

BREEDING CAPITAL PLC
REPORT OF THE DIRECTORS AND
FINANCIAL STATEMENTS
FOR THE PERIOD
22 NOVEMBER 2005 (date of incorporation)
TO 31 AUGUST 2006

REGISTERED NUMBER: 5631692

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For The Period 22 November 2005 to 31 August 2006

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COMPANY INFORMATION
For The Period 22 November 2005 to 31 August 2006

Directors: Christopher Holdsworth Hunt, Chairman
William Henry Sporborg, Managing Director
Simon David Marsh, Bloodstock Director

Company Secretary: William Sporborg

Registered Office: All of
Crows Farm
Malting End
Wickhambrook
Newmarket
Suffolk CB8 8QA

Auditors: James Cowper
Bartholomew Street
Newbury
Berkshire RG14 5QA

Tax Adviser: James Cowper
3 Wesley Gate
Queens Road
Reading RG1 4AP

Solicitors: Field Fisher Waterhouse
35 Vine Street
London
EC3N 2AA

Share Registrars: Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Bankers: Weatherbys Bank Limited
Sanders Road
Wellingborough
Northamptonshire NN8 4BX

Registered Number: 5631692

REPORT OF THE DIRECTORS
For The Period 22 November 2005 to 31 August 2006

The Directors present their report with the financial statements of the Company for the period 22 November 2005 to 31 August 2006.

INCORPORATION

The Company was incorporated on 22 November 2005.

PRINCIPAL ACTIVITY

The principal activity of the Company in the period under review was raising funds in order to trade bloodstock. The Company began trading on 17 July 2006.

REVIEW OF BUSINESS

The results for the period and financial position of the Company are as shown in the annexed financial statements.

The Company was incorporated on 22 November 2005, with the intention of raising funds to invest in and trade a portfolio of high quality bloodstock assets. In January 2006, the Company published an Offering Memorandum to raise £5 million by way of two parallel offers, which closed in April 2006. In total, over £3.2 million has been raised. Since the funds have been raised, the Directors and the consultants have been reviewing a significant number of potential purchases, with the primary focus on broodmares. At the year end, no available broodmares had met the Company's exacting investment criteria, having regard to pedigree, performance, physical inspection and, of course, price. Your Company had acquired interests in four yearlings, for resale as breeze ups – the cost of these interests was £40,958 at the balance sheet date.

During the period to 31 August 2006, the Company did not have any turnover, and incurred an operating loss of £93,596. The Company earned interest on its cash balances, using a mix of fixed term deposits and readily accessible deposits. The interest reduced the loss for the period to £29,525.

On the balance sheet, shareholders' funds are £3.05 million, with £3.04 million in cash.

Turnover in the year to 31 August 2007 is likely to comprise predominantly of the sale of the yearlings acquired in the summer and early autumn of 2006.

POST BALANCE SHEET EVENTS

Since the year end, Breeding Capital has been active in investing funds into tradable stock. Your Company has been actively involved in securing yearlings for onward sale as two year olds at the breeze up sales. Working in partnership with Jamie Railton, the Company acquired interests in a further six yearlings in September, to supplement the four yearlings already owned at the year end. All ten yearlings are now residing in Suffolk, and are being prepared for the sales in the spring of 2007. The total cost of Breeding Capital's interests amounts to £281,000.

At Tattersalls in November, Breeding Capital also acquired two foals, namely a colt by Pivotal and a filly by Indian Ridge, costing £278,000 in total. These foals will be reoffered next year, as yearlings.

The major broodmare sales took place during the month of November, with Keeneland, Goffs, Tattersalls and Deauville all offering a wide range of broodmares. The market has been particularly buoyant over the last year, with good yearling sales and exceptional foal sales driving the broodmare market to record highs – indeed, the record price for a broodmare was smashed, when Magical Romance was acquired for £4.6 million. Despite the strength of the market, your Directors believe that the interests in two mares and four fillies acquired at Tattersalls last week represent a very interesting and balanced portfolio, at sensible prices. The two mares are Exciting Times, who bred Gorella and Porto Santo from her first two foals, and is in foal to Dubawi, and Bayalika, the dam of Young Equine, who is in foal to leading first season sire, Invincible Spirit. The four fillies, by Theatrical, Diesis, Dashing Blade and Cape Cross respectively, are all from excellent families. The total cost of your Company's interests in the six assets described above is £1.67 million.

REPORT OF THE DIRECTORS (continued)
For The Period 22 November 2005 to 31 August 2006

In summary, your Company has spent £2.2 million on interests in eighteen horses. Further funds are available to acquire additional bloodstock assets, provided they meet exacting criteria, and the Directors believe they will be accretive to shareholder value.

DIVIDENDS

No dividends will be distributed for the period ended 31 August 2006.

DIRECTORS

The Directors during the period under review were:

C Holdsworth Hunt	- appointed 7.12.05
S D Marsh	- appointed 22.11.05
W H Sporborg	- appointed 22.11.05

The beneficial interests of the Directors holding office on 31 August 2006 in the issued share capital of the Company were as follows:

	31.8.06	at date of appointment
Ordinary 25p shares		
C Holdsworth Hunt	165,000	-
S D Marsh	24,918	20,000
W H Sporborg	24,918	20,000

All the Directors, being eligible, offer themselves for re-election at the forthcoming first Annual General Meeting.

ANNUAL GENERAL MEETING

The Annual General Meeting will take place at Huntingdon Racecourse, on Thursday 25th January at 11.30 am.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Liquidity risk

The Company may need to raise additional funds in the future for further working capital. There is no guarantee that future prevailing market conditions will allow for such a fundraising, or that new investors will be prepared to subscribe. The Directors have carefully considered this and through careful enquiry and ongoing financial forecasting, have come to the opinion that the working capital of the Company is sufficient to meet its requirements for the foreseeable future.

Price risk

The Directors are unable to set the sale price for the Company's stock, as the market price is dependant upon a number of industry and other factors, some of which are outside of the control of the Directors. There is an inherent risk in acquiring bloodstock, as its value can be impaired at any time through accident, injury, illness or death. The Directors have endeavored to mitigate some of this risk by ensuring all bloodstock is covered by a comprehensive insurance policy that includes all risks of mortality worldwide.

Currency risk

Some of the portfolio of assets, which the Company intends to acquire and subsequently trade may be bought and sold in currency other than British pounds sterling. The Company will report all its financial results in British pounds sterling. Accordingly, foreign currency fluctuations may affect the Company's financial performance. The Directors are not aware of any efficient safeguards to mitigate this risk.

**REPORT OF THE DIRECTORS (continued)
For The Period 22 November 2005 to 31 August 2006**

CREDITOR PAYMENT POLICY

The Company pays its creditors according to the agreed terms of business.

POLITICAL AND CHARITABLE CONTRIBUTIONS

The Company made no political or charitable contributions during the period.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the Directors to prepare financial statements for each financial year 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;
- 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 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 comply with the Companies Act 1985. 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.

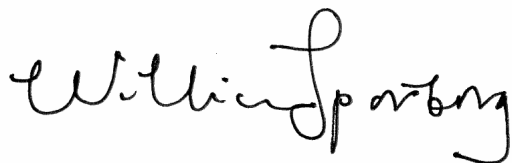
STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the Directors are aware, there is no relevant audit information (as defined by Section 234ZA of the Companies Act 1985) 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 in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

AUDITORS

The auditors, James Cowper, will be proposed for re-appointment in accordance with Section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD:



W H Sporborg - Director

5th December 2006

REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF BREEDING CAPITAL PLC

We have audited the financial statements of Breeding Capital Plc for the period ended 31 August 2006 on pages six to twelve. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of Directors and auditors

As described on page four the Company's Directors are responsible for the preparation of 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 Act 1985. We also report to you if, in our opinion, the Report of the Directors is 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 regarding Directors' remuneration and other transactions is not disclosed.

We read the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. 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 are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

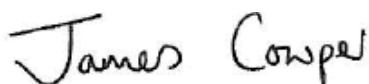
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity 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 August 2006 and of its loss for the period then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

In our opinion the information given in the Report of the Directors is consistent with the financial statements.



James Cowper
Registered Auditors
Phoenix House
Bartholomew Street
Newbury RG14 5QA

Date: 5th December 2006

PROFIT AND LOSS ACCOUNT
For The Period 22 November 2005 to 31 August 2006

	Notes	£
TURNOVER		-
Administrative expenses		<u>93,596</u>
OPERATING LOSS	3	(93,596)
Interest receivable		<u>64,071</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(29,525)
Tax on loss on ordinary activities	4	<u>-</u>
LOSS FOR THE FINANCIAL PERIOD AFTER TAXATION		<u>(29,525)</u>

CONTINUING OPERATIONS

None of the Company's activities were acquired or discontinued during the current period.

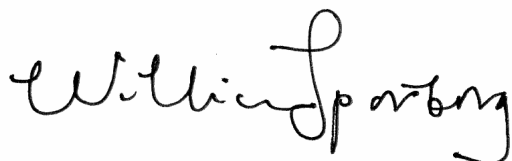
TOTAL RECOGNISED GAINS AND LOSSES

The Company has no recognised gains or losses other than the loss for the current period.

BALANCE SHEET
31 August 2006

	Notes	£
CURRENT ASSETS		
Stock	5	40,958
Debtors	6	21,289
Cash at bank		<u>3,041,142</u>
		3,103,389
CREDITORS		
Amounts falling due within one year	7	<u>53,734</u>
NET CURRENT ASSETS		
		<u>3,049,655</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		
		<u><u>3,049,655</u></u>
CAPITAL AND RESERVES		
Called up share capital	8	831,738
Share premium	9	2,247,442
Profit and loss account	9	<u>(29,525)</u>
SHAREHOLDERS' FUNDS		
	11	<u><u>3,049,655</u></u>

The financial statements were approved by the Board of Directors on 5th December 2006 and were signed on its behalf by:



W H Sporborg - Director

CASH FLOW STATEMENT
For The Period 22 November 2005 to 31 August 2006

	Notes	£
Net cash outflow from operating activities	1	(102,109)
Returns on investments and servicing of finance	2	<u>64,071</u>
		(38,038)
Financing	2	<u>3,079,180</u>
Increase in cash in the period		<u><u>3,041,142</u></u>
<hr/>		
Reconciliation of net cash flow to movement in net debt	3	
Increase in cash in the period		<u>3,041,142</u>
Change in net debt resulting from cash flows		<u>3,041,142</u>
Movement in net debt in the period		3,041,142
Net debt at 22 November 2005		<u>-</u>
Net cash at 31 August 2006		<u><u>3,041,142</u></u>

The notes form part of these financial statements

NOTES TO THE CASH FLOW STATEMENT
For The Period 22 November 2005 to 31 August 2006

1. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	£
Operating loss	(93,596)
Increase in stock	(40,958)
Increase in debtors	(21,289)
Increase in creditors	<u>53,734</u>
Net cash outflow from operating activities	<u>(102,109)</u>

2. ANALYSIS OF CASH FLOWS FOR HEADINGS SHOWN NET IN THE CASH FLOW STATEMENT

	£
Returns on investments and servicing of finance	
Interest received	<u>64,071</u>
Net cash inflow from returns on investments and servicing of finance	<u>64,071</u>
Financing	
Share issue at par	831,738
Premium on issue of ordinary shares	2,385,213
Issue costs charged to share premium	(90,820)
Commissions reinvested as shares	<u>(46,951)</u>
Net cash inflow from financing	<u>3,079,180</u>

3. ANALYSIS OF CHANGES IN NET DEBT

	At 22.11.05 £	Cash flow £	At 31.8.06 £
Net cash:			
Cash at bank	<u>-</u>	<u>3,041,142</u>	<u>3,041,142</u>
	<u>-</u>	<u>3,041,142</u>	<u>3,041,142</u>
Total	<u><u>-</u></u>	<u><u>3,041,142</u></u>	<u><u>3,041,142</u></u>

NOTES TO THE FINANCIAL STATEMENTS
For The Period 22 November 2005 to 31 August 2006

1. **ACCOUNTING POLICIES**

Accounting convention

The financial statements have been prepared under the historical cost convention.

Stock

Bloodstock and shares in bloodstock are stated at the lower of cost and market value, as determined by the Directors. The cost of the stock is deemed to be the purchase price plus the cost of keep and related costs incurred for youngstock.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

Foreign currencies

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

2. **STAFF COSTS**

Wages and salaries	£ <u>35,309</u>
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The average monthly number of employees during the period was as follows:

Directors	<u>3</u>
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3. **OPERATING LOSS**

The operating loss is stated after charging:

Auditors' remuneration	£ 3,000
Auditors' remuneration for non audit work	<u>3,750</u>

Directors' emoluments	<u>35,309</u>
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4. **TAXATION**

Analysis of the tax charge

No liability to UK corporation tax arose on ordinary activities for the period.

5. **STOCK**

Youngstock and shares in youngstock	£ <u>40,958</u>
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6. **DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

Accrued income	£ 9,188
VAT	7,215
Prepayments	<u>4,886</u>
	<u>21,289</u>

NOTES TO THE FINANCIAL STATEMENTS - continued
For The Period 22 November 2005 to 31 August 2006

7. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	£
Trade creditors	48,859
Accrued expenses	<u>4,875</u>
	<u><u>53,734</u></u>

8. CALLED UP SHARE CAPITAL

Authorised:			
Number:	Class:	Nominal value:	£
10,000,000	Ordinary	25p	<u>2,500,000</u>
Allotted, issued and fully paid:			
Number:	Class:	Nominal value:	£
3,326,953	Ordinary	25p	<u>831,738</u>

In order to fund the Company's working capital requirements 3,326,953 ordinary shares of 25p each were allotted for a total of £3,216,951, which includes a premium of £2,385,213.

In accordance with the provisions of the Companies Act, expenses directly relating to the share issue and Company formation, in the sum of £137,771, have been debited to the share premium account. Included within this figure is a commission payable to Promoters, amounting to £54,098. Of this, £45,901 was reinvested into Ordinary shares in the Company, at a price of £1.00 per share.

9. RESERVES

	Profit and loss account £	Share premium £	Totals £
Deficit for the period	(29,525)		(29,525)
Transfer to other reserves	<u>-</u>	<u>2,247,442</u>	<u>2,247,442</u>
At 31 August 2006	<u>(29,525)</u>	<u>2,247,442</u>	<u>2,217,917</u>

10. RELATED PARTY DISCLOSURES

During the period the Company paid Mr William Sporborg commission of £13,525 and issued shares with a value of £4,918 to both Mr William Sporborg and Mr Simon Marsh, in lieu of further commissions payable. These payments were in accordance with the terms of the Offer document.

NOTES TO THE FINANCIAL STATEMENTS - continued
For The Period 22 November 2005 to 31 August 2006

11. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	£
Loss for the financial period	(29,525)
Issue of shares (net of attributable expenses – see note 8)	<u>3,079,180</u>
Net addition to shareholders' funds	3,049,655
Opening shareholders' funds	<u>-</u>
Closing shareholders' funds	<u><u>3,049,655</u></u>
Equity interests	<u><u>3,049,655</u></u>