

# **PENTECH FUND II GP LIMITED**

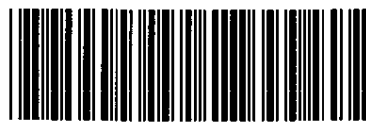
Report and Financial Statements

For the year ended

31 May 2015



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# Pentech Fund II GP Limited

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## DIRECTORS' REPORT

The directors present their report and financial statements for the year ended 31 May 2015.

### REVIEW OF THE BUSINESS

The company acts as the general partner for Pentech Fund II Limited Partnership. At 31 May 2015, Pentech Fund II Limited Partnership had total funds committed of £45.2 million (2014 - £45.2 million).

### DIRECTORS

The directors of the company during the year ended 31 May 2015 were as follows:

C Anderson  
E Anderson  
A McKinnon  
M Moens

### RESULTS AND DIVIDENDS

Profit before tax for the year ended 31 May 2015 was £2,001,248 (2014 - £224,008). Dividends of £610,116 were paid during the year (2014 - £64,767).

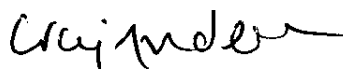
### DIRECTORS' AND OFFICERS' INSURANCE

Directors benefited from qualifying third party directors' and officers' liability insurance in place during the year and at the date of this report.

### 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 auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

By order of the Board



C Anderson  
Company Secretary

18 September 2015

## Pentech Fund II GP Limited

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### STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

## REPORT OF THE AUDITORS

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PENTECH FUND II GP LIMITED

We have audited the financial statements of Pentech Fund II GP Limited for the year ended 31 May 2015 set out on pages 4 to 12. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 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 members, as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 May 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

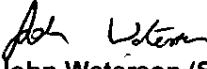
#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

  
John Waterson (Senior Statutory Auditor)  
for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
Saltire Court  
20 Castle Terrace  
Edinburgh  
EH1 2EG  
18 September 2015

# Pentech Fund II GP Limited

## STATEMENT OF INCOME AND RETAINED EARNINGS for the year ended 31 May 2015

			<i>Restated under new UK GAAP</i>	
	<i>Note</i>	<i>2015</i>	<i>2014</i>	<i>2014</i>
		<i>£</i>	<i>£</i>	<i>£</i>
<b>TURNOVER</b>	2	588,572	817,887	817,887
Administrative expenses		(257,249)	(692,716)	(692,716)
<b>OPERATING PROFIT</b>		331,323	125,171	125,171
Other interest receivable and similar income	3	1,669,925	98,837	12,272
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		2,001,248	224,008	137,443
Tax on profits on ordinary activities	4	(370,070)	(83,781)	(70,414)
<b>PROFIT FOR THE YEAR</b>		1,631,178	140,227	67,029
Retained profits at 1 June		1,327,442	1,251,982	1,274,891
		2,958,620	1,392,209	1,341,920
Dividends paid		(610,116)	(64,767)	(64,767)
<b>RETAINED PROFITS AT 31 MAY</b>		2,348,504	1,327,442	1,277,153
		=====	=====	=====

All results relate to continuing operations.

There were no recognised gains or losses in the year ended 31 May 2015 other than the profit for the year of £1,631,178 (2014 - £140,227).

The notes on pages 6 to 12 together with the accounting policies on pages 6 to 8 form part of these accounts.

# Pentech Fund II GP Limited

## STATEMENT OF FINANCIAL POSITION at 31 May 2015

	Note	2015 £	Restated under new UK GAAP 2014 £	2014 £
<b>FIXED ASSETS</b>				
Investments	5	2,907,415	360,034	296,378
		-----	-----	-----
<b>CURRENT ASSETS</b>				
Debtors	6	287,151	295,085	295,085
Cash at bank and in hand		396,023	1,219,155	1,219,155
		-----	-----	-----
		683,174	1,514,240	1,514,240
		-----	-----	-----
<b>CREDITORS: amounts falling due within one year</b>	7	(438,858)	(141,826)	(141,826)
		-----	-----	-----
<b>NET CURRENT ASSETS</b>		244,316	1,372,414	1,372,414
		-----	-----	-----
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		3,151,731	1,732,448	1,668,792
		-----	-----	-----
<b>PROVISION FOR LIABILITIES</b>				
Deferred tax liability	8	(803,226)	(405,005)	(391,638)
		-----	-----	-----
<b>NET ASSETS</b>		2,348,505	1,327,443	1,277,154
		=====	=====	=====
<b>CAPITAL AND RESERVES</b>				
Called up share capital	9	1	1	1
Profit and loss account		2,348,504	1,327,442	1,277,153
		-----	-----	-----
<b>SHAREHOLDERS' FUNDS</b>		2,348,505	1,327,443	1,277,154
		=====	=====	=====

The financial statements were approved and authorised for issue by the Board of Directors on 18 September 2015 and signed on its behalf by:



C Anderson

Director

Company Number: SC328064

The notes on pages 6 to 12 together with the accounting policies on pages 6 to 8 form part of these accounts.

# Pentech Fund II GP Limited

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## NOTES TO THE ACCOUNTS at 31 May 2015

### 1. COMPANY INFORMATION

Pentech Fund II GP Limited was incorporated on 20 July 2007 and is registered as a limited company in Scotland with a registered office at 39 Melville Street, Edinburgh. The company acts as the general partner for Pentech Fund II Limited Partnership.

### 2. ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

#### *Accounting convention*

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102, – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102'), and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below. These are the company's first set of financial statements prepared in accordance with FRS 102 and the Directors have decided to adopt the new standard early. The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

In the years to 31 May 2014 the financial statements were prepared in accordance with the Companies Act 2006 and applicable standards. In the transition to FRS 102 from old UK GAAP, the company has made measurement or recognition adjustments. An explanation of how the transition to FRS 102 has affected the financial position and financial performance of the company is provided in note 14.

The company acts as the general partner for Pentech Fund II Limited Partnership (the Fund) and holds a small minority interest in the Fund in the form of capital contribution amounting to £208 (2014: £58). The attributable proportions of the assets and income of the Funds are consolidated. The Fund is a subsidiary undertaking and under the terms of the Companies Act 2006 should be consolidated in full. However, the directors consider the financial statements would not give a true and fair view if the assets and income as a whole were to be consolidated since the company's interest in these assets is, except to the extent that they are proportionally consolidated, merely that of an investment manager.

The effect of this departure is to reduce both profit after tax and the minority interest in the profit for the year by £34,786,428 (2014: £8,247,921), and to increase fixed asset investments by £208 (2014: £58), reduce other net assets by £67,371,321 (2014: £36,002,940), and the minority interest in the balance sheet by £67,371,321 (2014: £36,002,940).

In addition to above, the company also holds a direct investment in the Fund amounting to £1176,252 (2014 £296,319). This has been accounted for at fair value through the profit and loss account under the requirements of FRS 102.

#### *Turnover*

Turnover represents the amounts derived from the provision of services which fall within the company's ordinary activities, stated net of value added tax. Fees are credited to income when they are earned and the fee has been agreed. None of the turnover was derived from overseas.

#### *Taxation*

Corporation tax payable is provided on the taxable profits at the current rate.

NOTES TO THE ACCOUNTS  
at 31 May 2015

2. ACCOUNTING POLICIES (CONTINUED)

**Deferred taxation**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or right to pay less, tax in future have occurred at the balance sheet date. This is subject to deferred tax 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 arising between the company's taxable profits and its results as stated in the financial statements which are capable of reversal in one or more subsequent periods.

**Valuation of investments**

**Financial Instruments**

Financial Instruments include fixed asset investments, derivative assets and liabilities and long-term debt instruments. Investments are classified as financial assets at fair value through profit or loss on initial recognition. Accounting Standards recognise a hierarchy of fair value measurements for Financial Instruments which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and lowest priority to unobservable inputs (Level 3). The classification of Financial Instruments depends on the lowest significant applicable input, as follows:

Level 1 – Unadjusted, fully accessible and current quoted prices in active markets for identical assets or liabilities. Included within this category are investments listed on a recognised stock exchange. The company held no such securities during the year under review.

Level 2 – Quoted prices for similar assets or liabilities, or other directly or indirectly observable inputs which exist for the duration of the period of investment. Examples of such instruments would be those for which the quoted price has been suspended, forward exchange contracts and certain other derivative investments. The company held no such securities during the year under review.

Level 3 – External inputs are unobservable. Value is at the Investment Manager's best estimate and prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines. Level 3 are investments in private companies or securities, whether invested directly or through partnerships. The company's investments (except for capital contributions in the Fund) are all deemed Level 3 during the year under review.

**Fixed Asset Investments**

Purchases or sales of investments are recognised at the date of transaction. Investments are valued at fair value. For listed securities this is either bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted. In respect of unquoted investments, these are recognised initially at cost and subsequently fair valued by the underlying funds using methodology which is consistent with the International Private Equity Guidelines ("IPEG"). In accordance with IPEG this means that investments may be valued using an earnings multiple, which has been discounted or premium applied which adjusts for points of difference to appropriate stock market or comparable transaction multiples. Alternative methods of valuation may include application of an arm's length third party valuation, a provision on cost or a net asset value basis. Unrealised gains on investments are included in the Statement of income and retained earnings for the year.

In the years to 31 May 2014 investments were valued at cost less any provision for diminution in value.



# Pentech Fund II GP Limited

## NOTES TO THE ACCOUNTS at 31 May 2015

### 2. ACCOUNTING POLICIES (CONTINUED)

#### *Dividends on shares presented within equity*

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

#### *Going Concern*

No material uncertainties that may cast significant doubt about the ability of the company to continue as a going concern have been identified by the directors.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

#### *Gains and losses on sale of investments*

As required by sections 5,6 and 10 of FRS 102 "Reporting financial performance", gains and losses arising on the disposal of investments, being the difference between the carrying value and net proceeds, are taken to the Statement of income and retained earnings.

#### *Income*

Deposit interest and loan interest are accounted for on an accruals basis. Dividends are accounted for on an accruals basis provided there is no reasonable doubt that payment will be received in due course.

#### *Expenses*

All expenses are accounted for on an accruals basis.

### 3. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

		<i>Restated under new UK GAAP</i>	
	2015	2014	2014
	£	£	£
Interest income	2,627	12,272	12,272
Unrealised gain on investments	1,667,298	86,565	-
	<u>1,669,925</u>	<u>98,837</u>	<u>12,272</u>
	=====	=====	=====

# Pentech Fund II GP Limited

## NOTES TO THE ACCOUNTS at 31 May 2015

### 4. TAX ON PROFITS ON ORDINARY ACTIVITIES

(a) Provision for UK Corporation Tax based on the profit for the year

	2015	Restated under new UK GAAP 2014	2014
	£	£	£
<b>Current tax</b>			
Corporation Tax	(28,151)	73,672	73,672
<b>Deferred tax</b>			
Short term timing differences	47,602	45,746	45,746
Capital gains and losses	332,824	13,367	-
Tax losses carried forwards and other deductions	17,795	(49,004)	(49,004)
Total deferred tax charge (credit)	398,221	10,109	(3,258)
Total tax charge for the year	370,070	83,781	70,414
	=====	=====	=====

(b) The current taxation for the year is lower than the standard rate of UK corporation tax and the differences can be reconciled to the profit for the year as follows:

	2015	Restated under new UK GAAP 2014	2014
	£	£	£
Profit on ordinary activities before taxation	2,001,248	224,008	137,443
Corporation tax at standard rate of 20.83% (2014 – 22.67%)	416,860	50,783	31,154
Effects of:			
Income not taxable for tax purposes	(347,636)	(6,262)	-
Other short term timing differences	(126,104)	(189,874)	(189,874)
Losses and other deductions	38,557	156,325	156,325
Chargeable gains	378,931	2,395	2,395
Timing differences – chargeable gains	(360,608)	(13,367)	-
Tax on Participator Loan	(28,151)	73,672	73,672
Total current taxation for the year	(28,151)	73,672	73,672
	=====	=====	=====

# Pentech Fund II GP Limited

## NOTES TO THE ACCOUNTS at 31 May 2015

### 5. INVESTMENTS

	2015	Restated under new UK GAAP 2014	2014
	£	£	£
<i>Unlisted Investments:</i>			
<u>Cost:</u>			
At 1 June	296,378	319,393	319,393
Additions in year	1,015,426	41,750	41,750
Disposals in year	(135,343)	(64,765)	(64,765)
	-----	-----	-----
At 31 May	1,176,461	296,378	296,378
	-----	-----	-----
<u>Investment uplifts and (provisions)</u>			
At 1 June	63,656	(22,909)	-
Investment uplifts	1,667,298	86,565	-
	-----	-----	-----
At 31 May	1,730,954	63,656	-
	-----	-----	-----
Net book value at 31 May	2,907,415	360,034	296,378
	=====	=====	=====

Investments at cost represent capital contributions and direct investments made by the company in Pentech Fund II Limited Partnership amounting to £208 (2014 - £58) and £1,176,252 (2014 - £296,319) respectively. These have been accounted for as explained in note 2 of these financial statements.

### 6. DEBTORS

	2015	2014
	£	£
Amounts due from fellow group companies	287,151	294,689
Other debtors	-	396
	-----	-----
	287,151	295,085
	=====	=====

### 7. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2015	2014
	£	£
Accruals and deferred income	41,438	68,154
Other creditors	341,621	-
Amounts due to fellow group companies	55,799	-
Corporation tax	-	73,672
	-----	-----
	438,858	141,826
	=====	=====

# Pentech Fund II GP Limited

## NOTES TO THE ACCOUNTS at 31 May 2015

### 8. DEFERRED TAX LIABILITY

	2015	Restated under new UK GAAP 2014	2014
	£	£	£
Short term timing difference	1,590,279	1,542,678	1,542,678
Chargeable gains	346,191	13,367	-
Tax losses carried forward and other deductions	(1,133,244)	(1,151,040)	(1,151,040)
	=====	=====	=====
	803,226	405,005	391,638
	=====	=====	=====
Beginning of year	405,005	394,896	394,896
Charge for the year at closing rate of 20% (2014 - 21%)	416,871	44,450	31,083
Effect of change of tax rate on opening balances	(18,650)	(34,341)	(34,341)
	=====	=====	=====
End of year	803,226	405,005	391,638
	=====	=====	=====

### 9. CALLED UP SHARE CAPITAL

	Authorised	Allotted called up and fully paid
	£	£
At 31 May 2015 and 31 May 2014		
Ordinary shares of £1 each	100	1
	=====	=====

### 10. RELATED PARTY TRANSACTIONS

The consolidated financial statements of the company's ultimate parent undertaking are publicly available and include the balance of all transactions with group members who are related parties of the group. Under the provisions of Financial Reporting Standard No.102, transactions with related parties of this company have not therefore been disclosed other than as required under the Companies Act 2006.

### 11. CASH FLOW STATEMENT

The company has taken advantage of the exemption under Financial Reporting Standard No. 102 not to prepare a Cash Flow Statement as the consolidated financial statements of its ultimate parent undertaking include a consolidated Cash Flow Statement dealing with the cash flows of the group.

### 12. PARENT UNDERTAKING

The company's immediate parent undertaking is Pentech GP Holdings Limited and the ultimate parent undertaking is Pentech Ventures LLP. Pentech GP Holdings Limited is a wholly owned subsidiary undertaking of Pentech Ventures LLP. Copies of the accounts of Pentech Ventures LLP and Pentech GP Holdings Limited can be obtained from 39 Melville Street, Edinburgh EH3 7JF.

## Pentech Fund II GP Limited

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### NOTES TO THE ACCOUNTS at 31 May 2015

#### 13. SUBSEQUENT EVENTS

The value of investments increased subsequent to the year-end after firm acquisition interest was received for the purchase of an investment in June 2015. In September 2015 the investment was sold and the change in valuation will be reflected in the financial statements for the year to 31 May 2016.

#### 14. TRANSITION TO FRS 102

##### Explanation of transition to FRS 102 from old UK GAAP

In preparing its FRS 102 balance sheet, the company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from old UK GAAP to FRS 102 has affected the company's financial position and financial performance is set out in the following table.

##### Reconciliation of profit and equity from old GAAP to FRS 102

	<i>Profit for the year ended 31 May 2014</i>	<i>Shareholders' Funds as at 31 May 2014</i>	<i>Shareholders' Funds as at 31 May 2015</i>
	£	£	£
Amount under old GAAP	67,029	1,277,154	950,375
Effect of recording investments at fair value through statement of income and retained earnings	86,565	63,656	1,730,954
Increase in deferred tax charge	(13,367)	(13,367)	(332,824)
	<hr/>	<hr/>	<hr/>
Amount under FRS 102	140,227	1,327,443	2,348,505
	=====	=====	=====

**PENTECH FUND II LIMITED PARTNERSHIP**

Report and Accounts  
For the year ended 31 December 2014

Registered Limited Partnership No. 6306

# Pentech Fund II Limited Partnership

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# Pentech Fund II Limited Partnership

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## GENERAL PARTNER'S REPORT

The General Partner presents the annual report and accounts of the Partnership for the year ended 31 December 2014.

### ACTIVITY

The Limited Partnership was incorporated on 6 November 2007 and the Partnership is due to terminate on 27 November 2017. Its objective is to invest in unlisted technology companies within the UK and Ireland. The aggregate Limited Partner Commitments at 31 December 2014 totalled £45.2 million (2013 - £45.2 million).

### RESULTS

In the year ended 31 December 2014, the Partnership made an operating profit after gains on realisation of investments of £2,415,807 (2013 - £2,487,181). After movements in investment provisions and carried interest, the aggregate profit for the year is £12,985,255 (2013 - loss of £425,989).

### DRAWDOWNS FROM LIMITED PARTNERS

During the year ended 31 December 2014, £3,561,024 has been drawn from Limited Partners to meet Partnership commitments (2013 - £4,073,885).

### DISTRIBUTIONS TO LIMITED PARTNERS

During the year ended 31 December 2014, £8,020,672 (2013 - £5,349,550) was distributed to Limited Partners from the sale of portfolio companies.

### DIRECTORS

The directors of the General Partner, Pentech Fund II GP Limited, during the year ended 31 December 2014 were as follows:

C Anderson  
E Anderson  
A McKinnon  
M Moens

By order of the General Partner



C Anderson  
Director - General Partner  
24 March 2015



## Pentech Fund II Limited Partnership

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### STATEMENT OF GENERAL PARTNER'S RESPONSIBILITIES IN RESPECT OF THE GENERAL PARTNER'S REPORT AND THE ACCOUNTS

The General Partner is responsible for preparing the General Partner's Report and the financial statements in accordance with applicable law and regulations.

The Partnerships (Accounts) Regulations 2008 require the General Partner to prepare financial statements for each financial year in accordance with Part 15 and Chapter 1 of Part 16 of the Companies Act 2006. Under that law the General Partner has elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the General Partner must not approve the financial statements unless it is satisfied that they give a true and fair view of the state of affairs of the partnership and of the profit or loss of the partnership for that period. In preparing these financial statements, the General Partner is required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the partnership will continue in business.

The General Partner has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the partnership and to prevent and detect fraud and other irregularities.

## Pentech Fund II Limited Partnership

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### INDEPENDENT AUDITOR'S REPORT TO THE PARTNERS OF PENTECH FUND II LIMITED PARTNERSHIP

#### **Independent auditor's report to the members of Pentech Fund II Limited Partnership**

We have audited the financial statements of Pentech Fund II Limited Partnership for the year ended 31 December 2014 set out on pages 4 to 12. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

This report is made solely to the qualifying partnership's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, as required by regulation 4 of the Partnerships (Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the partnership's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the partnership and the partnership's members, as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of the General Partner and auditor**

As explained more fully in the General Partner's Responsibilities Statement, the General Partner is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the qualifying partnership's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to qualifying partnerships by The Partnerships (Accounts) Regulations 2008.

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

We have nothing to report in respect of the following matters where the Companies Act 2006 as applied to qualifying partnerships requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of members' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



**John Waterson (Senior Statutory Auditor)**  
for and on behalf of KPMG LLP, Statutory Auditor  
*Chartered Accountants*  
20 Castle Terrace  
Edinburgh  
EH1 2EG  
24 March 2015

# Pentech Fund II Limited Partnership

## STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 December 2014

	Note	2014 £	Restated under UK GAAP 2013 £	Partnership Agreement 2013 £
<b>INCOME</b>		-	-	-
<b>EXPENSES</b>				
Administrative expenses	3	(744,296)	(840,767)	(22,873)
Gain on realisation of investments		3,160,103	3,327,948	3,327,948
<b>OPERATING PROFIT</b>		2,415,807	2,487,181	3,305,075
Movement in investment provisions	4	13,721,830	(2,913,170)	(2,071,746)
Carried interest accrued		(3,152,382)	-	-
<b>NET PROFIT (LOSS) FOR THE YEAR</b>		12,985,255	(425,989)	1,233,329
		=====	=====	=====
<b>Allocation of Net Profit (loss) to Partners:</b>				
General Partner:				
Income account	7	(744,296)	(840,767)	(22,873)
		=====	=====	=====
General Partner:				
Investment Gains	6	-	-	2,085,352
		=====	=====	=====
Limited Partners:				
Realised movement in value of investments	7	3,160,103	3,327,948	1,242,596
Unrealised movement in value of investments	7	13,721,830	(2,913,170)	(2,071,746)
Carried interest accrued	7	(3,152,382)	-	-
		=====	=====	=====

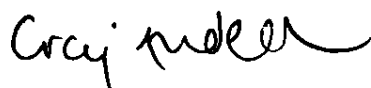
There are no recognised gains or losses other than the profit for the year to 31 December 2014 of £12,985,255 (2013 – loss of £425,989).

# Pentech Fund II Limited Partnership

## STATEMENT OF FINANCIAL POSITION at 31 December 2014

	Note	2014 £	Restated under UK GAAP 2013 £	Partnership Agreement 2013 £
<b>FIXED ASSETS</b>				
Investments	4	38,619,451	28,805,291	21,717,655
<b>CURRENT ASSETS</b>				
Loan to General Partner	6	-	-	4,470,447
Other debtors (including £804,642 (2013 : £0) due after more than one year)	5	2,130,075	-	-
Cash and short term deposits		192,322	461,279	461,279
		2,322,397	461,279	4,931,726
<b>CREDITORS: amounts falling due within one year</b>				
Accrued expenses		(5,472)	(4,248)	(4,248)
Other creditors		(5,311)	(9,246)	(9,246)
Carried interest		(3,152,382)	-	-
		(3,163,165)	(13,494)	(13,494)
<b>NET CURRENT ASSETS</b>		(840,768)	447,785	4,918,232
<b>NET ASSETS</b>		37,778,683	29,253,076	26,635,887
<b>GENERAL PARTNER'S ACCOUNTS</b>				
Capital commitments	7	13	13	13
Income account	7	(7,741,265)	(6,996,969)	(441,170)
		(7,741,252)	(6,996,956)	(441,157)
<b>LIMITED PARTNERS' ACCOUNTS</b>				
Capital commitments	7	25,169,142	29,628,790	29,628,790
<b>INVESTMENT SURPLUS (PROVISIONS)</b>	7	20,350,793	6,621,242	(2,551,746)
<b>PARTNERS' FUNDS</b>		37,778,683	29,253,076	26,635,887

The financial statements were approved and authorised for issue by the General Partner on 24 March 2015 and signed on its behalf by:



C Anderson

Director of the General Partner

## Pentech Fund II Limited Partnership

### CASH FLOW STATEMENT for the year ended 31 December 2014

	<i>Note</i>	<i>2014</i> £	<i>2013</i> £
<b>Net cash flow from operating activities</b>	8	(825,022)	(841,288)
<b>Financial investment:</b>			
Cost of investments	4	(2,990,919)	(3,253,667)
Investment disposal proceeds		8,020,672	5,027,973
<b>Loan commitment drawdowns:</b>			
Limited Partners		3,546,984	3,277,661
<b>Distributions:</b>			
Limited Partners		(8,020,672)	(4,471,861)
<b>Movement in cash during year</b>		(268,957)	(261,182)
<b>Cash at beginning of year</b>		461,279	722,461
<b>Cash at end of year</b>		192,322	461,279
		=====	=====

# Pentech Fund II Limited Partnership

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## NOTES TO THE ACCOUNTS

for the year ended 31 December 2014

### 1. PARTNERSHIP AGREEMENT

Pentech Fund II Limited Partnership was established on 6 November 2007 and is registered as a limited partnership in Scotland with a registered office at 39 Melville Street, Edinburgh. The General Partner is Pentech Fund II GP Limited. The operation of the partnership is governed by the Partnership Agreement dated 6 November 2007 as subsequently amended and restated.

### 2. ACCOUNTING POLICIES

#### *Basis of preparation of accounts*

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102, – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102'), and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below. These are the Partnership's first set of statements prepared in accordance with FRS 102 and the General Partner has decided to adopt the new standard early. The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

In the years to 31 December 2013 the accounts were prepared in accordance with the Partnership agreement and applicable standards.

#### *Valuation of investments*

##### **Financial Instruments**

Financial Instruments include fixed asset investments, derivative assets and liabilities and long-term debt instruments. Investments are classified as financial assets at fair value through profit or loss on initial recognition. Accounting Standards recognise a hierarchy of fair value measurements for Financial Instruments which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and lowest priority to unobservable inputs (Level 3). The classification of Financial Instruments depends on the lowest significant applicable input, as follows:

Level 1 – Unadjusted, fully accessible and current quoted prices in active markets for identical assets or liabilities. Included within this category are investments listed on a recognised stock exchange. The Partnership held no such securities during the year under review.

Level 2 – Quoted prices for similar assets or liabilities, or other directly or indirectly observable inputs which exist for the duration of the period of investment. Examples of such instruments would be those for which the quoted price has been suspended, forward exchange contracts and certain other derivative investments. The Partnership held no such securities during the year under review.

Level 3 – External inputs are unobservable. Value is at the Investment Manager's best estimate and prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines. Level 3 are investments in private companies or securities, whether invested directly or through partnerships. The Partnership's investments are all deemed Level 3 during the year under review.

## Pentech Fund II Limited Partnership

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### NOTES TO THE ACCOUNTS

for the year ended 31 December 2014

#### **Fixed Asset Investments**

Purchases or sales of investments are recognised at the date of transaction. Investments are valued at fair value. For listed securities this is either bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted. In respect of unquoted investments, these are recognised initially at cost and subsequently fair valued by the underlying funds using methodology which is consistent with the International Private Equity Guidelines ("IPEG"). In accordance with IPEG this means that investments may be valued using an earnings multiple, which has been discounted or premium applied which adjusts for points of difference to appropriate stock market or comparable transaction multiples. Alternative methods of valuation may include application of an arm's length third party valuation, a provision on cost or a net asset value basis. Unrealised gains on investments are included in the Statement of Comprehensive Income for the year as a capital item. Realised gains are recorded when capital distributions from an unquoted partnership exceed contributions made.

In the years to 31 December 2013 investments were valued at cost or, where the General Partner considered that a lower value must be ascribed to the investment, at cost less a provision.

#### **Gains and losses on sale of investments**

As required by sections 5,6 and 10 of FRS 102 "Reporting financial performance", gains and losses arising on the disposal of investments, being the difference between the carrying value and net proceeds, are taken to the Statement of Comprehensive Income. Any previously unrealised deficiency on revaluation is then transferred from unrealised losses to partners' capital accounts.

#### **General Partner's Priority Profit Share**

General Partner's Priority Profit Share is treated as an expense of the Partnership.

In the years to 31 December 2013 General Partner's Priority Profit Share was treated as a non-recourse loan to the General Partner with a corresponding asset shown on the Partnership's balance sheet.

#### **Carried Interest**

Carried interest is accrued in accounting periods where net assets exceed Limited Partners' net drawn commitments (plus a hurdle).

#### **Income**

Deposit interest and loan interest are accounted for on an accruals basis. Dividends are accounted for on an accruals basis provided there is no reasonable doubt that payment will be received in due course.

#### **Expenses**

All expenses are accounted for on an accruals basis.

#### **Taxation**

As a partnership, taxable income and chargeable gains and losses are passed through to the individual partners. Accordingly, no provision for taxation is made in these accounts.

# Pentech Fund II Limited Partnership

## NOTES TO THE ACCOUNTS for the year ended 31 December 2014

### 3. ADMINISTRATIVE EXPENSES

	2014	Restated under UK GAAP 2013	Partnership Agreement 2013
	£	£	£
Auditor's remuneration			
Audit of these financial statements	3,600	3,000	3,000
Other services relating to taxation	960	936	936
Legal fees	-	2,713	2,713
Insurance costs	12,800	15,900	15,900
Bank charges	596	324	324
General Partner's Priority Profit Share	726,340	817,894	-
	-----	-----	-----
	744,296	840,767	22,873
	=====	=====	=====

### 4. INVESTMENTS

	2014	Restated under UK GAAP 2013	Partnership Agreement 2013
	£	£	£
<i>Unlisted Investments:</i>			
<u>Cost:</u>			
At 1 January	24,269,401	22,715,759	22,715,759
Additions in year	2,990,919	3,253,667	3,253,667
Disposals in year	(6,898,589)	(1,700,025)	(1,700,025)
	-----	-----	-----
At 31 December	20,361,731	24,269,401	24,269,401
	-----	-----	-----
<u>Investment uplifts and (provisions)</u>			
At 1 January	4,535,890	7,449,060	(480,000)
	-----	-----	-----
Third party valuation uplifts	12,856,629	-	-
Realised in year	1,918,723	-	-
Other movements in provisions	(1,053,522)	(2,913,170)	(2,071,746)
	-----	-----	-----
	13,721,830	(2,913,170)	(2,071,746)
	-----	-----	-----
At 31 December	18,257,720	4,535,890	(2,551,746)
	-----	-----	-----
Net book value at 31 December	38,619,451	28,805,291	21,717,655
	=====	=====	=====



# Pentech Fund II Limited Partnership

## NOTES TO THE ACCOUNTS for the year ended 31 December 2014

### 5. OTHER DEBTORS

Due after one year	2014 £	2013 £
Sale proceeds receivable	804,642	-
<b>Due within one year</b>		
Sale proceeds receivable	1,233,378	-
Due from Limited Partners	10,105	-
General Partner's Priority Profit Share adjustment	81,950	-
At 31 December	2,130,075	-
	=====	=====

### 6. LOAN TO GENERAL PARTNER

	2014 £	Restated under UK GAAP 2013 £	Partnership Agreement 2013 £
At 1 January	-	5,737,905	5,737,905
General Partner's Priority Profit share advanced	-	-	817,894
General Partner's Priority Profit allocation	-	-	(2,085,352)
Transferred to Statement of Comprehensive Income	-	(817,894)	-
Transferred to General Partner's income account	-	(4,920,011)	-
At 31 December	-	-	4,470,447
	=====	=====	=====

### 7. PARTNERS' ACCOUNTS

#### Commitments:

	<u>General Partner</u>		<u>Limited Partners</u>	
	Capital Contribn. £	Loan Contribn. £	Capital Contribn. £	Loan Contribn. £
At 1 January 2013	13	-	4,774	30,899,681
Loans drawn in the year	-	-	-	4,073,885
Amounts distributed in the year	-	-	-	(5,349,550)
At 1 January 2014	13	-	4,774	29,624,016
Loans drawn in the year	-	-	-	3,561,024
Amounts distributed in the year	-	-	-	(8,020,672)
At 31 December 2014	13	-	4,774	25,164,368
	=====	=====	=====	=====
Partners' undrawn commitments at 31 December 2014	-	-	-	4,802,775
	=====	=====	=====	=====

# Pentech Fund II Limited Partnership

## NOTES TO THE ACCOUNTS

for the year ended 31 December 2014

### 7. PARTNERS' ACCOUNTS (CONTINUED)

Capital and Income Accounts:

	<u>General Partner</u> Stated under Partnership Agreement		<u>Limited Partners</u> Stated under Partnership Agreement		Realised & Unrealised M'ment in Value of Investments
	Capital Account £	Income Account £	Capital Account £	Income Account £	£
At 1 January 2013	-	(418,297)	-	-	(1,722,596)
(Loss) allocated to partners	-	(22,873)	-	-	-
Realised gain allocated to partners	-	-	-	-	1,242,596
Unrealised provision allocated to partners	-	-	-	-	(2,071,746)
	-----	-----	-----	-----	-----
At 31 December 2013	-	(441,170)	-	-	(2,551,746)
	=====	=====	=====	=====	=====

Capital and Income Accounts:

	<u>General Partner</u> Stated under UK GAAP		<u>Limited Partners</u> Stated under UK GAAP		Realised & Unrealised M'ment in Value of Investments
	Capital Account £	Income Account £	Capital Account £	Income Account £	£
At 1 January 2013	-	(6,156,202)	-	-	6,206,464
(Loss) allocated to partners	-	(840,767)	-	-	-
Realised gain allocated to partners	-	-	-	-	3,327,948
Unrealised provision allocated to partners	-	-	-	-	(2,913,170)
	-----	-----	-----	-----	-----
At 1 January 2014	-	(6,996,969)	-	-	6,621,242
(Loss) allocated to partners	-	(744,296)	-	-	-
Realised gain allocated to partners	-	-	-	-	3,160,103
Unrealised gain allocated to partners	-	-	-	-	13,721,830
Carried interest accrual allocated to partners	-	-	-	-	(3,152,382)
	-----	-----	-----	-----	-----
At 31 December 2014	-	(7,741,265)	-	-	20,350,793
	=====	=====	=====	=====	=====

## Pentech Fund II Limited Partnership

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### NOTES TO THE ACCOUNTS for the year ended 31 December 2014

#### 8. NET CASH FLOW FROM OPERATING ACTIVITIES

	2014 £	2013 £
Operating profit for the year	2,415,807	2,487,181
Gain on realisation of investments	(3,160,103)	(3,327,948)
Increase in other debtors	(81,950)	-
Increase (decrease) in creditors	1,224	(521)
	-----	-----
Net cash flow from operating activities	(825,022)	(841,288)
	=====	=====

#### 9. FINANCIAL RISK

As an Investment Partnership, the Partnership invests in unlisted securities so as to meet its investment objective of achieving long term capital growth. In pursuing its investment objective, the Partnership is exposed to various types of risk that are associated with the financial instruments and markets in which it invests.

These risks are categorised here as market risk, currency risk, interest rate risk and liquidity risk. The General Partner monitors closely the Partnership's exposures to these risks but does so in order to reduce the likelihood of a permanent loss of capital rather than to minimise the short term volatility.

##### **Market Risk**

The fair value or future cash flows of a financial instrument or other investment held by the Partnership may fluctuate because of changes in the value of an unquoted investment. The General Partner reviews and agrees policies for managing this risk and the General Partner both assesses the exposure to market risk when making individual investment decisions and monitoring the overall level of market risk across the investment portfolio on an ongoing basis.

##### **Currency Risk**

The Partnership is exposed to currency exchange rate risk due to a significant proportion of its Current Assets being denominated in non-Sterling currencies. The General Partner monitors the Partnership's exposure to foreign currencies and assesses the risk to the Partnership of the foreign currency exposure by considering the effect on the Partnership's net asset value and income of a movement in the rates of exchange to which the Partnership's assets are exposed.

##### **Interest Rate Risk**

Interest rate movements may affect directly the level of income receivable on cash deposits. The Partnership holds minimal cash balances and as this is not a significant risk no active management of this risk is undertaken.

##### **Liquidity Risk**

The objective of the Partnership in managing liquidity risk is to ensure that it can meet its financial obligations as and when they fall due. The Partnership expects to meet its financial obligations through operating cash flows and drawdowns of loan commitments from the Limited Partners.