5535356

Arc Fund Management Holdings plc

Report and Accounts for the year ended 31 December 2006

Directors	Mr C J Rowe (Chairman) Mr H Bellingham Mr J C Gracey Mr R R Haddow Sir W H W Wells
Company Secretary	Mr J C Gracey
Registered Office	22 Lovat Lane London EC3R 8EB
Auditor	Rees Pollock Chartered Accountants 35 New Bridge Street London EC4V 6BW
Bankers	HSBC 27-32 Poultry London EC2P 2BX
Solicitors	Fladgate Fielder 25 North Row London W1K 6DJ
Registrars	Lloyds TSB Princess House 1 Suffolk Lane London EC4R OAX
Nominated Adviser	Beaumont Cornish Limited 5th Floor 10-12 Copthall Avenue London EC2R 7DE
Broker	Fiske plc Salisbury House London Wall London EC2M 5QS
Registered Number	5535356

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CHAIRMAN'S STATEMENT

It is a pleasure to present my first Chairman's statement to you on your Company's activities for the twelve months to 31 December 2006 showing another year of good growth

Overview

Arc is an established boutique fund management and corporate finance house providing a range of products and services to investors including tax efficient funds, structured products, stock broking and property funds

Since admission to trading on AIM on 11 July 2006 Arc's management team has concentrated its efforts on developing its core business and strengthening its management team and board of directors as well as diversifying its revenue base

The business model has been significantly strengthened with the development of Arc Equities, the group's stock-broking arm Arc Equities managed four successful Offers for Sale during 2006 Three of the four pre-IPO companies subject to these Offers have subsequently been admitted to AIM Arc Equities is currently in the middle of its third Offer in 2007 with a number of others in the pipeline

The Directors' stated objective of growing by acquisition came to fruition on 22 December 2006 when Arc entered into a conditional agreement to purchase the entire share capital of Nvesta plc, subsequently renamed Arc Capital & Income plc This acquisition did not complete until the end of February 2007 and as a consequence the results of Arc Capital & Income plc are not reflected in these accounts

Funds under management have been boosted by the launch of two new Arc EIS Growth Funds, and after the year end by the acquisition of Arc Capital & Income and the launch of Arc's first structured product in March 2007 They currently stand at £137 million

The Directors firmly believe that the ability to use the Company's shares as an acquisition currency will continue to enable the Company to make suitable acquisitions mainly in the fund management sector and that the enlargement of the group in this way is important to the future development of the group and will generate both cost efficiencies and more reliable and higher quality earnings

The group's accounts show a significant number of transactions undertaken with parties related to one of its founding directors The majority of these transactions arise from actions taken prior to the Company's listing on AIM As a result a number of complex cross shareholdings and other relationships created need to be unwound The Directors are of the view that this process is nearing completion and expect that the level of these transactions will diminish in the future The Directors are of the opinion that all conflicts of interest have been satisfactorily disclosed and dealt with and the interests of shareholders have been protected

Activities in the period

The financial year was one of transition for Arc The group earned £511,683 before tax (2005 £403,792) an increase of 26 7% Group turnover increased from £1 35 million to £2 69 million, an increase of 99% The increase is largely attributable to the success of Arc Equities which earned commissions in excess of £1 million (2005 nil) from its sales of pre-IPO shares The Group has also seen a significant increase in its cost base as it has recruited additional staff and strengthened its operational infrastructure in anticipation of rapid but controlled growth

The Board's intention to increase the fund management business has also been successful and has seen fund management income, as opposed to corporate finance related income, increase from £286,020 to £517,226

Two new Enterprise Investment Scheme funds were launched in the year, raising just under £4 million These were successfully invested within the strict timetable laid down by HMRC

The Arc Growth Company VCT plc boosted funds under management as a result of a second share offer followed by a top up offer While the VCT is not yet fully invested the Directors are encouraged by the performance of the investments made during the year

The Arc European Property Fund had made two investments by the end of December, one in Poland and one in Catalonia, Northern Spain Both have progressed well and the Spanish project is expected to complete well ahead of schedule On 28 December 2006, Arc Fund Management Limited entered into an agreement with ARA Investment Management Limited ("ARA"), a company backed by Liechtenstein based The Jeeves Group, whereby ARA would assist the management of the fund in sourcing and developing investment opportunities in Europe for the Fund The directors of the fund are pleased with this new development and are confident that this new and important relationship will assist in finding and exploiting good quality investment opportunities for the Fund as well as raising new investment funds

The group has now incorporated the business of Arc Corporate Services Limited This company provides company secretarial services to smaller companies who are typically clients of the group

On 17 November 2006 the group was delighted to appoint Fiske plc as its broker and look forward to their on-going support

Activities post period

On 22 December 2006 Arc entered into a conditional agreement to purchase the entire share capital of Nvesta plc, the UK structured product provider, which was subsequently renamed Arc Capital & Income plc On 22 February 2007 Arc announced the completion of this purchase for a total consideration of £410,000 payable in cash on completion Arc Capital & Income plc had estimated funds under management of £120 million on that date To assist in providing working capital for this acquisition, on 21 February 2007 the company placed 750,000 new ordinary shares of 0 5p at a price of 20p per share with an investor

On 20 April 2007 Fiske plc, the company's broker completed the placement of 18,000,000 new ordinary shares of 0 5p at a price of 12p per ordinary share raising £2,160,000 before expenses for working capital and to fund future acquisitions

<u>Arc Fund Management</u>

The Arc EIS 6 Growth Fund closed on 5 April 2007 having raised just under £2 million This is currently being invested by the group on behalf of clients

Arc's European Property Fund is now invested in a number of exciting investment projects which should result in healthy returns accruing to the Fund in the near future Its share price stands at a small premium to the issue price The group's focus is now on raising additional funds to take advantage of a number of interesting potential investments which it has in its pipeline

The group is working on a new off-shore unit trust which can invest in global property and will enable the group to benefit from its relationship with the Jeeves Group who will help in sourcing funding and investment projects

<u>Arc Equities</u>

After a successful 2006, Arc Equities has to date in 2007 completed two Offers for Sale, being Europol International plc and Smart Implant plc, and has a further Offer open at the date of these accounts, an interesting early stage technology and internet company, Global e-Network Holdings plc

Arc Capital & Income

After the successful completion of the purchase of Arc Capital & Income, the group's first structured product, the Bull & Bear Tracker Plan, was launched in March 2007, raising in excess of £1 6 million The company's operation was successfully merged with the existing Arc team and all are now accommodated under one roof in Lovat Lane

Outlook

The outlook for the EIS market is very positive given the change in rules relating to VCTs which have made the EIS an even more attractive product, offering both income tax relief and capital gains tax relief This bodes well for Arc as a market leader in EIS funds

The prospects appear good for the group's property fund based on anticipated returns from the projects in which the fund has already invested The opening of the new global fund will offer the opportunity to invest in new markets and additional possibilities of co-investing with the existing fund in European property markets

Arc Equities has three further projects in the pipeline which we plan to market before the end of the year Three of the companies which have been the subject of Offers for Sale are expected to be admitted to trading on AIM or an equivalent market during the year

Arc Capital & Income is about to launch Bull & Bear Tracker 2 and its first income product, the Arc Fixed Income Plan which will offer a return of 8 25% per annum (or 0 67% per month) with a considerable degree of capital protection and is backed by a major AA rated institution A full program of innovative new products is planned for the remainder of the financial year and into the future

As I stated in our AIM admission document, we are seeking to grow our business by acquisition Our next target is to build or acquire a wealth management division and we are actively seeking suitable businesses that would fit in with the Arc model There is a considerable amount of Merger & Acquisition activity in global markets at present and your Directors are aware of the difficulty involved in identifying such companies at a reasonable value However it is their priority to improve the quality of the group's earnings and move away from the more cyclical corporate finance earnings We have been made aware of a number of opportunities that would fit with our business strategy and we have adequate cash resources at this point in time to bring our plans to fruition should the right opportunity arise We will ensure investors are kept informed of our progress in this area

The realisation of the group's plans will have a substantial impact on the profitability of your company

I look forward to the next few months with some confidence in the knowledge that this period will be vital in setting the foundations for the development of a strong and profitable business I wish to thank our investors for their loyal support and our staff for their hard work in dealing with a year of significant change and transition

Christopher J Rowe
Chairman & CEO
22 June 2007

ACS provides company secretarial services to smaller companies who are typically clients of AFML or AEL

Results and Dividends
The trading results for the year and the Group's financial position at the end of the year are shown in the attached accounts The Group recorded a profit before taxation of £511,683 (2005 £403,792) The directors have not recommended a dividend

Financial Risk Management Objectives and Policies
The Group's objectives, policies and strategies for the management and control of financial risks to which the Group is exposed in its activities are set out below

a) *Treasury policies* - the treasury position of the Group is reviewed on a weekly basis by the executive directors Procedures are in place to monitor cash flow requirements and manage surplus funds Policies are set by the Board and any changes subject to their approval On a day to day basis policies are implemented by the Finance department, and

b) *Financial risk* -the exposure of the Group to price risk, credit risk, liquidity risk and cash flow risk is monitored by the Finance department and the Finance Director on a daily basis and is reviewed by the Board of Directors of the Group on a weekly basis In general the Group's income is either derived from funds which it manages and from which income flows are predictable or from corporate finance transactions which while not predictable from the point of view of when they may arise provide some certainty as to their realisation since the Group does not enter into these transactions without performing significant due diligence

Policy on Payment of Creditors
It is the company's policy to settle the terms of payment with suppliers on the commencement of a business relationship This ensures that suppliers are made aware of them Bills are paid in accordance with these terms Trade creditors represented 84 days purchases at 31 December 2006 (2005 41 days)

Directors' Responsibilities
The directors are responsible for preparing the accounts in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period In preparing those accounts, the directors are required to

- select suitable accounting policies, as described on pages 9 to 10, and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts, and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the accounts comply with the Companies Act 1985 The directors are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

DIRECTORS' REPORT

The directors present their report and the accounts of Arc Fund Management Holdings plc ("the Company") and its subsidiaries, together comprising the group (the "Group")

The Company was incorporated on 12 August 2005 and on 21 October 2005 acquired the entire share capital of Arc Fund Management Limited ("AFML") in a share for share exchange This is the first set of accounts for the Company and they include the results of AFML for the two years ended 31 December 2006

Directors
The following directors have held office during the period since incorporation
Mr Christopher Rowe - Chairman (appointed 12 August 2005)
Mr Henry Bellingham (appointed 4 July 2006)
Mr John Gracey (appointed 20 December 2005)
Mr Renwick Haddow (appointed 12 August 2005)
Sir William Wells (appointed 4 July 2006)

Principal Activities and Business Review
The principal activities of the Group's operating companies were fund management, corporate finance, company secretarial services and selling shares in early stage companies prior to their admission to a market such as the Alternative Investment Market of the London Stock Exchange plc ("AIM") These activities were conducted through the Company's wholly owned subsidiaries AFML, Arc Corporate Services Limited ("ACS"), and Arc Equities Limited ("AEL")

The Company was admitted to trading on AIM on 11 July 2006 This has increased the capital resources available to the Company and has raised the profile of the Arc Fund Management name within the investment community Management's focus moving forward is to increase funds under management and increase the proportion of the Group's income arising from recurring management fees, these being key performance indicators for the Group in the opinion of the Company's directors

The Group has achieved a significant increase in turnover and has raised additional working capital as a result of its listing However, the growth of the business has seen a significant increase in costs as the Group has strengthened its operational infrastructure in anticipation of rapid but controlled growth The Group is actively looking to grow both organically and by acquisition The successful acquisition and integration of a business to enhance the Group's growth is a key performance indicator in the opinion of the Company's directors

AFML is a company regulated by the Financial Services Authority (FSA) and was engaged in the management of a series of EIS Growth Funds, a Venture Capital Trust and the Arc European Property Fund (an FSA approved open ended investment company) AFML's speciality is investment in smaller early stage companies to whom it also offers corporate finance services AFML relies on its corporate finance fee income to cover its operating costs and this income can be irregular and difficult to forecast The majority of its funds under management take advantage of the tax relief available for investment in VCT and EIS qualifying funds The legislation in this area is liable to change

AEL was engaged in selling shares in early stage companies prior to their admission to a market such as AIM AEL conducted four Offers for Sale of shares during the year Three of the companies whose shares were sold by AEL were subsequently admitted to trading on AIM The opportunity to find suitable companies with high growth potential whose shares can be sold prior to obtaining a quotation on a suitable investment market is limited As a result of its investment management and corporate finance business Arc has a strong network for sourcing such deals A decline in stock market confidence will have a negative impact on the prospects of AEL's business

In so far as the directors are aware

- there is no relevant audit information of which the Group's auditors are unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information

Donations
During the period the Company made charitable contributions of £1,250

Auditor
A resolution to reappoint Rees Pollock as auditor for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985

BY ORDER OF THE BOARD

J. C. Gracey

John Gracey
Director
22 June 2007

REESPOLLOCK
Chartered Accountants

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ARC FUND MANAGEMENT HOLDINGS PLC

We have audited the group and parent company accounts of Arc Fund Management Holdings Plc ("the Report and Accounts") for the period ended 31 December 2006 on pages 11 to 27 which have been prepared on the basis of the accounting policies set out on pages 14 to 15

This report is made solely to the company's shareholders, 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 shareholders those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditor
As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the Report and Accounts in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Our responsibility is to audit the Report and Accounts 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 Report and Accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you if, in our opinion, the Directors' Report is consistent with the Report and Accounts 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 read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements This other information comprises only the Directors' Report and the Chairman's Statement We consider the implications for our report if we become aware of any apparent misstatements within it 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 Report and Accounts It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Report and Accounts, 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 Report and Accounts 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 Report and Accounts

Opinion
In our opinion

the Report and Accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2006 and of the profit of the group for the period then ended,

the Report and Accounts have been properly prepared in accordance with the Companies Act 1985, and

the information given in the Directors' Report and Chairman's Statement is consistent with the Report and Accounts

Rees Pollock

Rees Pollock
Chartered Accountants & Registered Auditors
22 June 2007

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	2006 £	2005 £
GROUP TURNOVER	2	2,686,832	1,350,886
Cost of sales		(499,300)	(103,635)
GROSS PROFIT		2,187,532	1,247,251
Administrative expenses		(1,670,764)	(844,195)
OPERATING PROFIT	3	516,768	403,056
Interest receivable		7,961	945
Interest payable	6	(13,046)	(209)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		511,683	403,792
Tax on profit on ordinary activities	7	(179,282)	(155,370)
PROFIT FOR THE FINANCIAL PERIOD AFTER TAXATION		332,401	248,422
EARNINGS PER SHARE	22		
Basic earnings per share		0 58p	0 47p
Diluted earnings per share		0 57p	0 47p

There are no recognised gains and losses other than those passing through the profit and loss account

The company has taken advantage of section 230 of the Companies Act 1985 not to publish its own Profit and Loss Account

BALANCE SHEET

		Consolidated		Company	
		2006	2005	2006	2005
	Note	£	£	£	£
FIXED ASSETS					
Tangible assets	8	18,494	5,927	-	-
Investments	9	-	-	388,559	263,557
		18,494	5,927	388,559	263,557
CURRENT ASSETS					
Debtors	10	1,143,760	924,439	147,089	-
Current Asset Investments	11	522,752	295,477	-	-
Cash at bank		864,476	5,750	931	-
		2,530,988	1,225,666	148,020	-
CREDITORS: amounts falling due within one year	12	1,220,411	551,332	-	-
NET CURRENT ASSETS		1,310,577	674,334	148,020	-
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,329,071**	**680,261**	**536,579**	**263,557**
CAPITAL AND RESERVES					
Called up equity share capital	13	307,272	263,557	307,272	263,557
Share premium account	14	265,149	-	265,149	-
Profit and loss account	14	756,650	416,704	(35,842)	-
SHAREHOLDERS' FUNDS	15	**1,329,071**	**680,261**	**536,579**	**263,557**

The financial statements were approved by the Board on 22 June 2007 and should be read in conjunction with the accompanying notes

Christopher J Rowe
Director

CONSOLIDATED CASH FLOW STATEMENT

	Note	2006 £	2005 £
NET CASH IN/(OUT)FLOW FROM OPERATING ACTIVITIES	16	790,882	(50,997)
Returns on investments and servicing of finance	17	(5,085)	736
Capital expenditure and financial investment	18	(19,396)	575
Taxation		(216,539)	-
NET CASH IN/(OUT)FLOW BEFORE FINANCING		549,862	(49,686)
Financing	19	308,864	3,890
Increase/(decrease) in cash		**858,726**	**(45,796)**

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

Basis of Accounting
The accounts have been prepared under the historical cost convention, and in accordance with applicable accounting standards

Basis of Consolidation
The consolidated accounts incorporate the accounts of the company and all group undertakings These are adjusted, where appropriate, to conform to group accounting policies The results of companies acquired or disposed of are included in the profit and loss account after or up to the date that control passes respectively

Merger Accounting
Arc Fund Management Holdings Plc was incorporated on 12 August 2005 and on 21 October 2005 acquired the entire issued share capital of Arc Fund Management Limited in a share for share exchange There was no change to the relative rights of the shareholders and therefore that acquisition has been treated as a merger, and the results of the Group are presented as if they had been combined throughout the current and prior period in accordance with FRS 6

The comparative figures for the Company are not statutory accounts within the meaning of the Companies Act 1985 but were reported on by the auditors as part of the admission to AIM and are presented in these accounts for ease of understanding The Company did not trade during the period to 31 December 2005

Turnover
The turnover shown in the profit and loss account is the fair value of consideration receivable in respect of services provided during the year, exclusive of Value Added Tax It includes amounts in relation to shares received in lieu of corporate finance arrangement fees Turnover arising from these shares is split between the value of the services for which the shares are issued and any profit or loss arising from their disposal and is recognised when the services have been performed It also includes initial fees from fund subscriptions to the extent that funds had been received by the fund administrator by the year end and commissions received on the sale of shares which had completed by the year end

Fixed Assets and Depreciation
All fixed assets are initially recorded at cost Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows

Leasehold improvements	-	3 years
Equipment	-	3 years

Operating Lease Agreements
Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight-line basis over the period of the lease

Current Asset Investments
Current asset investments are carried at the lower of cost and net realisable value Where shares are received in lieu of fees, cost represents the value of the services provided by reference to other shares issued contemporaneously

Deferred Taxation

Deferred taxation is provided on all timing differences, without discounting, calculated at the rate at which it is estimated that tax will be payable, except where otherwise required by accounting standards

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction Exchange differences are taken into account in arriving at the operating profit

Fund launch expenses

Expenses incurred by Arc Fund Management Ltd in launching a new fund are carried forward for recovery from the fund up to the limits agreed in the fund issue documents Any irrecoverable expenses are written off over the period of the fund's initial launch so as to match the initial fee income received by the company

Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as financial assets, financial liabilities or equity instruments An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities

Share options

The Company issues equity-settled share based payments to employees and directors of the Group In accordance with FRS 20, equity-settled share based payments are measured at fair value at the date of grant Fair value is measured by use of the Black-Scholes pricing model The fair value determined at the grant date of the equity-settled share based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the number of shares that will eventually vest The corresponding credit is recognised in reserves

2. TURNOVER AND SEGMENTAL ANALYSIS

Turnover represents the amounts derived from the provision of services which fall within the Group's ordinary activities, which the Directors consider comprise a single business segment

Turnover and profit before tax are generated wholly in the United Kingdom and turnover is attributable to the Group's activities as follows

	2006	2005
	£	£
Fund management	517,226	286,020
Company secretarial services	105,228	-
Corporate finance		
- Arrangement fees	579,426	683,204
- Disposal of shares received	397,241	381,662
Commission on sale of shares	1,087,711	-
	2,686,832	1,350,886

Turnover includes in 'Commission on sale of shares' amounts paid to a director for qualifying services and in 'Corporate finance – disposal of shares received' amounts paid by way of shares received by a company controlled by the director

3. OPERATING PROFIT

		2006	2005
Operating profit is stated after charging		£	£
Depreciation of owned fixed assets		6,829	7,097
Loss on disposal of fixed assets		242	590
Auditors' remuneration	– as auditor	21,500	13,500
	– for other services relating to tax	4,000	-
	– for other services	17,000	-
Operating lease rentals – land and buildings		50,747	21,000

In addition to the auditors' remuneration above is an amount of £47,000 (including VAT) paid to the auditors in relation to the group's flotation on AIM which has been charged to the share premium account and is included in the costs referred to in note 14

4. PARTICULARS OF EMPLOYEES

Number of employees
The average number of people (including directors) employed by the Group during the financial year amounted to

	2006	2005
Administrative	7	1
Managerial	4	2
	11	3

The aggregate payroll costs of the above were	2006	2005
Employment costs	£	£
Wages and salaries	741,634	143,417
Social security costs	42,238	18,904
Pensions	1,335	-
	785,207	162,321

5. DIRECTORS' EMOLUMENTS

Directors' remuneration for the year amounted to £529,197 (2005 £117,508) and related to salaries (excluding employers' national insurance), amounts paid to a company controlled by a director and shares received by a company controlled by a director

There are no directors for whom retirement benefits are accruing under money purchase pension schemes (2005 nil)

Emoluments disclosed above include the following amounts paid to the highest paid director emoluments for qualifying services £116,400 (2005 nil), amounts paid by way of shares received by a company controlled by the director £251,297 (2005 nil)

6. INTEREST PAYABLE

	2006	2005
	£	£
Interest payable on bank borrowings	622	209
Other interest charges payable	12,424	-
	13,046	209

7. TAXATION ON ORDINARY ACTIVITIES

	2006	2005
	£	£
(a) Analysis of charge for the year		
UK corporation tax based on results for the year at 30%	179,282	125,370
Under provision in prior year	-	30,000
	179,282	155,370

(b) Factors affecting the tax charge for the year

The tax assessed differs from the standard rate of corporation tax in the UK of 30% (2005 30%) The differences are explained below

	2006	2005
	£	£
Profit on ordinary activities before taxation	511,683	403,792
Profit on ordinary activities multiplied by tax @30%	153,505	121,138
Expenses not deductible for tax purposes	19,332	13,990
Capital allowances in excess of depreciation	(1,786)	754
Tax relief on capital gains	-	(2,147)
Provision for unrelieved capital losses	15,115	-
Marginal relief	(6,884)	(8,365)
Under provision in prior year	-	30,000
Total current tax	179,282	155,370

There are no material deferred tax assets or liabilities in relation to either the current or previous year

8. TANGIBLE FIXED ASSETS

Group	Leasehold Property	Equipment	Total
	£	£	£
Cost			
At 31 December 2005	6,520	11,338	17,858
Additions	-	19,396	19,396
At 31 December 2006	6,520	30,734	37,254
Depreciation			
At 31 December 2005	4,348	7,583	11,931
Charge for the period	2,172	4,657	6,829
At 31 December 2006	6,520	12,240	18,760
Net book value			
At 31 December 2006	–	18,494	18,494
At 31 December 2005	2,172	3,755	5,927

9. FIXED ASSET INVESTMENTS

Company	**2006**	**2005**
Subsidiary undertakings	**£**	**£**
Cost at 1 January 2006	263,557	-
Additions	125,002	263,557
Cost at 31 December 2006	388,559	263,557

Details of the investments held by the Company are as follows

Name of Company	Holding	Proportion of Voting rights of shares held	Nature of business
Arc Corporate Services Ltd	Ordinary shares	100%	Company secretarial services
Arc Equities Ltd	Ordinary shares	100%	Broking
Arc Fund Management Ltd	Ordinary shares	100%	Fund management
Arc Private Equity Plc	Ordinary shares	100%	Dormant
Arc Property Nominees Ltd	Ordinary shares	100%	Dormant

10. DEBTORS

		Group		**Company**
	2006	**2005**	**2006**	**2005**
	£	**£**		
Amounts due from related parties	-	519,470	97,089	-
Other debtors	923,407	256,770	50,000	-
Prepayments and accrued income	220,353	148,199	-	-
	1,143,760	924,439	147,089	

11. CURRENT ASSET INVESTMENTS

Group	**2006**	**2005**
	£	**£**
Europol International plc	192,308	60,600
Consolidated Vending plc*	58,156	-
Turnaround Capital plc	28,739	-
Arc Growth Company VCT plc*	94,500	94,500
Ashton Penney Holdings plc*	25,130	-
Bradley Smart Ltd	33,880	119,966
Ubet2 Win plc*	360	360
Towerinput Ltd	25,000	-
Global E Network Holdings plc	43,250	-
Vicorp Group plc	21,429	-
Double Carbon Battery Company plc	-	2,557
Iberian Property Services Ltd	-	17,494
Total	522,752	295,477

* Listed investment

At 31 December 2006 the Group's holding in Iberian Property Services Limited represented 21% of the issued share capital of that company The Group has not equity accounted for this investment on the basis that it has no influence

Listed investments' market values at 31 December 2006

	2006	2005
	£	£
Arc Growth Company VCT Plc	100,000	100,000
Ashton Penney Holdings plc	25,000	-
Ubet2Win Plc	147	591
Consolidated Vending plc – ordinary shares	108,985	-
Consolidated Vending plc – warrants	135,965	-

12. CREDITORS

Amounts falling due within one year

	2006	Group 2005
	£	£
Other creditors	1,250	21
Corporation tax	180,598	217,856
Other tax and social security	31,131	4,677
Accruals and deferred income	1,007,432	328,778
	1,220,411	551,332

13. SHARE CAPITAL

	2006		2005	
Authorised	No.	£	No.	£
Ordinary shares	600,000,000	3,000,000	300,000,000	3,000,000
Allotted, called up and fully paid				
Ordinary shares of £0 005 each	61,454,486	307,272	-	-
Ordinary shares of £0 01 each	-	-	26,355,700	263,557

On incorporation on 12 August 2005 two subscriber shares of 1p were issued nil paid

On 21 October 2005 the company issued and allotted 26,355,698 ordinary shares in consideration for the entire share capital of Arc Fund Management Limited

On 26 June 2006 the company's authorised share capital of 300,000,000 ordinary shares of 1p per share was split into 600,000,000 shares of 0 5p and each of the existing shares of 1p each was subdivided into two ordinary shares of 0 5p each thereby creating 52,711,400 issued ordinary shares

On 4 July 2006 the company issued 8,281,548 shares at 5 85 pence per share by way of a subscription payable in cash raising £484,471 (before costs) and on 11 July 2006, an additional 461,538 shares at 6 5 pence raising £29,988 were issued and allotted on the company's admission to trading on the Alternative Investment Market of the London Stock Exchange

14. RESERVES

Group

	Share premium account 2006 £	Profit and loss account 2006 £
Balance brought forward	–	416,704
Profit for the period	–	332,401
Increase in equity relating to equity settled share based transactions		7,545
New equity share capital subscribed – gross	470,755	–
New equity share capital subscribed – costs	(205,606)	–
Balance carried forward	265,149	756,650
Company		
Loss for the period	–	(35,842)
New equity share capital subscribed	265,149	–
Balance carried forward	265,149	(35,842)

An amount of £205,606 relating to the cost of listing on AIM was deducted from the share premium account in July 2006

15. RECONCILIATION OF SHAREHOLDERS' FUNDS

	2006 £	2005 £
Profit for the financial period	332,401	248,422
New equity share capital subscribed	43,715	263,557
Premium on new share capital subscribed – gross	470,755	
Premium on new share capital subscribed – costs	(205,606)	-
Increase in equity relating to equity settled share based transactions (in administrative expenses)	7,545	-
Net addition to shareholders' funds	648,810	511,979
Opening shareholders' funds	680,261	168,282
Closing shareholders' funds	1,329,071	680,261

16. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2006 £	2005 £
Operating profit	516,768	403,056
Depreciation	6,829	7,097
Equity settled share based transactions	7,545	-
Loss on disposal of fixed assets	-	590
(Increase)/decrease in current asset investments	(227,276)	116,744
(Increase) in debtors	(219,321)	(697,040)
Increase in creditors within one year	706,337	118,556
Net cash inflow from operating activities	790,882	(50,997)

17. NET CASH OUTFLOW FOR RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2006	2005
	£	£
Interest received	7,961	945
Interest paid	(13,046)	(209)
Net cash outflow from returns on investments and servicing of finance	(5,085)	736

18. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	2006	2005
	£	£
Receipts from sales of fixed assets	-	576
Payments to acquire tangible fixed assets	(19,396)	-
Payment to acquire other current asset investments	-	(1)
Net cash in/(out)flow for capital expenditure and financial investment	(19,396)	575

19. FINANCING

	2006	2005
	£	£
Issue of equity share capital	43,715	3,890
Share premium on issue of equity share capital	470,755	-
Costs in relation to AIM listing	(205,606)	-
Net cash inflow from financing	308,864	3,890

20. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2006	2005
	£	£
Increase/(decrease) in cash in the period	858,726	(45,796)
Movement in net funds in the period	858,726	(45,796)
Net funds at 1 January 2006	5,750	51,546
Net funds at 31 December 2006	864,476	5,750

21. ANALYSIS OF CHANGES IN NET FUNDS

	1 Jan 2006	Cash flows	31 Dec 2006
	£	£	£
Net cash			
Cash in hand and at bank	5,750	858,726	864,476
Net funds	5,750	858,726	864,476

22. EARNINGS PER SHARE

Basic earnings per share
The calculation of basic earnings per share at 31 December 2006 was based on the profit after tax attributable to ordinary shareholders of £332,401 (2005 £248,222) and a weighted average number of ordinary shares outstanding of 57,038,075 (2005 52,711,400)

Diluted earnings per share
The calculation of diluted earnings per share at 31 December 2006 was based on the profit after tax attributable to ordinary shareholders of £332,401 (2005 £248,222) and a weighted average number of ordinary shares outstanding after adjustment for the effects of options granted, calculated as follows

Weighted average number of ordinary shares

	2006	2005
Basic weighted average shares	57,038,075	52,711,400
Effect of options granted	894,710	-
Weighted average shares at 31 December	57,932,785	52,711,400

23. OPTIONS

The Company has granted share options to certain employees (including directors) under the terms of the EMI Scheme and the Unapproved Scheme These options are exercisable at 0 5p or 6 5p per share and vest over 3 years from the date of grant No options have yet been exercised An expense is recognised in relation to these options over the vesting period at the fair value of the equity instrument granted The fair value of equity-settled share options granted is estimated as at the date of grant using a Black Scholes valuation model, taking into account the terms and conditions upon which the options were granted The calculation assumed a risk free interest rate of 5 03%, volatility of 22% and discount factor of 30%

Details of the number of share options and the weighted average exercise price (WAEP) outstanding during the year are as follows where the average remaining contractual life of the options is 18 months

	No.	2006 WAEP (£)	No.	2005 WAEP (£)
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	2,766,667	0 05	-	-
Outstanding at the end of the year	2,766,667	0 05	-	-
Exercisable at the end of the year	2,766,667	0 05	-	-

The Company recognised total expenses of £7,545 related to equity-settled share-based payment transactions during the year

24. FINANCIAL INSTRUMENTS

The Group's financial instruments comprise cash, investments, trade debtors and trade creditors that arise directly from its operations The main financial risk faced by the Group is that of liquidity, however, since the year end the Company has raised in excess of £2 million in new equity capital which provides the Group with adequate working capital Surplus cash is held on deposit at the current market rate The Group has no assets or liabilities denominated in foreign currencies and there is no exposure to currency risk

25. RELATED PARTY TRANSACTIONS

The transactions undertaken with parties related to group companies are set out below

(a) RED MOON INVESTMENTS LTD ("RMI", formerly CATALYST FINANCIAL SERVICES LIMITED)

RMI was a related party because it was controlled by three of the same shareholders who controlled the group RMI changed its name on 25 July 2006 and since that date has ceased to trade Renwick Haddow resigned as a director of RMI on 3 May 2006

On 30 December 2005 the group entered into agreements to sell the following investments to RMI

	Shares	Proceeds (£)
Double Carbon Battery Company Plc (DCBC)	6,000,000	330,000
Eastern European Ventures Plc	1,713,000	59,955

RMI was unable to complete the above transaction in relation to DCBC in its entirety and subsequently the balance of shares of DCBC which were not delivered in accordance with the terms of the agreement was sold to a third party

(b) A MEIKLE

A Meikle ceased to be a related party on 19 May 2006 when he sold his shares in the group In the period to 19 May 2006 the group recovered a total outstanding loan of £12,335 from A Meikle (at 31 December 2005 the balance outstanding was £11,357) In addition the group reimbursed A Meikle expenses of £15,040 and paid him a consultancy fee of £3,800

During 2005 the group was issued 21 ordinary shares of £1 in Iberian Property Services Limited in return for corporate finance arrangement services These shares had a value of £17,472 but were fully provided against during the current year The value of these transactions has been shown in turnover under 'Corporate finance - arrangement fees' A Meikle was a non-executive director of Iberian Property Services Limited

(c) RENWICK HADDOW

The following companies are related parties by virtue of the fact that a group director and shareholder, Renwick Haddow, is also a director and/or shareholder of these companies

Emerging UK Investments Plc

The group provided services to the value of £9,375 to Emerging UK Investments Plc during the period The fees for services provided are included in turnover

During 2005 the group sold its holding of 1,347,000 shares in EUKI for £144,725

On 30 December 2005 the group entered into an agreement to sell the following investments to EUKI

	Shares	Proceeds (£)
Ashton Penney Holdings Plc ("APH")	2,011,844	120,711

This transaction was not completed and subsequently during 2006 1,000,000 shares in APH were sold to independent third parties and the balance of 1,011,844 shares was transferred at market value to a group company

Capital Ideas Plc

The group provided services to the value of £9,375 to Capital Ideas Plc during the period The fees for services provided are included in turnover Renwick Haddow is a director and shareholder of Capital Ideas Plc In addition the group paid fees to Capital Ideas plc on behalf of Europol International Plc amounting to £35,417 in relation to a transaction entered into by Capital Ideas Plc

Monument Capital Partners Limited ("Monument", formerly Arc Management Services Limited)

Monument is controlled and beneficially owned by Renwick Haddow The company invests in early stage companies both on its own account and alongside Arc Fund Management Limited Monument was paid fees from funds received by the group amounting to £62,400 in the year This amount is treated as director's emoluments in the group's accounts

The Weather Lottery plc

Renwick Haddow was a director of The Weather Lottery plc throughout 2005 until his resignation on 9 January 2006 In May 2006 the Group sold 6,209,094 ordinary shares of 0 1p in The Weather Lottery plc by way of an Offer for Sale on behalf of Lunar Bright Limited Commission income of £119,099 from this transaction is accounted for in these accounts

Ashton Penney Holdings Plc ("APH")

During 2005 the group was issued with 2,011,844 ordinary shares of 1p in APH in return for corporate finance arrangement services These shares had an aggregate value of £245,647 This value has been shown in turnover under 'Corporate finance - arrangement fees' Transactions entered into during 2005 for the sale of these shares to Emerging UK Investments Plc (see above) were not completed and in 2006 1,000,000 shares were sold to independent third parties and the balance of 1,011,844 shares was transferred at market value to a group company A loss amounting to £30,738 on these disposals is accounted for in these accounts Renwick Haddow resigned as a director of APH on 7 November 2006

Eastern European Ventures Plc

During 2005 the group was issued 2,750,000 ordinary shares of 0 1p in Eastern European Ventures Plc in return for corporate finance arrangement services These shares had a value of £7,500 This value has been shown in turnover under 'Corporate finance - arrangement fees' All of these shares were sold before the end of 2005 (see Red Moon Investments Limited above)

Europol International Plc ("Europol")

During the year the group was issued with 555,350 ordinary shares of 0 5p each in Europol in return for corporate finance arrangement services These shares have a value of £124,002 In addition the group received corporate finance fees of £24,000 These amounts have been shown in turnover under 'corporate finance – arrangement fees' During 2005 the group was issued 583,333 ordinary shares of 0 5p in Europol (formerly Europol International Limited) in return for corporate finance arrangement services These shares had a value of £175,000 This value has been shown in turnover under 'Corporate finance - arrangement fees' 381,333 of these shares were sold during 2005 (see Catalyst Investment Group Limited below) Renwick Haddow resigned as a director on 2 October 2006

The group acted as agent for the investment of £171,583 by an Arc EIS Growth fund into Europol and it was issued with 51,667 ordinary shares of 0 5p each in Europol in return for providing company secretarial services These shares had a value of £18,678 The value of the shares issued is included in turnover Renwick Haddow is a director and shareholder of Europol

Turnaround Capital Plc

In September 2006 the group sold 1,597,773 ordinary shares of 5p in Turnaround Capital Plc by way of an Offer for Sale on behalf of two investors Renwick Haddow was appointed a director of Turnaround Capital on 2 February 2006 and resigned on 13 September 2006 Commission income of £132,978 from this transaction is accounted for in these accounts

In September 2006 Monument received 684,253 shares as remuneration for services it provided to Turnaround Capital Plc Arc Equities sold 557,363 shares in Turnaround Capital for Monument which received sales proceeds of £71,141 from the sale of these shares after paying commission of £46,388 to Arc Equities

During the period the group was issued with 82,110 ordinary shares in Turnaround Capital Plc in return for providing company secretarial services These shares had a value of £28,738 The value of the shares issued is included in turnover Renwick Haddow was a director of Turnaround Capital Plc from 6 February 2006 until 13 September 2006 and he is a shareholder of that company

Ubet2Win Plc

During 2005 the group was issued 4,020 ordinary shares of £1 in Ubet2Win Plc in return for corporate finance arrangement services These shares had a value of £62,760 This value has been shown in turnover under 'Corporate finance - arrangement fees' These shares were subsequently converted to 4,019,712 ordinary shares of 0 1p 4,000,000 of these were sold during 2005 (see Catalyst Investment Group Limited below)

Consolidated Vending Plc

The group was issued with 8,200,000 ordinary shares of 0 1p in Consolidated Vending Plc in return for corporate finance arrangement services These shares have a value of £135,300 In addition the group has charged corporate finance arrangement fees of £120,000 These amounts have been shown in turnover under 'Corporate finance – arrangement fees' During the year the group sold 5,475,377 shares of Consolidated Vending Plc and realised a profit of £67,134 which is shown under 'Disposal of shares received'

Monument was appointed a director of Consolidated Vending Plc on 23 June 2006 and received a director's fee of £12,000 and 7,600,000 shares in Consolidated Vending Plc which were sold by the group by way of an Offer for Sale Monument received sales proceeds of £73,125 from the sale of these shares after paying commission of £28,691 to the group The amount of £12,000 and the proceeds of sale of these shares are treated as director's emoluments in the group's accounts Monument resigned as a director on 9 November 2006 Renwick Haddow was appointed as a director of Consolidated Vending Plc on 10 November 2006

The group acted as agent for the investment of £691,600 into Consolidated Vending Plc and it was issued with 800,000 ordinary shares of 0 1p in Consolidated Vending Plc in return for providing company secretarial services These shares had a value of £13,200 The value of the shares issued is included in turnover In addition the group provided company services to the value of £2,000 to Consolidated Vending Plc during the period Renwick Haddow is a director and shareholder of Consolidated Vending Plc

£300,000 of the amount invested through the group into the shares of Consolidated Vending plc was initially received from Renwick Haddow who was subsequently reimbursed by the investor, White Sun Limited

Renwick Haddow was appointed as a director of Consolidated Vending Plc on 10 November 2006 In July 2006 the group sold 50,077,870 ordinary shares of 0 1p in Consolidated Vending Plc by way of an Offer for Sale on behalf of a number of investors Commission income of £370,058 from this transaction is accounted for in these accounts Amongst the investors on behalf of whom the group sold shares was Emerging UK Investments Plc of which Renwick Haddow is also a director and shareholder Commission of £35,159 was paid by Emerging UK Investments Plc to the group and the net proceeds of sale paid to Emerging UK Investments Plc were £89,611

Traction Technology Plc

The group was issued with 9,605,000 shares in Traction Technology Plc in return for corporate finance arrangement services These shares had a value of £86,445 This amount is shown in turnover under 'Corporate finance – arrangement fees' During the year the group sold all its shares of Traction Technology plc and realised a profit of £308,367 which is shown under 'Disposal of shares received'

In May 2006 Monument received 8,585,000 shares in Traction Technology Holdings Plc which were exchanged for 1,441,314 shares in Traction Technology Plc These shares were sold by the group by way of an Offer for Sale Monument received sales proceeds of £178,171 from the sale of these shares after paying commission of £174,715 to the group The proceeds of sale of these shares are treated as director's emoluments in the group's accounts The amount due to Monument at the year end was £178,171

The group acted as agent for the investment of £99,760 into Traction Technology Plc and was issued with 142,704 shares in Traction Technology Plc in return for providing company secretarial services These shares had a value of £7,778 The value of the shares issued is included in turnover During the year the group sold all its shares in Traction Technology Plc and realised a profit of £17,172 and this amount is also included in turnover

Traction Technology Plc, Capital Ideas Plc and the Arc Growth Company VCT Plc

In November and December 2006 the group sold 5,118,950 ordinary shares of 3p each in Traction Technology Plc on behalf of a number of investors Renwick Haddow is a director of Traction Technology Plc Commission of £386,092 from this transaction is accounted for in these accounts

Amongst the investors on behalf of whom shares were sold were Capital Ideas Plc, The Arc Growth Company VCT Plc ("the VCT") and Renwick Haddow

A group company has an investment management contract with the VCT and Renwick Haddow is a director and shareholder of the VCT Commission of £15,000 was paid to the group by the VCT on the sale of its shares in Traction Technology Plc in relation to which it received sales proceeds of £135,000

Renwick Haddow is a director and shareholder of Capital Ideas Plc Commission of £9,989 was paid to the group by Capital Ideas Plc on the sale of its shares in Traction Technology Plc in relation to which it received sales proceeds of £24,950 This amount was outstanding at the year end

Sales proceeds of £189,406 were paid to Renwick Haddow and commission of £75,833 was paid by him to the group on the sale of his shares in Traction Technology Plc The amount due to Renwick Haddow at the year end was £189,406

(d) CATALYST INVESTMENT GROUP LIMITED

Catalyst Investment Group Limited ("CIG") was a related party because it was controlled by three of the same shareholders who also control this group CIG is an FSA regulated stockbroker By way of an agreement dated 18 April 2006 and another dated 19 May 2006 the shareholdings of two of these shareholders in the company were acquired by Renwick Haddow and Christopher Rowe Renwick Haddow resigned as a director of CIG on 18 April 2006 As a result CIG ceased to be a related party during the year In 2006 the company paid a total of £4,826 as introductory commissions to CIG or its staff

No shares were sold through CIG during the year During 2005 the group sold the following shares through CIG

Company	shares	proceeds £
Medsea Estates Group Plc	240,644	168,451
Double Carbon Battery Company Plc	1,209,660	90,725
Eastern European Ventures Plc	1,037,000	51,850
Emerging UK Investment Plc	1,347,000	362,155
Europol International Ltd	381,333	114,400
Ubet2Win Plc	4,000,000	140,000

25. COMMITMENTS UNDER NON-CANCELLABLE OPERATING LEASES

The Group has the following commitments under non-cancellable operating leases expiring as follows

	Land and buildings	
	2006	**2005**
	£	**£**
Between two and five years	50,000	50,000

26. POST BALANCE SHEET EVENTS

On 22 February 2007 the Company announced the acquisition of Nvesta plc (now renamed Arc Capital & Income plc), the UK structured product provider, for a total consideration of £410,000 payable in cash on completion Nvesta had estimated funds under management of £120 million on that date To assist in providing working capital for this acquisition, on 21 February 2007 the company placed 750,000 new ordinary shares of 0 5p at a price of 20p per share with an independent investor

On 20 April 2007 Fiske plc, the Company's broker, completed the placement of 18,000,000 new ordinary shares of 0 5p at a price of 12p per ordinary share raising £2,160,000 before expenses for working capital