

EQUITY PRE-IPO INVESTMENTS LIMITED

Company Registered Number: 42316

EQUITY PRE-IPO INVESTMENTS LIMITED
ANNUAL REPORT
For the year ended 31 December 2006

EQUITY PRE-IPO INVESTMENTS LIMITED

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EQUITY PRE-IPO INVESTMENTS LIMITED

Corporate Information

Directors: Martin Shires (executive director)
Paul Matthew Schreibke (executive director)
Jonathan David Freeman (non-executive director)

all of:
Martello Court
Admiral Park
St. Peter Port
Guernsey GY1 3HB

**Company Secretary
And Registered Office:** Cosign Limited
Martello Court
Admiral Park
St. Peter Port
Guernsey GY1 3HB

**UK Solicitors to the
Company:** Memery Crystal
44 Southampton Buildings
London W1U 3LL

Auditors: BDO Novus Limited
Elizabeth House
St. Peter Port
Guernsey GY1 3LL

**Nominated Advisor
and Broker:** Noble & Company Limited
120 Old Broad Street
London EC2N 1AR

Registrars: Capita IRG (CI) Limited
2nd Floor
Number 1 Le Truchot
St. Peter Port
Guernsey GY1 4AE

**Administration
Services Provider:** Fortis Fund Services (Guernsey) Limited
(Formerly MPR Fund Management Limited)
Martello Court,
Admiral Park
St. Peter Port
Guernsey GY1 3HB

EQUITY PRE-IPO INVESTMENTS LIMITED

DIRECTORS' REPORT

We are delighted to present this annual report to shareholders for the year ended 31 December 2006 for Equity Pre-IPO Investments Limited ("Pre-IPO" or the "Company"). We have also included some unaudited information for the period from 31 December 2006 to 15 May 2007 in order to ensure that shareholders are provided with as much up to date information as is practical.

Net Asset Value

We have set out in the table below the progression of our Net Asset Value ("NAV") per share since 1 January 2005.

Date				31 December 2004
NAV				(audited) 14.46p
Date	31 March 2005	30 June 2005	30 September 2005	31 December 2005
NAV	(unaudited) 28.14p	(unaudited) 28.13p	(unaudited) 39.69p	(audited) 44.19p
Date	31 March 2006	30 June 2006	30 September 2006	31 December 2006
NAV	(unaudited) 44.68p	(unaudited) 42.27p	(unaudited) 42.73p	(audited) 55.37p
Date	31 March 2007	15 May 2007		
NAV	(unaudited) 55.54p	(unaudited) 55.56p		

This table shows that for the year to 31 December 2006 we achieved an increase in the NAV of the Company of approximately 25% (2005: 206%). Whilst the current increase in NAV is substantially less than that achieved in 2005 we are pleased with this performance. The Company has now increased its NAV by approximately 283% from 31 December 2004 to 31 December 2006.

The calendar year of 2006 can be characterised by a concentration on our existing portfolio of investee companies in an effort to ensure that they were all progressing towards an exit by Pre-IPO. The stock market was volatile in terms of its attitude towards new companies coming to the market and over the year as a whole the AIM All Share index returned an absolute return of just 0.8%. This poor performance of the AIM market and the generally negative attitude of institutional investors towards many AIM flotations added a significant element of potential risk to the growth of companies. We therefore took the view that our investee companies should not seek to secure their financial requirements solely from a flotation as this would risk the continued financial well-being of a company on the highly changeable views of the market. The consequence of this is that whilst our NAV has progressed

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well over the year there have been less flotations of our investee companies than targeted at the beginning of the year.

The investment strategy of Pre-IPO is such that changes in the NAV tend to be sporadic, with re-valuations of portfolio companies driven by material events that happen occasionally. This is demonstrated by the large up-lifts that occurred in the NAV during 2005 being followed by little change during the first three quarters of 2006 and then by another material uplift in the final quarter of 2006. We believe that the Company's investment portfolio is well positioned to benefit from a number of further material re-valuations during the course of 2007 but these will continue to be sporadic events. We expect that the progress achieved since the incorporation of the Company in terms of increase in the NAV can be maintained during 2007.

Fund Raising

We have not raised any new funds during the course of 2006 and, therefore, the total equity funds raised by the Company since its incorporation remains at a total of £4,609,638 (before costs). This compares to the total net assets of the Company as at 31 December 2006 of £7,329,586 and is an increase on total gross equity funds invested of approximately 59%.

At the time of the Company's admission to trading on AIM in February 2005 we announced that we had signed an option agreement under the terms of which the Company had the opportunity to raise a total of £4.0 million for the issue of new shares in Pre-IPO. This option was exercisable in two parts, with half the total due to be exercised during the period 24 October 2005 to 23 November 2005 and the remaining half during the period 24 April 2006 to 23 May 2006. We announced in our annual report for the period to 31 December 2005 that we had decided not to exercise the first part of the option because the share price was so low that it would have been highly dilutive to our existing shareholders. Similarly, we did not exercise the second half of the option for the same reason and therefore the entire option has now lapsed.

We continue to operate Pre-IPO with limited levels of uninvested cash. This means that we often have to either turn down or scale back the investments made by Pre-IPO because there is little or no cash available for investment at the time. We therefore believe that it would be in the Company's and shareholders' best interests if we are able to raise further funds. During 2006 we made some limited use of debt finance but because, in general, our investments are in unquoted companies and, as a result, are not regarded as suitable debt security by banks, we do not believe that this method of raising funds is a viable and long term method of increasing funds available for investment. We have therefore concluded that we need to raise further equity capital for the Company in the near future and will continue to discuss this issue with the Company's advisors.

Investment Strategy

Pre-IPO's stated investment strategy is to achieve capital growth for shareholders through the purchase, holding and sale of minority stakes in other companies. We intend to invest only in companies which are currently unquoted but which we believe will achieve either a flotation on a Recognised

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Investment Exchange or Exchange Regulated Market in Europe or a trade sale up to eighteen months from the time of Pre-IPO's investment. Potential investments are evaluated from a wide variety of industry sectors which are based upon the recommendations of an Investment Advisory Panel.

Investment decisions will normally take into account the following key factors:

- The size of the investments in relation to Pre-IPO's assets;
- Whether or not the investment cost appears to be at a discount to the actual or potential valuation of the investee company;
- Whether or not there is a proven management team in place or available for the investee company;
- Whether the investee company's financial and other resources, future trading prospects, visibility of earnings, cash flow forecasts and on-going working capital requirements are satisfactory;
- Whether or not there are satisfactory prospects for the investee company to achieve a flotation within a reasonable timeframe;
- Whether or not there are satisfactory prospects for Pre-IPO to exit the investment once a flotation has been achieved.

In our annual report for the period to 31 December 2005 we stated that we had a total of nine investments, of which three had achieved a flotation and six remained unquoted. We set ourselves a target for 2006 of achieving the complete exit from at least two of our then held quoted companies and the flotation of at least three of our then held six unquoted companies. During the course of 2006 we in fact achieved an exit from all three of the quoted investments that we held at the beginning of 2006, which raised proceeds of £2,150,921 (2005: £960,948) and the flotation of one of our unquoted investments. In addition two of our unquoted investments have privately raised further equity funds at a materially higher valuation than that invested by Pre-IPO. We had planned for both these companies to be floated during 2006 but the brokers appointed concluded that the volatility of the market meant that it was safer to raise money privately rather than as a part of a flotation. The aggregate sums raised for these two private placings was approximately £15 million and so we are delighted that both these companies are now well financed. We will continue to assist these companies as needed and remain optimistic that they will achieve a flotation in the near future. We also participated in a small rights issue by another of our unquoted companies which was undertaken at the same valuation at which we originally invested.

The result of this activity is that we ended 2006 with a portfolio of one quoted investment and five unquoted investments. Since the year end we completed a new investment in January 2007 totalling approximately £480,000 and we also completed the exit from our one quoted investment. Therefore as of 15 May 2007 our investment portfolio was made up of six unquoted investments and no quoted investments.

The limitation on new investments made by Pre-IPO during 2006 is something that we believe has not yet been to the detriment of the investment portfolio as we have been able to focus on our existing investments and the management of our current portfolio. We believe however that it is essential that further new investments are made during 2007 in order that the portfolio of

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companies remains vibrant and that there is a constant flow of new investments, flotations and exits. We do not believe, however, that we can only rely upon exiting from existing investments in order to generate funds for new investments – the timing of an exit from an investment will rarely coincide with an investment into a new company, with both often having a very unpredictable time line. We do therefore believe that it is important for the continued success of the Company for further funds to be made available for investment purposes.

Our focus for 2007 is the partial or complete exit from companies within our portfolio, the raising of additional finance for investment and, assuming that we are able to raise further capital, the subsequent increase in the number of portfolio companies. We have targeted the flotation of at least two companies from the portfolio during 2007 and would like to increase the number of investments within the portfolio to ten. We are currently holding detailed discussions with two unquoted companies regarding an investment by Pre-IPO. We very much hope that these discussions will be successful and that Pre-IPO will have sufficient funds to follow through with an investment into these companies. This will, however, depend upon the companies having a realistic view of their current valuation, confirmation of the companies' desire to float, completion of the due diligence exercise and Pre-IPO having raised additional capital or having exited from existing investments.

Investee Companies

The investment portfolio that we currently hold (as of 15 May 2007) is as follows:

Pinnacle Plus Limited ("Pinnacle")

Pinnacle was established in 2003 and specialises in providing Airport Ground Support Equipment Operators, Maintainers and Fleet Managers ("GSE's") with a range of decision support information services. Pinnacle's services are designed to help GSE's to manage their equipment assets more effectively, improve operational efficiency and reduce costs. Pinnacle provides a range of services which provide GSE's with key management and performance information, enabling them to better manage user access, locate equipment, monitor vehicle usage and fleet utilisation, view fuel and de-icing tank levels as well as reduce equipment damages. Customers include KLM Equipment Services, Martinair and Menzies at Schiphol in Amsterdam and Air France Services at London Heathrow. (Web site address: www.pinnacle-air.com)

In our annual report for the period to 31 December 2005 we highlighted our investment into Pinnacle as an example of the investments made by Pre-IPO. We also stated that we hoped to be able achieve a flotation for this company during the course of 2006. Whilst the company has continued to win new long term contracts this process has taken longer than was expected. We therefore concluded that a flotation during 2006 would have been inappropriate. We remain confident about the prospects of this company and are confident that our investment in this company, which remains valued at cost, will show a material uplift in the future.

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Altair Financial Services International PLC (“Altair”)

Altair is a provider of global prepaid solutions, headquartered in London with subsidiary companies in USA and Antigua and banking and processing relationships in Europe, USA and throughout the Latin America and Caribbean regions. Altair was incorporated in 2005 to bring together the technology, business knowledge and investment of a group of people and companies based in Europe and the USA.

Altair is a company that provides mobile money and financial solutions utilising traditional and non traditional banking media. The company specialises in telephone cash management and movement, prepaid technologies and money share. Altair is a global provider of prepaid, stored value card solutions and closed loop systems with enhanced functionality. Altair offers prepaid card programs to companies and individuals using MasterCard® and VISA™ products. To enhance these programs Altair utilises the Internet and mobile phone to provide an online and mobile e-wallet and payment system. The Altair system is able to store and manage value using mobile phones and a prepaid card can be attached to the account to allow ATM withdrawals. The provision of a prepaid card allows the account to be used in a ‘traditional’ retail environment. (Web site address: www.altair-financial.com)

Lorega Limited (“Lorega”)

Originally established in 1983 as a claims consultancy service for businesses, Lorega has now grown in to a leading provider of products and services focused on making the claims process easier for private clients and commercial insurance customers. Today Lorega is best known as the pioneer of Loss Recovery Insurance, which is now sold by over 200 UK brokers. This unique class of insurance is designed to give the policyholder access to professional help without incurring the cost of expensive fees where the value of the claim exceeds £5,000. (Web site address: www.lorega.com)

Combimeer N.V. (“Combimeer”)

Combimeer provides a range of financial products to the Dutch retail market place that are based upon low cost structures, transparent products and flexibility. The Combimeer products are particularly suitable for the re-investment of, for example, single premium insurances, annuities and pensions; deferred single premium insurances, annuities and *stamrecht* (a Dutch financial construction for golden handshakes in the form of deferred life annuity insurance). (Website address: www.combimeer.nl)

Radioscape plc (“Radioscape”)

Founded in 1996, RadioScape has become a world leader in software solutions for Digital Radio. The company’s pioneering approach gives it the flexibility to add innovation and rapidly incorporate changes to suit evolving standards. The company has continued to enhance its broadcast system products, which has enabled it to address the emerging Mobile TV market based on the DMB standard. RadioScape uses its unique Software Defined Digital Radio approach to ensure that it can offer customers the latest features and greatest flexibility in its product offerings. It has leveraged its unique, end-to-end systems knowledge to become a world leader in Digital Radio

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broadcasting, advanced multi-standard Digital Radio modules, and Mobile TV. (Web site address: www.radioscape.com)

There is one further portfolio company that has asked us to keep our investment confidential at this stage.

The cost of our existing investments (as of 15 May 2007) was £4,233,137, (as of 31 December 2006, £5,419,539). This investment portfolio has been re-valued to £7,354,122 using the valuation principals for unquoted companies set out in the International Private Equity and Venture Capital Valuation Guidelines (published June 2005, amended October 2006) by the European Private Equity and Venture Capital Association. This uplift in the valuation of our current portfolio by 67% has occurred because we have re-valued three of our investments, all of which have been upwards. All three re-valuations are due to recent third party fund raisings at a value that is higher than our investment valuation. The other three companies within the portfolio remain valued at cost.

This uplift in the valuation of certain of our unquoted investee companies has resulted in over 60% of the Company's assets being accounted for by one third of the investee companies. The fact that these companies remain unquoted means that there is currently little opportunity to realise any of these investments at this stage. In addition there can be no assurance that the current valuations of the investee companies will be those that are achieved if any exit from these investments occurs in the future.

Share Price

Our share price began 2006 at 35 pence and rose to a high of 45.5 pence in June 2006. Unfortunately the price then slipped back to a new all time low of 25 pence and has since then recovered slightly to close the year at 29 pence. This share price performance and the low market liquidity of the shares has been a continual disappointment to us. We are currently discussing with our nominated advisor and broker how to increase liquidity and to try to encourage the market price of the shares to be more aligned to the net asset value of the Company. Previous marketing efforts that we have undertaken have had very limited success with institutional investors wanting to see a proven track record before investing. We are hopeful that we have now developed a sufficient track record and that this will result in an increasing interest in Pre-IPO and an increase in market liquidity.

Outlook

The Directors believe that Pre-IPO has made good progress in the increase in the NAV and the development of the portfolio of investments. We believe that further material rises in the NAV can be expected during the course of 2007. In addition the pipeline of potential new investments remains strong and therefore we remain confident about the future.

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Board of Directors

Martin Shires (aged 50)

Executive Director

An economics graduate from the University of Hull, Mr Shires joined the London office of Chartered Accountants PKF. He qualified as a chartered accountant in 1981 and specialised in tax with Deloitte & Touche, PWC and Robson Rhodes before moving to MeesPierson Reads in Guernsey in 1994 where he was appointed as a director in 1997. He has a wide ranging practical experience in Guernsey and the UK, in particular with international trust, company, tax and related issues.

Paul Schreibke (aged 43)

Executive Director

Mr Schreibke graduated with a degree in economics and international studies from Birmingham University in 1985. On leaving university he joined Deloitte & Touche where he qualified as a Chartered Tax Advisor before joining MeesPierson Reads Group in 1991, becoming a director in 1999. Mr Schreibke is a Director of Fortis Reads Private Clients Limited and specialises in taxation matters and offshore trusts.

Jonathan Freeman (aged 42)

Non-Executive Director

Jonathan graduated with a degree in Business Studies from Stirling University in 1988 and gained an MBA from Warwick University in 1993. From 1988 to 1993 he was a contract manager of a property refurbishment company, becoming a director in 1991. He then worked within corporate finance and was involved in the creation and launch of the pan-European stock market EASDAQ which was subsequently taken over by NASDAQ. Subsequently he joined the corporate finance department of Beeson Gregory Limited in 1997 and was appointed as a director in 1998. He joined Gambit Corporate Finance as a partner in 2002 and left in October 2003. Jonathan is currently also a director of Cobra Capital Limited, Creon Corporation plc, Futura Medical plc and Syndicate Asset Management plc, all of which are traded on AIM. He is also a director of a number of private companies.

Directors and their Interests

The Directors of the Company during the year were:

Martin Shires BSc (Econ), ACA, TEP

Paul Matthew Schreibke BSocSc, CTA, TEP

Jonathan David Freeman BA (Hons), MBA

Ian Geoffrey Clarke (alternate director for Paul Matthew Schreibke)

James Grant Howitt (alternate director for Martin Shires)

None of the Directors who held office at the end of the financial year had any interest in the share capital or share options of the Company, nor does any person connected with the Directors have any such interests, whether beneficial or non-beneficial.

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Substantial Shareholdings

At 31 December 2006 and 15 May 2007, the issued share capital of the Company was 13,237,235 ordinary shares of 1 pence each.

We have conducted a limited investigation into the underlying holders of 3% or more of our share capital. It is not presently a requirement of the Company's Articles of Association that shareholders must notify the Company if they own shares representing 3% or more of the issued share capital, (a resolution to amend the Articles of Association to include such a provision will be prepared at the next Annual General Meeting). Furthermore, there is no authority for the Company to issue an equivalent to a 212 Notice. Therefore the combination of the use of nominee accounts (which the CREST settlement system encourages) and no 212 Notice equivalent means that it can be difficult to track the ownership of the Company's shares. As far as we are aware, as at 31 December 2006, the following shareholders held 3% or more of the Company's share capital:

	Number of ordinary shares	Percentage of issued ordinary share capital
Jon Olafsson	3,753,500	28.36%
Equity Special Situations Limited	2,968,052	22.42%
Cobra Capital Limited	997,500	7.54%
W T Lamb Investments Limited	662,400	5.00%
Newton Nominees Limited	639,022	4.83%

Share Option Plan

A discretionary Share Option Plan ("Plan") was adopted by the Board prior to the admission of the Company to AIM on 18 February 2005. A summary of the draft terms of the Plan were provided in the admission to trading on AIM document. The Board formally adopted the terms of the Plan as were set out in the AIM Admission document on 16 May 2007 however no options have yet been awarded under the Plan.

Corporate Governance

The Company was admitted to trading on AIM on 24 February 2005. As such it is not governed by the Combined Code on Corporate Governance. However, the Board is committed to complying with best practice where appropriate. This includes evaluating Directors' performance, the management of the Company and ensuring that it maintains full and effective control over appropriate strategic, financial, operational and compliance issues.

There is no separate Audit Committee, Remuneration Committee or Nominations Committee as the Board considers that, given its current size, all members of the Board should participate in those roles and responsibilities normally reserved for such committees. Therefore the full Board of Directors will provide a forum for reporting by the Company's external auditors.

The Company continues to give careful consideration to the principles of corporate governance to ensure that it complies with current UK corporate

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governance requirements to the extent to which the Directors consider these to be appropriate for a company of its size and taking into account its wish to conserve cash for investments.

The Board meets regularly and has ultimate responsibility for the management of the Company. It also meets to review the remuneration of Directors, the Investment Advisory Panel and consultants.

Relationship with Shareholders

The Directors seek to build a mutual understanding of objectives between the Company and its shareholders. The Company reports formally to shareholders in its interim and annual reports setting out details of its activities. In addition, the Company keeps shareholders informed of events and progress during the year through the issue of press releases. The Directors meet with institutional shareholders following interim and final results, as required. The Company also maintains company information on its website – www.equitypreipo.com. Shareholders have the opportunity to meet the Board at the Annual General Meeting (“AGM”). The Board is also happy to respond to any written queries made by shareholders during the course of the year.

Where possible the Annual Report is sent to shareholders at least 20 working days before the AGM. Directors are required to attend AGMs of the Company unless unable to do so for personal reasons or due to pressing commercial commitments. Shareholders are given the opportunity to vote on each separate issue. The Company counts all proxy votes and will indicate the level of proxies lodged on each resolution, after it has been dealt with by a show of hands.

Internal Control

The Directors’ of the Company have overall responsibility for the Company’s system of internal control. Internal control systems are designed to meet the particular needs of the Company and the risks to which it is exposed. By their nature these controls can provide reasonable but not absolute assurance against material misstatement or loss.

The Board’s appointment of Fortis Fund Services (Guernsey) Limited for financial administration and Cosign Limited as Company Secretary has delegated much of the administration of the Company. The Fortis Group of companies in Guernsey has an established system of control, including internal financial controls, to enable it to ensure that proper accounting records are maintained, that financial information for use within the Company and reporting to shareholders is accurate and reliable and that the Company’s assets are safeguarded. This delegation of administration by the Board, and the use of Fortis Fund Services (Guernsey) Limited and Cosign Limited, is monitored by the Board with regards to its appropriateness and with regard to the performance of Fortis Fund Services (Guernsey) Limited in carrying out its work on behalf of Pre-IPO.

Portfolio Risk

The Company’s assets comprise mainly investments in smaller, unquoted businesses which, by their nature, tend to be more fragile than larger, longer

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established businesses. In addition these investee companies are undergoing significant change and therefore they are usually exposed to greater risks than more stable businesses. The Company's unquoted investments may therefore change in nature quickly with such changes not being immediately reflected in the Company's valuation of the investment. In addition unquoted investments are difficult to realise and there is therefore a risk that the Company may not be able to exit from an investment at the current valuation or at all.

Results and Dividends

The results of the Company for the year are set out on pages 18 to 26. No dividends have been paid or are proposed.

Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial period which 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 those 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 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 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 Company and to enable them to ensure that the financial statements have been properly prepared in accordance with the Companies (Guernsey) Law, 1994. In addition the Directors are responsible for ensuring that the annual report includes information required by the AIM Rules. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Financial statements are published on the Company's website. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Auditors

A resolution to reappoint BDO Novus Limited as auditors will be proposed at the next Annual General Meeting.

Going Concern

After due consideration, the Directors believe that the Company has adequate resources for the period of at least 12 months from the date of approval of the financial statements, and consequently that it is appropriate to apply the going concern principle in preparing the financial statements.

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Activities

The Company was incorporated on 15 September 2004 and was admitted to trading on AIM on 24 February 2005.

The principal activity of the Company is the acquisition of pre-IPO European equity investments and their subsequent sale.

Creditors Payment Policy and Practice

It is the Company's payment policy and actual practice to ensure settlement of suppliers' invoices in accordance with the stated terms of the invoices.

On behalf of the Board,

P M Schreibke

Paul Matthew Schreibke
Director
25 May 2007

M Shires

Martin Shires
Director

Directors' Remuneration Report

Policy on Directors' Fees

The Board's policy is that the level of remuneration should be sufficient to attract and retain the Directors needed to oversee properly the Company and to reflect the specific circumstances of the Company, the duties and responsibilities of the Directors and the value and amount of time committed to the Company's affairs. It is intended that this policy will continue for the year ending 31 December 2007 and subsequent years.

Directors' Fees

The Board considers at least annually the level of the Directors' fees, in accordance with the Combined Code on Corporate Governance. The Company Secretary provides information on the levels of Directors' fees to the Board in advance of each review.

The Board concluded following the review of the level of Directors' fees for the forthcoming year that the amounts should remain unchanged at present.

Directors' Service Contracts

The Company entered into an open ended services agreement with Fortis Fund Services (Guernsey) which include the provision of the services of M Shires and P M Schreibke as executive directors on a time-cost basis, with a 3 months notice period. A service agreement exists between the Company and Jonathan Freeman with a 3 month notice period.

The Company has also entered into a research and consultancy agreement with Combined Management Services Limited ("CMS") as disclosed in Note 14 of the accounts. J D Freeman is a director of CMS and owns 50% of the shares of CMS. The above fees do not include reimbursed expenditure.

Directors' Remuneration

The emoluments of the individual Directors for the year were as follows:

Director	Salary or Fees
M Shires	nil
P M Schreibke	nil
J D Freeman	£20,000

The fees for the non-executive Director are determined in accordance with Article 99 of the Articles of Association of the Company. Non-executive Directors are not eligible for bonuses, pension benefits, share options, long term incentive schemes or other benefits.

No pension scheme contributions or other retirement benefit contributions were paid.

There are no share option contracts or long term incentive schemes held by the Directors.

No Director has any interest in any contract to which the Company is a party except for the contracts between the Company and Fortis Fund Services

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(Guernsey) Limited and the Company and Combined Management Services Limited, as disclosed elsewhere.

The Directors' Remuneration Report on pages 14 and 15 was approved by the Board of Directors on _____ and signed on its behalf by P M Schreibke and M Shires.

On behalf of the Board,

P M Schreibke

Paul Matthew Schreibke
Director
25 May 2007

M Shires

Martin Shires
Director

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EQUITY PRE-IPO INVESTMENTS LIMITED

We have audited the financial statements of Equity Pre-IPO Investments Limited for the year ended 31 December 2006 which are set out on pages 18 to 26. These financial statements have been prepared under the historical cost convention as modified by the revaluation of investments and in accordance with the accounting policies set out on pages 21 and 22.

This report is made solely to the Company's members, as a body, in accordance with Section 64 of the Companies (Guernsey) Law, 1994. 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's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities within the Directors' Report the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies (Guernsey) Law, 1994. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 is not disclosed.

We read the other information included 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 Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements within them. Our responsibilities do not extend to any other information.

Basis of opinion

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

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are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies (Guernsey) Law, 1994.

BDO Novus Limited
CHARTERED ACCOUNTANTS
Elizabeth House
St Peter Port
Guernsey

BDO Novus Limited

.....

EQUITY PRE-IPO INVESTMENTS LIMITED

STATEMENT OF TOTAL RETURN FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	For the year ended 31 December 2006			For the year ended 31 December 2005		
		Revenue £	Capital £	Total £	Revenue £	Capital £	Total £
GAINS ON INVESTMENTS							
Net realised gains		-	115,845	115,845	-	321,296	321,296
Net unrealised gains		-	1,759,775	1,759,775	-	1,590,650	1,590,650
		<u>-</u>	<u>1,875,620</u>	<u>1,875,620</u>	<u>-</u>	<u>1,911,946</u>	<u>1,911,946</u>
INCOME							
	2						
Investment income		-	-	-	3,238	-	3,238
Loan interest received		432	-	432	-	-	-
Bank interest		1,477	-	1,477	25,050	-	25,050
		<u>1,909</u>	<u>-</u>	<u>1,909</u>	<u>28,288</u>	<u>-</u>	<u>28,288</u>
EXPENDITURE							
	2						
Directors' fees		20,000	-	20,000	16,666	-	16,666
Administration fees		49,498	-	49,498	44,650	-	44,650
Professional fees		42,832	14,609	57,441	-	72,932	72,932
AIM admission expenses		-	-	-	238,081	-	238,081
Consultancy fees	14	-	171,961	171,961	-	117,651	117,651
Audit fee		9,300	-	9,300	3,000	-	3,000
Bank charges and interest		2,074	-	2,074	2,550	-	2,550
Interest - other		2,124	-	2,124	-	-	-
Commissions paid		3,288	-	3,288	-	-	-
Sundry expenses		-	-	-	1,430	-	1,430
Regulatory and registration fees		18,046	-	18,046	13,767	-	13,767
		<u>147,162</u>	<u>186,570</u>	<u>333,732</u>	<u>320,144</u>	<u>190,583</u>	<u>510,727</u>
NET RETURN ON ORDINARY ACTIVITIES FOR THE FINANCIAL YEAR							
		<u>(145,253)</u>	<u>1,689,050</u>	<u>1,543,797</u>	<u>(291,856)</u>	<u>1,721,363</u>	<u>1,429,507</u>
Return per share: -							
basic and diluted (pence)	6	(1.10)	12.76	11.66	(2.85)	16.81	13.96

All revenue and capital items in the above statement derive from continuing operations.

No operations were acquired or discontinued during the year.

A reconciliation of movements in shareholders' funds is set out in note 13 to the financial statements.

The notes on pages 21 to 26 form an integral part of these financial statements.

EQUITY PRE-IPO INVESTMENTS LIMITED

BALANCE SHEET

31 DECEMBER 2006

	Note	31 December 2006	31 December 2005
FIXED ASSETS			
Quoted investments	4	918,000	2,054,118
Unquoted investments	5	<u>6,352,739</u>	<u>3,722,050</u>
		7,270,739	5,776,168
CURRENT ASSETS			
Cash at bank and broker		77,504	101,668
CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR			
Sundry creditors	8	<u>(18,657)</u>	<u>(28,178)</u>
NET CURRENT ASSETS		58,847	73,490
TOTAL ASSETS LESS CURRENT LIABILITIES		£ <u>7,329,586</u>	£ <u>5,849,658</u>
CAPITAL AND RESERVES			
CALLLED UP SHARE CAPITAL	10	132,372	132,372
SHARE PREMIUM ACCOUNT	11	4,254,872	4,254,872
CAPITAL RESERVE			
REALISED	12	546,843	130,713
UNREALISED	12	2,851,201	1,642,150
REVENUE RESERVE	12	(455,702)	(310,449)
SHAREHOLDERS' FUNDS	13	£ <u>7,329,586</u>	£ <u>5,849,658</u>
Net asset value per share	7	55.37 p	44.19 p

APPROVED BY THE BOARD OF DIRECTORS

P M Schreibke

M Shires

Date *25 May 2007*

The notes on pages 21 to 26 form an integral part of these financial statements.

EQUITY PRE-IPO INVESTMENTS LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	For the year ended 31 December 2006	For the year ended 31 December 2005
Net cash outflow from operating activities	9	(341,344)	(459,511)
Investing activities:			
Purchase of quoted investments		-	(451,999)
Purchase of unquoted investments		(1,833,741)	(2,796,893)
Proceeds from disposals of quoted investments		2,150,921	960,948
		<hr/>	<hr/>
Net cash inflow/(outflow) from investing activities		317,180	(2,287,944)
Financing:			
Issue of own shares		-	2,859,860
Commission on new share issues		-	(22,394)
		<hr/>	<hr/>
Net cash inflow from financing		-	2,837,466
		<hr/>	<hr/>
(Decrease)/increase in cash for the year		£ (24,164)	£ 90,011

RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET FUNDS

(Decrease)/increase in cash for the year		(24,164)	90,011
Opening net funds		101,668	11,657
		<hr/>	<hr/>
Closing net funds		£ 77,504	£ 101,668

The notes on pages 21 to 26 form an integral part of these financial statements.

EQUITY PRE-IPO INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2006

1. SIGNIFICANT NEW FINANCIAL REPORTING STANDARDS

FRS 26 requires that listed investments are valued at bid price, whereas previously, listed investments were valued at middle market price. The Company has applied the transitional provisions of FRS 26 and has not restated the comparative figures for this change in accounting policy. Had the entity restated the comparative figures the investments held at 31 December 2005 would have been valued on a bid basis which would have resulted in the reported total assets at that date being reduced by £63,869.

In accordance with the transitional provisions of FRS 26 the adjustments between the value of investments at the prior balance sheet date and the opening balance sheet at the start of this financial period has been treated as an adjustment against the Company's opening reserves – see note 13.

2. ACCOUNTING POLICIES

(a) CONVENTION

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of investments and in accordance with applicable accounting standards and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies" issued by The Association of Investment Trust Companies in December 2005. The principal accounting policies which the Directors have adopted within that convention are set out below.

(b) INCOME

Dividends receivable from quoted equity investments are recognised on the ex-dividend date. Dividends receivable from equity investments where no ex-dividend date is quoted are recognised when the Company's right to receive payment is established. Interest receivable on cash deposits is accounted for on an accruals basis.

(c) FOREIGN CURRENCY TRANSLATION

Assets and liabilities denominated in foreign currencies other than sterling have been translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions during the period have been translated at the rates of exchange ruling at the date of the transaction.

(d) VALUATION OF INVESTMENTS

Quoted investments are valued at bid price.

Unquoted investments are valued by the Board according to the valuation principles of the European Private Equity and Venture Capital Association as set out in the International Private Equity and Venture Capital Valuation Guidelines (published June 2005, amended October 2006) and accordingly are stated at the value of their latest third party funding. Where no third party funding has taken place, they are valued at cost, less a provision for impairment when necessary.

EQUITY PRE-IPO INVESTMENTS LIMITED

Realised gains or losses on the disposal of investments are taken to the capital reserve - realised. Unrealised gains or losses on revaluation of investments are taken to the capital reserve - unrealised.

(e) EXPENDITURE

All expenses are accounted for on an accruals basis. Expenses are charged through the Statement of Total Return except where the expense is incidental to the acquisition or disposal of an investment in which case the expense is added to the cost of the investment or deducted from the sale proceeds.

Expenses that are directly attributable to the management of investments are allocated directly to capital in the Statement of Total Return. With the Directors' long term target for returns on investments being entirely capital gain there is no requirement to apportion these expenses between revenue and capital.

3. TAXATION

The Company has been granted exempt status under the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989, and is therefore subject to the payment of an annual fee which is currently £600.

4. QUOTED INVESTMENTS	31 December 2006	31 December 2005
At cost	£ <u>920,246</u>	£ <u>1,503,395</u>
At market value	£ <u>918,000</u>	£ <u>2,054,118</u>
5. UNQUOTED INVESTMENTS		
At cost	£ <u>3,499,293</u>	£ <u>2,630,623</u>
At Directors' valuation	£ <u>6,352,739</u>	£ <u>3,722,050</u>

6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net return on ordinary activities for the financial year and on 13,237,235 (2005: 10,238,759) shares being the weighted average number of shares in issue during the year.

The calculation of diluted earnings per share is based on the net return on ordinary activities for the financial year and on 13,237,235 (2005: 10,238,759) shares being the weighted average number of shares in issue during the year adjusted for any dilutive effect of the share options (see note 16).

7. NET ASSET VALUE

The calculation of net asset value is based on the net assets of £7,329,586 (2005: £5,849,658) and on the ordinary shares in issue of 13,237,235 (2005: 13,237,235) at the balance sheet date.

EQUITY PRE-IPO INVESTMENTS LIMITED

8. SUNDRY CREDITORS	31 December 2006	31 December 2005
Audit fees	4,650	3,000
Consultancy / directors fees	-	14,717
Professional fees	7,500	1,520
Administration fees	6,507	8,941
	£ 18,657	£ 28,178

9. CASH FLOW NOTES

(i) Reconciliation of revenue return to operating cashflow

	For the year ended 31 December 2006	For the year ended 31 December 2005
Net revenue return on ordinary activities for the financial year	(145,253)	(291,856)
Expenses charged to capital	(186,570)	(190,583)
(Decrease)/increase in creditors	(9,521)	22,928
Net cash outflow from operating activities	£ (341,344)	£ (459,511)

(ii) Material non-cash transactions

During the year ended 31 December 2005 the Company received stock in an unquoted company amounting to £890,778 in satisfaction of an issue of ordinary shares. The proceeds from issues of ordinary shares during 2005 were received net of commission amounting to £200,000.

10. CALLED UP SHARE CAPITAL	31 December 2006	31 December 2005
Authorised 50,000,000 ordinary shares of £0.01 each	£ <u>500,000</u>	£ <u>500,000</u>
Allotted and fully paid 13,237,235 ordinary shares of £0.01	£ <u>132,372</u>	£ <u>132,372</u>

11. SHARE PREMIUM ACCOUNT

As at 1 January 2006 and at 31 December 2006 £ 4,254,872

EQUITY PRE-IPO INVESTMENTS LIMITED

12. RESERVES	Capital Reserve - Realised	Capital Reserve - Unrealised	Revenue Reserve	Total
Balance at 1 January 2006	130,713	1,642,150	(310,449)	1,462,414
Impact of implementation of FRS 26 (note 1)	-	(63,869)	-	(63,869)
Net return for the financial year	(70,725)	1,759,775	(145,253)	1,543,797
Transfer from unrealised reserves to realised reserves on disposal of investments	486,855	(486,855)	-	-
Balance at 31 December 2006	£ 546,843	2,851,201	(455,702)	2,942,342

13. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS	For the year ended 31 December 2006	For the year ended 31 December 2005
Net return for the financial year	1,543,797	1,429,507
Impact of implementation of FRS 26 (note 1)	(63,869)	-
	<u>1,479,928</u>	<u>1,429,507</u>
New share capital subscribed	-	3,728,244
Net addition to shareholders' funds	<u>1,479,928</u>	<u>5,157,751</u>
Opening shareholders' funds	5,849,658	691,907
Closing shareholders' funds	£ <u>7,329,586</u>	£ <u>5,849,658</u>

14. RELATED PARTY TRANSACTIONS

On 9 February 2005 and as disclosed in the AIM Admission document dated 18 February 2005, Combined Management Services Limited ("CMS") entered into a services agreement with the Company under the terms of which CMS agreed to provide research, consultancy, office management and administration services to the Investment Advisory Panel.

A total of £101,601 (2005: £81,183) has been paid to CMS for the year to 31 December 2006, which amount is included in Consultancy fees in the Statement of Total Return on page 18. Jonathan Freeman owns 50% of CMS.

15. FINANCIAL INSTRUMENTS

(i) Management of risk

The Company's financial instruments comprise:

- Equity shares that are held in accordance with the Company's investment objective as set out in the Director's Statement
- Cash and short term debtors and creditors that arise directly from the Company's operations.

EQUITY PRE-IPO INVESTMENTS LIMITED

The main risks arising from the Company's financial instruments are due to fluctuations in market prices, foreign exchange rates and interest rates. The Board regularly reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained constant throughout the period under review.

Market price risk

Market price risk arises mainly from uncertainty about the future prices of financial instruments used in the Company's operations. It represents the potential loss the Company might suffer through holding market positions in the face of price movements and movements in exchange rates. The Company's assets comprise mainly investments in smaller, unquoted businesses which, by their nature, tend to be more fragile than larger, longer established businesses. In addition these investments may include fast-growing companies undergoing significant change which are, therefore, usually exposed to greater risks than lower growth businesses. The Company's unquoted investments may therefore change in nature quickly with such changes not being reflected in the Company's valuation of investment.

It is the Board's policy to hold an appropriate spread of investments in the portfolio in order to reduce risk arising from factors specific to a particular country or sector. The allocation of assets to international markets and stock selection are other factors which act to reduce market price risk. The Investment Advisory Panel monitor market prices throughout the year and report to the Board, which meets regularly to consider investment strategy.

Foreign currency risk

The Company's total return and net assets can be significantly affected by fluctuations in foreign currency exchange rates because a portion of the Company's assets and revenue are denominated in currencies other than sterling. The Board carefully monitors the Company's exposure to exchange risk and if it feels it necessary will utilise appropriate hedging strategies.

Liquidity risk

Liquidity risk is the risk that the Company will encounter in realising assets or otherwise raising funds to meet its financial commitments. The Company's assets comprise mainly investments in smaller, unquoted businesses which, by their nature are difficult to realise. There is therefore a risk that the Company may not be able to exit from an investment to meet a financial liability or to fund further investment, when such an opportunity arises. Accordingly the Company is generally unable to use its non-cash assets to fund the Company's on-going activities until an exit can be achieved. The Directors carefully monitor the on-going working capital requirements of the Company and seek to ensure that there are sufficient cash resources to meet the liabilities of the Company as they arise.

Credit risk

The Company places funds with authorised deposit takers from time to time and is therefore potentially at risk from the failure of any such institution of which it is a creditor. The Company expects to place any deposits on a short term basis and where possible with more than one institution to reduce its credit risk.

(ii) Interest rate risk of financial assets

The majority of the Company's financial assets are equity shares and other investments which neither pay interest nor have a stated maturity date.

EQUITY PRE-IPO INVESTMENTS LIMITED

(iii) Currency exposure

A portion of the financial assets of the Company are denominated in currencies other than sterling with the effect that the net assets and total return can be significantly affected by currency movements.

	Currency	Investments	Cash at bank	Total
31 December 2006	Euro	£ <u>276,470</u>	£ <u>-</u>	£ <u>276,470</u>
	USD	£ <u>-</u>	£ <u>371</u>	£ <u>371</u>
31 December 2005	Euro	£ <u>173,300</u>	£ <u>-</u>	£ <u>173,300</u>
	USD	£ <u>-</u>	£ <u>3,238</u>	£ <u>3,238</u>

(iv) Fair values of financial assets

All of the financial assets of the Company are held at fair value, as shown in notes 4 and 5.

16. SHARE OPTIONS

The Company had an option agreement with Danemead Limited ("Danemead") under which Danemead had to procure the subscription of a total of £4.0 million for the issue of new shares in Pre-IPO, with half the total due to be procured during the period 24 October 2005 to 23 November 2005 and the remaining half during the period 24 April 2006 to 23 May 2006. The Company announced in the annual report for the year to 31 December 2005 that it did not exercise the first part of the option. With the Company's share price remaining at low levels it was concluded that it was in the best interests of our existing shareholders not to exercise the second part of the option. Accordingly the Danemead option has now lapsed.