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Mergermarket delivers

Sale generates £15.3m for Beringea's ProVen VCTs, producing
impressive special dividends for shareholders



“The results of our ProVen VCTs have been exceptional. ProVen Growth & Income VCT and ProVen VCT announced impressive special dividends of 50p and 31p per ordinary share in October”

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Speculation in the press surrounding recent changes to venture capital trusts (VCTs), including tax relief dropping from 40% to 30%, has sparked widespread debate about whether VCTs would remain an attractive investment option this tax year.

In our articles on pages 5 and 6, we examine the ramifications of the new rules for VCTs. Despite the changes, VCTs still offer substantial tax benefits including attractive upfront income tax relief, as well as the prospect of tax-free income in the future.

Although VCTs are widely recognised as important engines of economic growth, having established themselves as the primary source of capital for businesses seeking to raise up to £5m, their performances vary widely. Choosing the right one can be tricky. The results of our ProVen VCTs, we are pleased to say, have been exceptional this year. ProVen Growth & Income VCT and ProVen VCT, the top-performing VCTs in their launch years, announced impressive special dividends of 50.0p and 31.0p per ordinary share respectively in October, bringing the total dividends per ordinary share paid by the two VCTs since launch to 68.9p and 53.2p.

These payments follow stellar improvements in returns for each VCT in the six months to 31 August 2006. ProVen Growth & Income VCT announced an increase in total return per ordinary share (net asset value plus dividends paid) of 23.5%. The increase in total return per ProVen VCT ordinary share over the same period was 20.1%. It is important, however, to remember that past performance is no guide to future performance.

Our VCTs have been boosted by the sale of Mergermarket, from which we generated 14 times our original cost of £2m, which translates into an internal rate of return (IRR) of 69%. Other portfolio companies, including Espresso Broadband, ILG Digital and Gyro, have also performed exceptionally well.

There is now a strong flow of exciting businesses entering the market. In order to take advantage of this environment, ProVen Growth & Income raised an additional £25m for new investments last year through a ‘C’ share offer.

We have just announced the launch of a £15m ‘C’ share offer for ProVen VCT (see page 4). The funds raised from this offer will be invested alongside funds raised by ProVen Growth & Income VCT, enabling both VCTs to access larger transactions and provide promising SMEs with the capital they require for future growth ●

Stuart Veale

Stuart Veale

Managing director

Specialist information provider boosts ProVen VCTs

Mergermarket sale yields special dividend

Beringea's sale in September of Mergermarket, the financial information provider, has generated a total return of 14 times the original investment of £2m for the private equity firm's investors and an internal rate of return of 69%.

The Beringea funds ProVen VCT, ProVen Growth & Income VCT and Global Rights Fund II, will receive total distributions of £27m, pushing the net asset values of ProVen VCT and Growth & Income ordinary shares up to 133p (an uplift of 25p) per

share and 169p (up 38p) per share respectively, before the payment of special dividends by each VCT. Founded in 2000, Mergermarket offers specialised intelligence, data and analysis for financial institutions and corporates via online platforms. The firm was acquired by the media group Pearson, publisher of the *Financial Times*.

Stuart Veale, managing director of Beringea, said: "This has been an extremely successful investment for Beringea and has delivered

outstanding returns for our investors." Caspar Hobbs, CEO of Mergermarket, added: "Beringea invested in Mergermarket at a critical time for the business. The strategy was daunting and market conditions were poor.

Despite this, Beringea believed in our commitment and had the courage to invest when others didn't." Following the Mergermarket sale, ProVen Growth & Income VCT and ProVen VCT have announced special dividends of 50.0p and 31.0p per



Caspar Hobbs

ordinary share respectively. This will bring the total dividends per ordinary share paid by the two VCTs since launch to 68.9p and 53.2p respectively. The dividends for both VCTs will be paid on 7 December 2006 to ordinary shareholders on the Register on 3 November 2006 ●



Virgin picks Gyro

Beringea portfolio company Gyro International has been appointed as Virgin Atlantic's "below the line" communications agency. The contract could be worth £4m.

"It was clear from the start that Gyro understood our business and challenges," said Breda Bubear, head of advertising and communications at Virgin Atlantic.

The ProVen VCTs last month announced a further

£1.3m investment in the company. This is the second investment by the Beringea-managed funds in Gyro, completing a £7m round which will be used to fund Gyro's growth.

Beringea director Trevor Hope said: "Gyro has continued to grow rapidly since our original investment in 2005. Revenues have increased 107% and it now services over 100 clients" ●

Beringea invests in Espresso

Beringea has made a follow-on investment in educational content provider Espresso Broadband through its ProVen VCTs. ProVen VCT and ProVen Growth & Income VCT committed a further £950,000 to the company to enable it to acquire Netmedia Education, a market leader in the development of web-based learning environments.

Espresso, founded in 1997, has now received nearly £2.8m from the two ProVen VCTs since 2001.

Espresso offers a comprehensive digital library of video-rich teaching

resources and interactive student activities designed to support teachers and raise standards in primary and secondary schools.

"Since we invested in Espresso in 2001 it has demonstrated an impressive track record of growth and has become a market leader," said Stuart Veale, managing director of Beringea. "The acquisition will enhance Espresso's position in the UK education sector, enable both companies to consolidate their leading positions and will add significantly to the company's future growth prospects" ●

ProVen VCT, a top-rated fund, is re-opening for investment with the launch of a £15m 'C' share offer

ProVen VCT's new offer

Beringea is seeking to raise £15m for ProVen VCT through a new 'C' share offer. The move follows excellent performances by both ProVen VCT and ProVen Growth & Income VCT.

The fresh funds will be invested in unquoted growth firms across numerous sectors, including media, business services and leisure, using the Beringea team's contacts and expertise. The team, led by Stuart Veale, is highly experienced and includes

professionals who have worked for some of the UK's leading private equity firms.

ProVen VCT intends to invest funds alongside ProVen Growth & Income VCT, enabling them to take part in bigger deals since they will be able to invest up to £2m in any one company. Good quality deal flow is expected.

ProVen VCT intends to return at least 25p per share after five years through tax-free dividends and a partial offer of 20p per

pound invested. For those who invest in the offer before 29 December, there is an additional 1% offer.

Beringea also intends to maintain its share buy-back facilities on both VCTs at 10%. Please call 0207 845 7820 for details of how you can obtain further information and a share securities note or download one at www.provenvcts.co.uk. Investment in VCTs is not appropriate for everyone. If in doubt, please consult a professional adviser ●

i-level wins three awards

Beringea portfolio company i-level has won three major industry awards in quick succession, confirming its position as the UK's leading digital communications agency.

In November, the firm was declared "Media Agency of the Year" at the Interactive Marketing and Advertising Awards 2006, where the judges said i-level had "a commendable focus on people and culture". They were impressed by the quality of the retained work and the "massive" client wins of what they saw as the leading player in the market.

It also took the Agency of the Year accolade at the Marketing Week Effectiveness Awards in October 2006 for its growing client base and innovative use of technology with the *FHM* website.

Elsewhere, i-level has won £40m of new business in the last 18 months. Turnover in 2005-2006 rose by 73% to £52m, while its new clients include Sky, Orange and the AA. It was also named as one of the 100 best small companies to work for by *The Sunday Times* and won the award for Best Online Advertising Campaign at the Association of Online Publishers Awards in October.

Beringea led a £2.2m investment in i-level last November ●

How have the Proven VCTs performed?

The table below shows how the ProVen VCTs have performed historically. However, past performance is no guide to future performance.

Performance to 31 August 2006	ProVen VCT ordinary shares (launched February 2000)	PGI VCT ordinary shares (launched February 2001)	PGI VCT 'C' shares (launched January 2006)
Performance relative to VCTs launched in same tax year (1)	1st	1st	n/a
Performance relative to VCTs with a track record of more than three years (measured by IRR) (2)	5th out of 61	2nd out of 61	n/a
Net asset value per share (3)	133.9p*	171.0p**	95.1p
Cumulative dividends per share (3)	22.2p*	18.9p**	-
Net asset value total return per share (3)	156.1p*	189.9p**	95.1p
Total return on initial NAV (4)	64%	100%	1%
Return on FTSE All Share Total Return index over same period (5)	18%	27%	7%

Sources:

- (1) www.taxefficientreview.com as at 1 November 2006 – based on Internal Rate of Return since launch
- (2) www.taxshelterreport.co.uk as at 1 November 2006 – based on Internal Rate of Return since launch
- (3) Unaudited interim accounts of the Company for the six months ended 31 August 2006
- (4) Beringea – from initial listing date to 31 August 2006
- (5) Datastream – from initial listing date to 31 August 2006

* payment of a special dividend in respect of the sale of Megermarket Limited on 7 December 2006 of 31p will increase cumulative dividends paid to 53.2p and reduce the NAV to 96.9p and the total return per share to 150.1p

** payment of a special dividend in respect of the sale of Megermarket Limited on 7 December 2006 of 50p will increase cumulative dividends paid to 68.9p and reduce the NAV to 111.4p and the total return per share to 180.3p

The Treasury may have shifted the goal posts but VCTs still offer a tax-effective way to invest in smaller companies

VCTs still attractive after budget changes

The 2006 budget saw a number of changes to VCT products, namely:

- A reduction in income tax relief, from 40% to 30%
- An increase in the qualifying holding period for which investors must keep their VCT shares, from three to five years
- A reduction in the maximum gross assets of companies that VCTs can invest in, to £7m
- A change in the definition of "investment". After the initial investment period of approximately three years, a VCT must have 70% of the value of its investments in shares or securities in qualifying holdings to gain and retain approval.

Reduction in tax relief from 40% to 30%

This reduction was widely expected. However, the number of tax mitigation schemes and products continues to fall and it is becoming ever more difficult to defer tax.

For example, Film Partnerships are far less attractive than they were, while the £1.5m pensions cap further limits options to mitigate income tax. VCTs remain a tax-efficient alternative, with the 30% relief boosting the underlying investment returns.

Holding period extended to five years

The VCTs that will suffer most from the extension to the minimum holding period are those designed to achieve a

While some believe the lower cap will greatly increase the risk profile, our view is that for many VCTs, including the ProVen VCTs, the impact will be minimal



return purely from the tax break, rather than from the investment returns on a portfolio of SMEs. This change could remove "marginal players" and concentrate this year's fundraising on the mainstream venture capital firms operating in the VCT arena.

Asset size of investment capped at £7m

This has caused the most consternation for investors and IFAs. While some observers believe this will greatly increase the risk profile, our view is that for many VCTs, including the ProVen VCTs, the impact will be minimal. The change will certainly make AIM investments

more difficult. Under the old rules,

approximately 11% of AIM fundraising qualified for VCT investment and this is expected to halve under the new rules.

As the economy moves towards service-based companies with minimal fixed assets, even quite large portfolio companies will continue to meet this test. In addition, nearly all management buy-outs carried out by VCTs will satisfy the new rules, owing to the way in which these transactions are normally structured.

A change to the definition of "investment"

After the initial three-year investment period, a VCT must have 70% of the value of its investments represented by shares or securities in qualifying holdings to gain and retain approval. Currently, it is possible to avoid treating cash held by a VCT as an investment for the purpose of this test, but after 5 April 2007 this will no longer be the case. This will put more pressure on VCT managers to ensure they maintain a sufficient level of investment in qualifying holdings.

For investors, this means identifying VCT managers that can generate a strong flow of good investment opportunities is more important than ever.

Summary

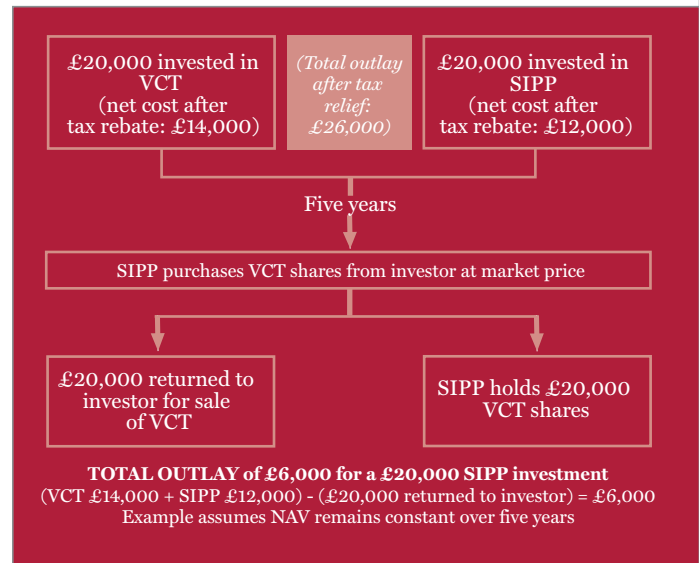
Although the tax treatment of VCTs is not as generous as it was, we believe VCTs, managed by experienced investors with a good strategy, will still perform well over the long term ●

VCTs and SIPPs: double tax relief

Thanks to recent changes in pensions legislation permitting transactions between connected persons, it is possible for an investor to combine tax reliefs for VCTs and SIPPs. Five or more years after a purchase of shares in a VCT, those shares can be purchased by the investor's SIPP returning capital to the investor. As the illustration below shows, it is possible to have a £20,000 VCT investment in your SIPP for a cost of £6,000.

The SIPP and the VCT investment will be subject to the limits sets by the Inland Revenue.

The VCT shares can provide an income within the SIPP and can also help to diversify it by introducing a portfolio of unquoted securities as well as being highly tax-efficient. Independent advice should be sought before investing ●



Martin Churchill, independent commentator and editor of *Tax Efficient Review*, looks at the tax changes to VCTs that were announced in the last Budget and looks ahead at this year's fundraising season

Fresh VCT opportunities

The VCT market has just been through two years of record-breaking fundraising spurred on by the initial tax relief being raised to 40%. In the tax year 2004/2005 the market raised over £500m and in 2005/2006 over £700m.

As explained on page 5, the 2006 Budget heralded changes covering three main areas: the initial tax relief was

cut back from 40% to 30%; the minimum holding period for VCT shares was raised from three years to five years; and the maximum gross assets that a company can have prior to a VCT investing is now £7m, down from £15m before.

So what effect will these changes have on the VCT market in this tax year? The lower rate of tax relief will

certainly dampen demand from investors. We expect the market will be worth between £200m and £250m in this tax year as some investors took advantage of the 40% last year to invest for both tax years in order to lock in the 40% tax relief.

We do not expect the minimum holding period to affect demand as we believe that most investors consider a VCT as a long-term hold anyway.

The change in gross asset test would at first sight appear to increase the risk inherent in VCT investing in small-cap companies. But our research shows that the vast majority (over 85%) of deals done in the past – when the upper limit was £15m rather

than £7m – would still qualify under the new lower limit.

Overall, we think the attractions of VCTs for most investors remain unchanged and that VCTs with good track records of increasing their net asset values and paying out regular dividends will raise money this tax year.

Investors still need to remember that they must leave their money in a VCT for a minimum of five years or else the tax relief has to be repaid; that because VCTs invest in small companies it can take many years for these investments to deliver a return; and that shares in VCTs can be difficult to trade and often sell at a large discount to the value of assets held by the VCT. Private investors should seek professional advice before investing ●



Left: Martin Churchill
www.taxefficientreview.com

Trevor Hope examines the importance of building a balanced portfolio and the attractions of the media sector in which ProVen VCTs invest up to 25% of their funds

Balancing the books

Our VCTs seek to invest in small, rapidly growing companies in a variety of sectors. While up to 25% of the ProVen VCTs' funds may be invested into media, we offer our investors broad exposure to the UK economy. We have particular interests in business services and leisure.

Our investment strategy is to analyse and anticipate macroeconomic trends while using our industry knowledge and expert contacts to identify the impacts of those trends. Our investment managers identify and nurture companies with a competitive edge that will exploit these trends and at the same time provide the VCT with a balanced portfolio of opportunity and risk.

In the leisure sector, we have identified "eating out" as a growing trend, especially as part of a shopping experience. We have helped the restaurant chains Loch Fyne and Ma Potter's exploit this growth. Since our investment in Ma Potter's in 2003, the group has expanded the number of its restaurants by nearly 50% to 13, and more openings are planned. Beringea has played an active role with the company, assessing future development, helping to increase profitability and assisting in negotiations with long-term partners. Loch Fyne, a portfolio company which was sold last year to Premium Casual Dining, was a success story which attracted a number of bidders.

Within the diverse and dynamic media sector, we are

increasingly excited by digitisation and digital communications. Online advertising, in particular, is seeing huge growth as corporates look for specialists to help them manage their brand and sales online. Accordingly, we have led an investment in i-level, Europe's largest and most successful online media buyer, which boasts high-profile clients, including Orange and Sky.

In order to balance our investments in advertising and marketing, we have also invested in content-driven firms. Our specialist knowledge allows us to see through the 'noise' and hype generated by new trends and to pick out companies such

as Mergermarket, the financial information provider, which generated a total return of 14 times our original investment of £2m. Another is Espresso Broadband, a provider of digital educational broadband, which has contracts with nearly 50% of UK primary schools.

We appreciate the need to have a balanced portfolio of companies, including some investments which might not be directly impacted by the latest trends. We believe that if the opportunity is attractive enough we should be creative in the construction of our deals, and in finding ways round difficult issues to ensure a deal happens. A characteristic of Beringea is that we don't simply provide an investment: instead we become an additional pool of resource to the investee company, helping with acquisitions and the strengthening of their management teams ●



ProVen news



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