of entering the new management agreement a new incentive scheme was introduced to align the Manager's remuneration more closely with the performance of the Company

Transitional agreements were put in place until April 2006, whereby the Manager would receive as a minimum the same compensation under the new arrangements as under the old contract

During the financial year ended 31 December 2005 the transitional provisions ceased, as the net asset performance of the Company over the previous three years had been sufficiently strong to bring the carried interest entitlement under the new agreement into force The details below relate to the two forms of incentive payable to the Manager under the current investment management arrangements

A management fee of 1 5% per annum of NAV, excluding investments in other collective investment funds, is payable

In 2003, the Board and HgCapital agreed to introduce a carried interest in which the executives of HgCapital participate in order to provide an incentive to deliver good performance This arrangement allows for a carried interest of 20% of the excess annual growth in average NAV over an 8% preferred return, based on a three-year rolling average NAV, calculated half-yearly and aggregated with any dividends declared by the Company in respect of that financial year The first carried interest under this arrangement accrued in the year ended 31 December 2005

The management agreement may be terminated on giving two years' notice and such notice shall be deemed to be given at the end of the half-year in which notice is served No penalty on termination is payable by the Company in the event that two years' notice is given to HgCapital, during which period HgCapital would receive a management fee calculated on the basis of the value of assets remaining under its management and not on the entire net assets of the Company

The Company paid no further fees in respect of management of the cash portfolio by Hg Investment Managers Limited as this will be covered by HgCapital out of the fees it receives

The Board has agreed that the Company will not invest more than 15% of its gross assets in other listed investment companies, including listed investment trusts

HgCapital has been appointed as secretary and administrator of the Company for a fee equal to 0 1% of NAV The Bank of New York Europe Limited (BNYE) is the custodian of the Company's assets and its fees and expenses are met by HgCapital

**Continued appointment of the Investment manager**
The Board has concluded that it is in shareholders' interests that Hg Pooled Management Limited should continue as Investment manager of the Company on the existing terms The Board considers the arrangements for the provision of investment management and other services to the Company on an ongoing basis and a formal review is conducted annually

As part of this review the Board considered the quality and continuity of the Manager's personnel, succession planning, sector and geographic coverage, investment process and the results achieved to date The Board also considered the Manager's ongoing commitment to the promotion of the Company's shares, which is evidenced by the Manager's formation of the Initiative for Private Equity Investment Trusts described on page 59

The principal contents of the agreement with the Manager have been set out in the previous section Having considered the terms of this agreement and those of other private equity investment trust companies, the Board considers that the terms of the agreement represent an appropriate balance between cost and incentivisation of the Manager

**Directors' remuneration report**
The Directors' remuneration report is set out on page 48 An ordinary resolution to approve this report will be put to members at the forthcoming AGM No person's entitlement to remuneration is conditional upon the resolution being passed

**Voting policy**
The exercise of voting rights attached to the Company's portfolio has been delegated to HgCapital, whose policy is to participate actively as a shareholder, reviewing each case separately

**Socially responsible investment**
The Company has committed to invest in the Hg Renewable Power Partners fund, which the Board believes offers a profitable route for the Company to participate in efforts to combat climate change

The Manager addresses other investment opportunities on a sector basis The sectors chosen do not generally raise ethical issues

**Donations**
The Company made no political or charitable donations during the period

**Payment of suppliers**
It is the general policy of the Company to pay for the supply of goods and services within thirty days of the date of any invoice The Company has no trade creditors

**Annual General Meeting**
The AGM of the Company will be held at the offices of HgCapital, 2 More London Riverside, London SE1 2AP on Wednesday 25 April 2007 at 12 noon Notice of the AGM is given on pages 57 and 58

**Authority to buy back shares**
The Directors' authority to buy back shares was renewed at last year's AGM and will expire on 24 October 2007 Although no shares were bought back during the year, the Directors are proposing to renew the authority at the forthcoming AGM, and are seeking authority to purchase up to 3,775,000 ordinary shares (being 14 99% of the issued share capital) as set out in Resolution 8 This authority, unless renewed, will expire on 24 October 2008

Purchases of ordinary shares will only be made through the market for cash at prices below the prevailing NAV per ordinary share Under the Listing Rules of the Financial Services Authority, the maximum price that can be paid is 5% above the average of the market values of the ordinary shares for the five business days before the purchase is made The minimum price that may be paid will be 25 0p per share (being the nominal value of a share) Any shares purchased under this authority will be cancelled In making purchases, the Company will deal only with member firms of the London Stock Exchange

**Authority of Directors to allot shares**
Resolutions 9 and 10 to be proposed at the AGM are similar to the authorities given to the Directors at last year's AGM By law, directors are not permitted to allot new shares (or to grant rights over shares) unless authorised to do so by shareholders Resolution 9 gives the Directors, for the period until the conclusion of the AGM in 2008, the necessary authority to allot securities up to an aggregate nominal amount of £314,800, which is equivalent to 1,259,300 ordinary shares of 25 0p each, or approximately 5% of the issued ordinary share capital

Resolution 10 empowers the directors until the conclusion of the AGM in 2008 or, if earlier, the expiry of fifteen months from the date on which the resolution is passed, to allot securities for cash, otherwise than to existing shareholders on a pro rata basis, up to an aggregate nominal amount of £314,800, which is equivalent to 1,259,300 ordinary shares or approximately 5% of the issued share capital In no circumstances would the Directors use this authority to

# Directors' report continued

dilute the interests of existing shareholders by issuing shares at a price that is less than the NAV attributable to the shares at the time of issue

**Auditor**

Ernst & Young LLP has indicated its willingness to continue in office as independent auditor and resolutions proposing its re-appointment and authorising the Directors to determine its remuneration will be submitted at the AGM

**Statement as to disclosure of information to auditors**

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

By order of the Board
Hg Pooled Management Ltd
Secretary
12 March 2007

# Directors' remuneration report

The Board presents the Directors' remuneration report for the year ended 31 December 2006 The Board has prepared this report in accordance with the requirements of Schedule 7A to the Companies Act 1985, and an ordinary resolution for the approval of this report will be put to members at the forthcoming Annual General Meeting

**Directors' Remuneration Committee**

The Directors' Remuneration Committee consists of Roger Mountford (Chairman), Timothy Amies, Piers Brooke, Peter Gale and Andrew Murison and meets when necessary to consider any change in the Directors' remuneration policy The Company has no employees other than its Directors, who are all non-executive and independent of the management company The secretary (whose duties are set out elsewhere in this report, and who is not appointed by the Directors' Remuneration Committee) provides a comparison of the Directors' remuneration with other investment trusts of similar size and/or mandate This comparison, together with consideration of any change in non-executive Directors' responsibilities, is used to review whether any change in remuneration is appropriate

No element of the Directors' remuneration is performance related The Company has not awarded any share options or long-term performance incentives to any of the Directors

None of the Directors has a service contract with the Company The terms of their appointments are detailed in a letter sent to them when they join the Board These letters are available for inspection at the registered office of the Company

**Directors' remuneration**

| | Remuneration | |
|---|---|---|
| | 2006 | 2005 |
| Director | £ | £ |
| Timothy Amies (Chairman of the Audit Commitee) | **20,500** | 17,000 |
| Piers Brooke | **18,500** | 17,000 |
| David Bucks (past Chairman) (retired 19/04/05) | **–** | 7,550 |
| Peter Gale | **18,500** | 17,000 |
| Roger Mountford (appointed Chairman 19/04/05) | **27,500** | 22,582 |
| Andrew Murison | **18,500** | 17,000 |

The information in this table and in the paragraphs below has been audited

With effect from 1 July 2006 the remuneration of the Chairman was increased from £25,000 to £30,000 per annum, and that of the Chairman of the Audit Committee from £17,000 to £24,000 Remuneration of the other Board members was increased from £17,000 to £20,000 per annum Remuneration is reviewed on an annual basis

The Company's Articles of Association limit the aggregate remuneration of the Directors to £150,000 per annum

None of the Directors receives any non-cash benefits or pension entitlements

**Compensation for loss of office**

No past Director has been compensated for loss of office

**Retirement of Directors**

All of the Company's Directors are subject to retirement by rotation in accordance with the Company's Articles of Association

By order of the Board
Hg Pooled Management Ltd
Secretary
12 March 2007

# Corporate governance and Directors' responsibilities

The Company is committed to high standards of corporate governance The Board has put in place a framework for corporate governance which it believes is suitable for an investment trust and which enables the Company to comply with the 2003 Combined Code on Corporate Governance (the "Combined Code") The Board has made the appropriate disclosures in the annual report to ensure the Company meets its continuing obligations under the Financial Services Authority, Investment Entities (Listing Rules and Conduct of Business) Instrument 2003

The Board considers that the Company has complied with the provisions contained within Section 1 of the Combined Code throughout this accounting period (except as described below), and this statement describes how the relevant principles of governance are applied to the Company

**The Board**

The Board consists of five non-executive Directors all of whom the Company deems to be independent of the Company's Manager

In the Board's opinion Mr Amies continues to qualify as an independent Director despite his length of service, as he is independent of the Manager and free from any business or other relationships that could materially interfere with the exercise of his judgment

For the same reasons and having considered Mr Gale's position as a senior employee of Gartmore, a shareholder of the Company, the Board considers him to be independent

Their biographies on page 42 highlight their wide range of business experience The Board does not feel that it would be appropriate to adopt a policy whereby Directors serve for a limited period, as, with a private equity portfolio, historical knowledge is useful The structure of the Board is such that it is considered unnecessary to identify a senior non-executive Director other than the Deputy Chairman

The Board is supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties Strategic issues and all operational matters of a material nature are determined by the Board

The Directors retire by rotation at every third Annual General Meeting (AGM) and any Directors appointed to the Board since the previous AGM also retire and stand for election Directors who reach the age of seventy will retire at the next AGM of the Company and at each following AGM, but will be eligible for reappointment subject to the approval of the rest of the Board

The Directors being proposed for re-election at this year's AGM are Mr Mountford and Mr Gale The Board's recommendations that both should be re-elected are set out on page 44

Messsers Gale and Amies were both appointed on 1 May 1991 Whilst the Combined Code recommends that any non-executive director serving for longer than nine years be subject to annual re-election, under the retirement by rotation provisions of the Company's Articles of Association, every Director shall retire and be eligible for re-election every three years Mr Gale is standing this year and Mr Amies was re-elected in 2006 The Board has decided that it is unnecessary therefore for Mr Amies to stand for re-election this year

The Board meets at least five times a year and there is regular contact with HgCapital between these meetings The Directors also have access to the advice and services of the secretary, who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with Where necessary, in the furtherance of their duties, the Directors may seek independent professional advice at the expense of the Company

The Board has responsibility for ensuring that the Company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable it to ensure that the financial statements comply with the Companies Act 1985 The Board is also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities Finally, it is the Board's responsibility to present a balanced and understandable assessment of the Company's position in all public communications

The Company has maintained appropriate Directors' Liability Insurance cover throughout the year

The Board formally reviews its performance on a regular basis, together with that of the Audit and Valuation Committee

**Board/Audit and Valuation Committee/ Directors' ongoing evaluation**

An appraisal system has been agreed by the Board for evaluation on a regular basis of the Board, its committees and the individual Directors, including the Chairman The evaluation for the year ended 31 December 2006 has been carried out This took the form of a detailed questionnaire followed by discussions to identify how the effectiveness of the Board's activities, including its committees, policies or processes might be improved The results of the evaluation process were presented to and discussed by the Board and it was agreed that the current composition of the Board and its committees reflects a suitable mix of skills and experience, and that the Board was functioning effectively The Board is satisfied that collectively the members of the Audit and Valuation Committee have a sufficient level of recent and relevant financial experience

# Corporate governance and Directors' responsibilities continued

**Delegation of responsibilities**
The Board has delegated a number of areas of responsibility, outlined below

Management and administration
The management of the investment portfolio has been delegated to Hg Pooled Management Ltd (HgPM) HgPM has also been appointed as secretary and administrator to the Company certain of its corporate secretarial duties have been delegated to Capita Sinclair Henderson Limited (CSH) who have a team specialising in providing secretarial services to investment trusts Custody and settlement services are undertaken by The Bank of New York Europe Limited (BNYE), a subsidiary of The Bank of New York

The Board has delegated the exercise of voting rights attaching to the securities held in the portfolio to HgCapital HgCapital does not operate a fixed policy when voting but reviews each case separately

All other matters are reserved for the approval of the Board

Board committees
All the Directors of the Company are non-executive and serve on the Nomination Committee, which meets when necessary to select and propose suitable candidates for appointment When looking for a new Director, the Board assesses the skills of the Board as a whole, to identify any areas that need strengthening External search consultants are also used

Separate Audit and Valuation, and Management Engagement, Committees have been established These committees consist of all five Directors, each of whom has no previous connection with the investment management of the Company other than in their capacity as a Director of the Company

The Audit and Valuation Committee, which has written terms of reference detailing its scope and duties and which meets at least four times per year, examines the effectiveness of the control systems All the Directors of the Company, including the Chairman, are members of this committee to enable them to be kept fully informed of any issues that may arise and to participate fully in discussions on portfolio valuation The committee reviews the interim and annual reports and also receives information from the relevant corporate audit and compliance departments The committee reviews the scope, results, cost effectiveness, independence and objectivity of the external auditor Semi-annually, at each balance sheet date, the committee reviews in detail the valuation of the unquoted investments within the portfolio The terms of reference of this committee are available on request and will also be available at each AGM

Non-audit fees of £4,000 were paid to Ernst & Young LLP for reviewing the interim financial statements Ernst & Young LLP provides details of any other relationship with the Manager and confirms to the Board each year that in its opinion it is independent of the Manager Based on the review of the non-audit services provided by the auditor, the Board has concluded that Ernst & Young LLP is independent of the Manager

The external auditor is invited to attend the Audit and Valuation Committee meeting at which the annual accounts are considered and has the opportunity to meet with the committee without representatives of the Manager being present

The Management Engagement Committee, which also has written terms of reference detailing its scope and duties, (copies of which are available on request and will also be available at each AGM), regularly reviews the terms of the investment management and administration contracts

The Directors' Remuneration Committee, which is made up of all the Directors, meets when necessary to consider any change to the Directors' remuneration The remuneration of the Chairman and Directors is reviewed against the fees paid to directors of other specialist investment trusts and investment trusts of a comparable size, as well as taking account of any data published by the AIC

**Membership of the Board Committees**
Mr Mountford is Chairman of the Directors' Remuneration Committee, the Management Engagement Committee and the Nomination Committee Mr Amies is the Chairman of the Audit & Valuation Committee

The composition of the Board's standing committees was considered at the year end and it was felt appropriate that every non-executive Director should be a member of all committees

**Attendance record**
The following table summarises the Directors' attendance at meetings of the Board and Audit and Valuation Committee, compared with the number they were eligible to attend

| Director | Number of meetings attended/eligible to attend<br>Board | A&VC |
|---|---|---|
| Peter Gale | 4/7 | 3/4 |
| Tim Amies | 7/7 | 3/4 |
| Piers Brooke | 7/7 | 3/4 |
| Roger Mountford | 7/7 | 4/4 |
| Andrew Munson | 7/7 | 4/4 |

Each of the other Committees met on at least one occasion during the year

# Corporate governance and Directors' responsibilities continued

## Internal controls

The Board is responsible for the internal controls of the Company and for reviewing their effectiveness, for ensuring that financial information published or used within the business is reliable, and for regularly monitoring compliance with regulations governing the operation of investment trusts The Board continually reviews the effectiveness of the internal control system The processes indicated below have been put in place to ensure that the Company fully complied with the Combined Code for the year ended 31 December 2006 and up to the date of this report, and will continue to do so for the year ending 31 December 2007

As part of the Board's responsibility for the internal control system, an ongoing process has been established in conjunction with HgCapital and CSH for identifying, evaluating and managing the Company's significant risks Controls of the risks identified, covering financial, operational, compliance and risk management, are embedded in the operations of HgCapital, CSH, BNYE and other outsourced service providers There is a monitoring and reporting process to review controls put in place to track risks identified, carried out by the compliance function within HgCapital and the auditors of the other two organisations This accords with the guidance in the Turnbull Report HgCapital and CSH report to the Company on their review of internal controls (which for HgCapital includes checks on the custodian) formally on an annual and a semi-annual basis and orally at each Board and Audit and Valuation Committee meeting

The Company does not have its own internal audit function, as all the administration is delegated to the Manager This matter is kept under annual review

HgCapital prepares cash flow forecasts and management accounts, which allow the Board to assess the Company's activities and to review its performance

The Board and HgCapital have agreed clearly-defined investment criteria, specified levels of authority and exposure limits Reports on these issues, including performance statistics and investment valuations, are submitted to the Board at each meeting HgCapital's evaluation procedure and financial analysis of the companies within the portfolio include detailed research and appraisal, and also take into account environmental policies and other business issues The Board recognises that these control systems can only be designed to manage rather than eliminate the risk of failure to achieve business objectives and to provide reasonable, but not absolute, assurance against material misstatement or loss It relies on the operating controls established by HgCapital, CSH and BNYE

## Financial statements

The Board is required to ensure that the financial statements give a true and fair view of the affairs of the Company as at the end of each financial year and of the profit of the Company for that period

The Board considers that in preparing the financial statements on pages 28 to 39 the Company has used appropriate accounting policies, consistently applied (except where disclosed) and supported by reasonable and prudent judgements and estimates and that all accounting standards that it considers to be applicable have been followed

## Relations with shareholders

All shareholders have the opportunity to attend and vote at the AGM The notice of the AGM which is sent out at least twenty working days in advance sets out the business of the meeting and any item not of an entirely routine nature is explained in the Directors' report on page 46 Separate resolutions are proposed for substantive issues

Both the Chairman of the Board and the Chairman of the Audit and Valuation Committee, together with representatives of HgCapital, are available to answer shareholders' questions at the AGM Proxy voting figures are announced to shareholders at the AGM

HgCapital holds regular discussions with major shareholders, the feedback from which is greatly valued by the Board In addition, the Chairman and Directors are available to enter into dialogue and correspondence with shareholders regarding the progress and performance of the Company The section of this report entitled "Shareholder Information", on pages 54 and 55, provides information useful to shareholders

# Report of the independent auditor to the members of HgCapital Trust plc

We have audited the financial statements of HgCapital Trust plc for the year ended 31 December 2006 which comprise the Income statement, the Balance sheet, the Cash flow statement, the Reconciliation of movements in shareholders' funds and the related notes 1 to 18 These financial statements have been prepared under the accounting policies set out therein We have also audited the information in the Directors' remuneration report that is described as having been audited

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

**Respective responsibilities of Directors and auditors**
The Directors' responsibilities for preparing the annual report, the Directors' remuneration report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' responsibilities

Our responsibility is to audit the financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We review whether the Corporate governance statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements The other information comprises only Investment objective, Financial highlights, Chairman's statement, Ten year track record, Investing in private equity, Investment manager's strategy, Investment manager's review, Investments, Realisations, Review of principal investments, Renewable energy, Investment portfolio, Top ten investment listing, Analysis of registered shareholders, Directors' report and business review, the unaudited part of the Directors' remuneration report, Corporate governance and Directors' responsibilities, Shareholder information, Glossary, Notice of Annual General Meeting and Management and administration We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any other information

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

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

**Opinion**

In our opinion

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

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
London
12 March 2007

# Shareholder information

**Financial calendar**

The announcement and publication of the Company's results may normally be expected in the months shown below

March

- Preliminary results and final dividend for year announced
- Annual report and financial statements published

April/May

- Annual General Meeting
- Final dividend paid

September

- Interim figures announced and interim report published

**Dividend – 2006**

The proposed final dividend in respect of the year ended 31 December 2006 is 14 0p per share

| | |
|---|---|
| Ex-dividend date (shares transferred without dividend) | 21 March 2007 |
| Record date (last date for registering transfers to receive the dividend) | 23 March 2007 |
| Last date for registering DRIP instructions (see below) | 10 April 2007 |
| Dividend payment date | 1 May 2007 |

**Payment of dividends**

Cash dividends will be sent by cheque to the first-named shareholder at their registered address, together with a tax voucher, to arrive on the payment date Alternatively, dividends may be paid direct into a shareholder's bank account via BACS (Bankers' Automated Clearing Service) This may be arranged by contacting the Company's registrar, Computershare Investor Services PLC (Computershare), on 0870 707 1037

**Dividend reinvestment scheme (DRIP)**

Shareholders may request that their dividends be used to purchase further shares in the Company Dividend reinvestment forms may be obtained from Computershare on 0870 707 1037 or may be downloaded from www-uk computershare com/investor Shareholders who have already opted for dividend reinvestment do not need to re-apply The last date for registering for this service for the forthcoming dividend is 10 April 2007

**Share price**

The Company's mid-market ordinary share price is published daily in the Financial Times, Daily Telegraph and Evening Standard under the section "Investment Companies"

**ISIN/SEDOL numbers**

The ISIN/SEDOL numbers and mnemonic code for the Company's Ordinary shares are

| | |
|---|---|
| ISIN | GB0003921052 |
| SEDOL | 0392105 |
| Reuters code | HGT L |

**Share dealing**

Investors wishing to purchase or sell shares in the Company may do so through a stockbroker or most banks

The following share dealing services are available through our Registrars, Computershare Investor Services plc

**Internet share dealing**

Please note that, at present, this service is only available to shareholders in certain European jurisdictions, including the UK Please refer to the website for an up to date list of these countries This service provides shareholders with an easy way to buy or sell the Company's ordinary shares on the London Stock Exchange The commission is just 0 5%, subject to a minimum charge of £15 In addition stamp duty, currently 0 5%, is payable on purchases There is no need to open an account in order to deal Real time dealing is available during market hours In addition there is a convenient facility to place your order outside of market hours Up to 90 day limit orders are available for sales To access the service log on to www computershare com/dealing/uk

Shareholders should have their Shareholder Reference Number (SRN) available The SRN appears on share certificates A bank debit card will be required for purchases

**Telephone share dealing**

Please note this service is, at present, only available to shareholders resident in the UK and Ireland The commission is 1%, subject to a minimum charge of £15 In addition stamp duty, currently 0 5%, is payable on purchases The service is available from 8am to 4 30pm Monday to Friday, excluding bank holidays, on telephone number 0870 703 0084 Shareholders should have their Shareholder Reference Number (SRN) ready when making the call The SRN appears on share certificates A bank debit card will be required for purchases Detailed terms and conditions are available on request by telephoning 0870 703 0084

These services are offered on an execution only basis and subject to the applicable terms and conditions This is not a recommendation to buy, sell or hold shares in HgCapital Trust plc Shareholders who are unsure of what action to take should obtain independent financial advice Share values may go down as well as up which may result in a shareholder receiving less than he/she originally invested

To the extent that this statement is a financial promotion for the share dealing service provided by Computershare Investor Services plc, it has been approved by Computershare Investor Services plc for the purpose of Section 21 (2) (b) of the Financial Services and Markets Act 2000 only Computershare Investor Services plc is authorised and regulated by the Financial Services Authority Where this has been received in a country where the provision of such a service would be contrary to local laws or regulations, this should be treated as for information only

**Uncertificated Securities Regulations 1995 – CREST**

The Company's ordinary shares have joined CREST, an electronic system for uncertificated securities trading

Private investors can continue to retain their share certificates and remain outside the CREST system Private investors are able to buy and sell their holdings in the same way as they did prior to the introduction of CREST, although there may be differences in dealing charges

**Income tax**
Currently, all UK dividends are paid to stockholders net of a tax credit of 10% Changes to the tax regime mean that from April 1999 non-tax payers are no longer able to reclaim the tax credit

Non-PEP and ISA stockholders liable to higher rates of tax will be assessed for any additional tax through their annual tax return

**Capital gains tax (CGT)**
Investment trusts currently pay no CGT on gains made within the portfolio When investors sell all or part of their holdings, they may be liable to CGT For the tax year 2006/7, the first £8,800 per annum of such gains from all sources is exempt

Up to 5 April 1998 the cost of investments for CGT purposes was adjusted to allow for inflation However, from 6 April 1998 this indexation was replaced by a taper relief and from this date chargeable gains will be reduced in line with the length of time the investment has been held

PEP and ISA investments will continue to remain exempt from CGT

Please remember that we are unable to offer individual investment or taxation advice Investors who are in any doubt as to their liability for CGT should seek professional advice

**Risk factors**

- Investments in unquoted companies, which form the majority of the Company's investments, may not be as readily realisable as investments in quoted companies
- As the Company invests in Europe and in companies that trade internationally, the value of its shares may be affected by changes in rates of exchange
- The Company invests in a portfolio of smaller-cap companies, with enterprise values between £50 million and £350 million, the performance of which can fluctuate
- The price at which the Company's shares trade on the London Stock Exchange is not the same as their net asset value (although they are related) and therefore you may realise returns which are lower or higher than NAV performance
- Past performance is not necessarily a guide to future performance and an investor may not get back the amount originally invested
- The value of investments in the Company and the income from it can fluctuate as the value of the underlying investments fluctuates
- The Company invests in unquoted companies and although great care is taken in their valuation such valuations cannot, by their nature, be exact and are liable to change

**Duration of the Company**
At an Extraordinary General Meeting held in April 2003, shareholders agreed to extend the life of the Company to 2011 The Articles of Association, as amended, now provide for an ordinary resolution to be put to shareholders at the Annual General Meeting in the year 2011 to continue the life of the Company for a further five years and a similar resolution will be put to the shareholders in 2016 and every fifth year thereafter If the resolution to continue the life of the Company is not approved in 2011, an Extraordinary General Meeting will be convened within six months after the date of the AGM to wind up the Company voluntarily

**Nominee code**
Where shares are held in a nominee company name, the Company undertakes

- To provide the nominee company with multiple copies of shareholder communications, so long as an indication of quantities has been provided in advance
- To allow investors holding shares through a nominee company to attend general meetings, provided the correct authority from the nominee company is available

Nominee companies are encouraged to provide the necessary authority to underlying shareholders to attend the Company's general meetings

**Shareholder enquiries**
In the event of queries regarding your shares, please contact the Computershare Investor Centre Computershare now offers a free secure share management website that allows you to

- View your share portfolio and see the latest market price of your shares
- Elect to receive your shareholder communications online
- Calculate the total market price of each shareholding
- View price histories and trading graphs
- Update bank mandates and change address details
- Use online dealing services

Log on to www-uk computershare com/investor and enter your Shareholder Reference Number and Company Code (this information can be found on the last dividend voucher or your share certificate)

Changes of name or address must be notified in writing to

Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH

General enquiries about the Company should be directed to
The Secretary
Hg Pooled Management Ltd
2 More London Riverside
London SE1 2AP
Telephone 020 7089 7888

# Glossary

## Investment trusts

Net asset value per share (NAV)
This is the value of the Company's assets attributable to one ordinary share It is calculated by dividing "shareholders' funds" by the total number of shares in issue For example, as at 31 December 2006, shareholders' funds were £187,135,000 and there were 25,186,755 ordinary shares in issue, the NAV was therefore 743 0p per share

Shareholders' funds are calculated by deducting current and long-term liabilities, and any provision for liabilities and charges, from the Company's total assets

Discount
Investment trust shares frequently trade at a discount to NAV This occurs when the share price is less than the NAV In this circumstance, the price that an investor pays or receives for a share would be less than the value attributable to it by reference to the underlying assets The discount is the difference between the share price and the NAV, expressed as a percentage of the NAV For example, if the NAV were 600p and the share price were 570p, the discount would be 5%

Premium
A premium occurs when the share price is higher than the NAV and investors would therefore be paying more than the value attributable to the shares by reference to the underlying assets For example, if the share price were 660p and the NAV were 600p, the premium would be 10 0%

Discounts and premiums are mainly the consequence of supply and demand for the shares on the stock market

Total return
The total return to shareholders comprises both changes in the Company's NAV or share price and dividends paid to shareholders, it is calculated on the basis that dividends are reinvested in the Company's shares on the date the dividend is paid

## Private equity

Carried interest
Equivalent to a performance fee, this represents a share of the capital profits that will accrue to the Manager, after achievement of an agreed hurdle rate

Enterprise value (EV)
This is the aggregate value of a company's entire issued share capital and net debt

Expansion capital
The provision of capital to an existing, established business, to finance organic growth or acquisitions - sometimes also known as venture capital

IPO (initial public offering)
An offering by a company of its share capital to the public with a view to seeking an admission of its shares to a recognised stock exchange

IRR (internal rate of return)
The annual internal rate of return received by an investor in a fund It is calculated from cash drawn from and returned to the investor together with the residual value of the fund unit

LBO (leveraged buy-out)
The purchase of all or most of a company's share capital, usually by its managers, funded mainly by borrowings often secured on the company's assets, resulting in a post-financing capital structure of the company that is heavily geared

LP (limited partnership)
An organisation made up of a managing general partner and limited partners, who invest money but have limited liability, are not involved in day-to-day management, and usually cannot lose more than their capital contribution Usually limited partners receive income, capital gains and tax benefits, the general partner usually receives a fee and the founder partner a percentage of capital gains and income

MBI (management buy-in)
A change of ownership, where an incoming management team raises financial backing, normally a mix of equity and debt, to acquire a business

MBO (management buy-out)
A change of ownership, where the incumbent management team raises financial backing, normally a mix of equity and debt, to acquire a business it manages

P2P (public to private)
The purchase of all of a listed company's shares using a special-purpose vehicle funded with a mixture of debt and unquoted equity

Preferred return
A preferential rate of return on an individual investment or a portfolio of investments

Quoted company
Any company whose shares are listed or traded on a recognised stock exchange

Unquoted company
Any company whose shares are not listed or traded on a recognised stock exchange

Venture capital
Investing in companies at a point in that company's life cycle that is either at the concept, start-up or early stage of development

# Notice of annual general meeting

Notice is hereby given that the Annual General Meeting of HgCapital Trust plc will be held at the Company's offices at 2 More London Riverside, London SE1 2AP, on Wednesday 25 April 2007 at 12 noon to transact the following business

**Ordinary business**

1 To receive the report of the Directors and the financial statements for the year ended 31 December 2006, together with the report of the independent auditor thereon

2 To approve the Directors' remuneration report

3 To declare a dividend of 14 0p per share

4 To re-elect Mr P Gale as a Director

5 To re-elect Mr R Mountford as a Director

6 To re-appoint Ernst & Young LLP as independent auditor to the Company

7 To authorise the Directors to determine the independent auditor's remuneration

**Special business**

To consider and, if thought fit, pass the following resolutions numbered 8 and 10 as special resolutions and resolution 9 as an ordinary resolution

8 THAT in substitution for the Company's existing authority to make market purchases of ordinary shares of 25p in the Company (ordinary shares), the Company be and it is hereby authorised in accordance with section 166 of the Companies Act 1985 (the Act) to make market purchases of ordinary shares (within the meaning of section 163 of the Act) provided that

(i) the maximum number of ordinary shares hereby authorised to be purchased is 3,775,000,

(ii) the minimum price which may be paid for an ordinary share shall be 25p,

(iii) the maximum price (exclusive of expenses) which may be paid for an ordinary share shall be the lower of 5% above the average of the market values of the ordinary shares for the five business days immediately preceding the date of the purchase and the net asset value per ordinary share on the date of purchase, and

(iv) unless renewed, the authority hereby conferred shall expire on 24 October 2008 save that the Company may, prior to such expiry, enter into a contract to purchase ordinary shares which will or may be completed or executed wholly or partly after such expiry

9 THAT

(i) the Directors be and they are hereby generally and unconditionally authorised, in accordance with section 80 of the Companies Act 1985 (the Act), to exercise all the powers of the Company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £314,800 provided that this authority shall expire on the date of the next Annual General Meeting of the Company after the passing of this resolution, but so that this authority shall allow the Company, acting by its Directors, to make offers or agreements before the expiry of this authority which would or might require relevant securities to be allotted after such expiry,

(ii) all authorities previously conferred under section 80 of the Act be and they are hereby revoked, provided that such revocation shall not have retrospective effect, and

(iii) words and expressions defined in or for the purposes of Part IV of the Act shall bear the same meanings in this resolution

10 THAT, subject to and conditional upon the passing as an ordinary resolution of the resolution numbered 9 set out in the notice of this meeting, the Directors be and they are hereby empowered, pursuant to section 95 of the Companies Act 1985 (the Act), to allot equity securities (as defined in section 94 of the Act) of the Company for cash pursuant to the authority conferred by the previous resolution as if section 89 (1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities

(i) which are, or are to be, wholly paid up in cash up to an aggregate nominal value of £314,800 at a price of not less than the net asset value per ordinary share as at the most recent practicable date, as determined by the Directors,

(ii) (otherwise than pursuant to sub-paragraph (i) above) in connection with issues by way of rights in favour of all holders of ordinary shares where the equity securities respectively attributable to the interests of all such holders are either proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them or are otherwise allotted in accordance with the rights conferred on such equity securities (but subject in either case to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to fractional entitlements or legal practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange in any territory or otherwise howsoever), and shall expire on the earlier of the date which is 15 months after the date on which this resolution is passed and the date of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry,

(iii) all powers previously conferred under section 95 of the Act be and they are hereby revoked, provided that such revocation shall not have retrospective effect, and

(iv) words and expressions defined in or for the purposes of Part IV of the Act shall bear the same meanings in this resolution

By order of the Board
Hg Pooled Management Ltd
Secretary
12 March 2007

**Notes**

1 A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and vote in his stead A proxy need not be a member of the Company

2 Proxy forms must reach the office of the Company's registrars in Bristol by 12 noon on 23 April 2007 A form of proxy is provided to shareholders with the annual report Completion and return of the form of proxy will not prevent a member from attending the meeting and voting in person

3 To be entitled to attend and vote at the meeting (and for the purpose of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members at close of business on 23 April 2007 (the specified time) If the meeting is adjourned to a time not more than 48 hours after the time applicable to the original meeting, the specified time will also apply for the purpose of determining the entitlement of members to attend and vote (and for determining the numbers of votes they may cast) at the adjourned meeting If, however, the meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members at the time which is 48 hours before the time fixed for the adjourned meeting or, if the Company gives notice of the adjourned meeting, at any time specified in that notice

4 No service contracts exist between the Company and any of the Directors, who hold office in accordance with letters of appointment and the Articles of Association

# [Management and administration]

**HgCapital Trust plc**
2 More London Riverside
London
SE1 2AP
www hgcapitaltrust com

**Registered office**
(Registered in England No 1525583)
2 More London Riverside
London
SE1 2AP

**Investment manager**
HgCapital*†
2 More London Riverside
London
SE1 2AP
Telephone 020 7089 7888
www hgcapital com

**Secretary and administrator**
HgCapital
2 More London Riverside
London
SE1 2AP
Telephone 020 7089 7888

**Stockbroker**
Winterflood Securities*
The Atrium Building
Cannon Bridge
25 Dowgate Hill
London EC4R 2EA
Telephone 020 7621 0004
www winsresearch co uk

**Custodian**
The Bank of New York Europe Limited*
One Canada Square
London E14 5AL

**Registrar**
Computershare Investor Services plc*
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH
Telephone 0870 707 1037
www-uk computershare com/Investor

**Independent auditor**
Ernst & Young LLP
1 More London Place
London SE1 2AF

**iPEIT**
Initiative for Private Equity Investment Trusts
www ipeit com

HgCapital Trust is a founder member of the Initiative for Private Equity Investment Trusts (iPEIT) This group of UK-listed PEITs was formed to raise awareness and increase understanding of what PEITs are and how PEITs enable all investors – not just institutions – to invest in private equity iPEIT provides information on PEITs and private equity in general, undertakes and publishes research on the PEIT sector and works to improve levels of knowledge about PEITs among investors and their advisors

*Authorised and regulated by
the Financial Services Authority

†HgCapital is the trading name of
Hg Pooled Management Limited