

Registered No. OC304607

Pacific Alternative Asset Management Company Europe LLP

**Members' report and Financial Statements
for the year ended 31 December 2005**



Pacific Alternative Asset Management Company Europe LLP

Registered Number: OC304607

**REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

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Pacific Alternative Asset Management Company Europe LLP

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REGISTERED OFFICE AND PROFESSIONAL ADVISORS

Designated Members

Pacific Alternative Asset Management Company LLC

Stephen Edward Oxley

Alper Ince

Auditors

RSM Robson Rhodes LLP

30 Finsbury Square

London

EC2P 2YU

Bankers

Barclays Bank PLC

7th Floor

180 Oxford Street

London

W1D 1EA

Registered Office

40 New Bond Street

London W1S 2RX

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Members' report

The members present their annual report together with the financial statements of the partnership for the year ended 31 December 2005.

Principal activity and review of the business

The principal activity of the partnership is to provide investment services.

Results and distributions

The results for the period are shown in the profit and loss account on page 8. The partnership's balance sheet as detailed on page 9 shows a satisfactory position with members' interests amounting to £433,761 (2004: £439,363).

Members' profit allocation

Any profits are shared among the members and governed by the Partnership Agreement dated 1 August 2003 as amended on 20 January 2005.

Policy for members' drawings, subscriptions and repayment of members' capital

The Partnership Agreement dated 1 August 2003 as amended 20 January 2005 governs policies for members' drawings, subscriptions and repayment of members' capital.

Designated Members

The designated members of the LLP during the period were as follows:

Pacific Alternative Asset Management Company LLC
Stephen Edward Oxley
Alper Ince

Auditors

A resolution to reappoint RSM Robson Rhodes LLP as auditors will be put to the members at the Annual General Meeting.

This Members' Report was approved by the Designated Members on 28 April 2006 and signed on their behalf by:


Stephen Oxley

Alper Ince

Registered Number: OC304607

Statement of Members' responsibilities

The Limited Liability Partnerships (LLP) Regulations 2001 made under the Limited Liability Partnership Act 2000 requires the members to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the LLP as at the end of the financial period and of the profit or loss of the LLP for that period. *In preparing these financial statements, the Members have:*

- Selected suitable accounting policies and then apply them consistently;
- Made judgements and estimates that are reasonable and prudent;
- Followed applicable accounting standards; and
- Prepared the accounts on the going concern basis.

The members are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the LLP and to enable them to ensure that the accounts comply with the LLP regulations. They are also responsible for safeguarding the assets of LLP and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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Independent auditors' report to the members of Pacific Alternative Asset Management Company Europe LLP

We have audited the financial statements on pages 8 to 16. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the members of the limited liability partnership (the "Partnership"), as a body, in accordance with Section 235 of the Companies Act 1985 as applied by the Limited Liability Partnership Regulations 2001, Regulation 3. Our audit work has been undertaken so that we might state to the Partnership's members those matters we are required to state to them in an 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 Partnership and the Partnership's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Members' Responsibilities the Partnership's members are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

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 as applied by the Limited Liability Partnership Regulations 2001, Regulation 3. We also report to you if, in our opinion, the Members' Report is not consistent with the financial statements, if the Partnership has not kept proper accounting records, if we have not received all the information and explanations we require for our audit.

We read the Members' Report 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 members in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Partnership'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.

Pacific Alternative Asset Management Company Europe LLP

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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 affairs of the Partnership as at 31 December 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985 as applied by the Limited Liability Partnership Regulations 2001, Regulation 3.

RSM Robson Rhodes LLP

RSM Robson Rhodes LLP
Chartered Accountants and Registered Auditors
London, England
28 April 2006

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Profit and loss account for the year ended 31 December 2005

		2005	2004
		£	£
Turnover	Notes 2		
Management fees		677,457	253,468
'Cost plus' revenue from controlling party		1,008,560	1,119,375
Other		280,435	-
		<u>1,966,452</u>	<u>1,372,843</u>
Expenses			
Administration expenses		(981,478)	(510,728)
Operating profit		<u>984,974</u>	<u>862,115</u>
Interest receivable		407	7,542
Profit for the financial period available for division among the members	10	<u>985,381</u>	<u>869,657</u>

There are no recognised gains or losses in the period other than those reported in the profit and loss account. All amounts are in respect of continuing operations.

The notes on pages 11 to 16 form part of these Financial Statements.

Pacific Alternative Asset Management Company Europe LLP

Registered Number: OC304607

Balance sheet
as at 31 December 2005

		2005 £	2004 RESTATED £
	Notes		
Fixed Assets			
Tangible fixed assets	6	67,995	58,161
Current Assets			
Debtors and prepayments	7	317,511	180,850
Cash		582,553	361,473
		<u>900,064</u>	<u>542,323</u>
Current Liabilities			
Creditors falling due within one year	8	(284,674)	(47,937)
Net Current Assets		<u>615,390</u>	<u>494,386</u>
Creditors falling due in more than one year	8	(10,289)	(17,553)
Net Assets attributable to members		<u>673,096</u>	<u>534,994</u>
Represented by:			
Loans and other debts due to members within one year			
Members' capital classified as a liability under FRS 25		220,500	168,560
Other amounts		<u>187,608</u>	<u>229,335</u>
		408,108	397,895
Equity			
Members' other interests-other reserves classified as equity under FRS 25		264,988	137,099
Total Members' Interest		<u>673,096</u>	<u>534,994</u>
Amount due from members		(239,335)	(95,631)
Loans and other debts due to members		408,108	397,895
Members' other interests		264,988	137,099
Members' Total Interests	10	<u>433,761</u>	<u>439,363</u>

The financial statements were approved by the members on 28 April 2006 and signed on their behalf by:


Stephen Oxley

Alper Ince

The notes on pages 11 to 16 form part of these Financial Statements.

Registered Number: OC304607

Statement of cash flows for the year ended 31 December 2005

		2005	2004
		£	£
	Notes		
Net cash inflow from operating activities	11	898,306	795,040
Returns on investments and servicing of finance			
Interest received		407	7,542
Capital expenditure and financial investment			
Payment to acquire tangible fixed assets		(28,574)	(45,928)
Transactions with members			
Payments to members		(716,015)	(565,276)
(Withdrawals)/Contributions of capital		51,940	(3,440)
Increase in cash	12	<u>206,064</u>	<u>187,938</u>

Reconciliation of net cash flow to movement in net funds

		2005	2004
		£	£
Increase in cash in the period		206,064	187,938
Translation difference		15,016	
Net funds at start of period		361,473	173,535
Net funds at 31 December	12	<u>582,553</u>	<u>361,473</u>

The notes on pages 11 to 16 form part of these Financial Statements.

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Notes to the Financial Statements for the year ended 31 December 2005

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention, and in accordance with applicable accounting standards, the Statement of Recommended Practice ("SORP"), Accounting by Limited Liability Partnerships, revised in March 2006, and the terms of the LLP's Membership Agreement.

Change in Accounting Policy

The LLP has changed its accounting treatment of the division of profit, and the treatment of members' capital.

The SORP requires members' rights to participate in the profits or losses of an LLP should be accounted for as follows:

- Where members have an automatic right to the division of profits, to the extent that the LLP does not have an unconditional right to avoid delivering cash or other assets to a member in respect of such amounts, that amount is charged in the profit and loss account as *Members' remuneration charged as an expense*.
- Amounts becoming due to members following a discretionary division of profits are deducted directly from equity in the year in which the division occurs, not charged in the profit and loss account, and treated as a non-adjusting event under Financial Reporting Standard ("FRS") 21, *Events after the Balance Sheet Date*, balance sheet.

Members' capital is accounted for in accordance with FRS 25, *Financial Instruments: Disclosure and Presentation*. Where the LLP has a contractual obligation to deliver cash or another financial asset to the member, the capital is treated as debt. Where the LLP has an unconditional right to avoid delivering cash or other financial assets to a member in respect of such amounts, (ie repayment of the member's capital is discretionary,) it is treated as equity.

There is no change in the amount of total members' interest shown in the balance sheet.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling on the date of the transaction. Differences arising from the rate between due date and actual payment date are taken to the profit and loss account. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.

Fixed assets

All fixed asset are recorded at cost, less any provision for impairment.

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Notes to the Financial Statements

for the year ended 31 December 2005

Depreciation

Depreciation is provided on all tangible fixed assets on a straight-line basis as below:

Computer hardware	5 years
Computer software	3 years
Office equipment	5 years
Furniture	7 years

Leased assets

Rentals payable under an operating lease, after taking into account reduced rent periods, are charged to the profit and loss account on a straight line basis over the term of the lease.

Taxation

No provision for taxation is made as any liability arising is assessable directly on the members.

2. Turnover

Turnover, which is stated net of value added tax, is derived from two main sources, the reimbursement of expenses by Paamco LLC on a 'cost plus' basis and fees for the marketing of investment management services during the period. Management fees are recognised on a receivable basis. Other income is recognised as and when earned. All activities are derived from continuing activities in the UK.

3. Operating profit

This is stated after charging/(crediting):

	2005	2004
	£	£
Depreciation	18,740	8,866
Foreign exchange differences	(19,631)	1,169
Auditors' remuneration:		
- Audit fees	7,590	6,500
Operating lease rentals	50,838	48,063

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Notes to the Financial Statements

for the year ended 31 December 2005

4. Employees

Average monthly number of employees in the year was 7 (2004: 2)

Staff costs:

	2005	2004
Wages and salaries	423,364	75,303
Social security costs	52,521	8,113
	<u>475,885</u>	<u>83,416</u>

5. Members and their remuneration

The average number of members during the year was 3 (2004: 4).

The profit (including remuneration), that is attributable to the member with the largest entitlement to profit (including remuneration), is £483,902 (2004: £373,799).

6. Tangible fixed assets

	Computer Equipment £	Office Equipment, Fixtures and Fittings £	Total £
Cost:			
Brought forward	52,019	18,005	70,024
Additions	19,424	9,150	28,574
At 31 December 2005	<u>71,443</u>	<u>27,155</u>	<u>98,598</u>
Accumulated depreciation:			
Brought forward	10,114	1,749	11,863
Charge for the period	14,719	4,021	18,740
At 31 December 2005	<u>24,833</u>	<u>5,770</u>	<u>30,603</u>
Net book value:			
At 31 December 2004	<u>41,905</u>	<u>16,256</u>	<u>58,161</u>
At 31 December 2005	<u>46,610</u>	<u>21,385</u>	<u>67,995</u>

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Notes to the Financial Statements for the year ended 31 December 2005

7. Debtors

Amounts falling due in less than one year

	2005 £	2004 £
Amounts due from PAAMCo LLC	239,335	95,631
VAT	10,636	10,155
Other debtors	35,818	44,706
Prepayments and accrued income	31,722	30,358
	<u>317,511</u>	<u>180,850</u>

Included within other debtors is an amount of £34,134 (2004: £36,918) in respect of a rental deposit which is recoverable in more than one year

8. Creditors

Amounts falling due within one year

	2005 £	2004 £
Trade creditors	9,550	24,031
Taxes and social security	78,123	7,324
Accruals and deferred income	197,001	16,582
	<u>284,674</u>	<u>47,937</u>

Amounts falling due in more than one year

	2005 £	2004 £
Deferred rental	10,289	17,553
	<u>10,289</u>	<u>17,553</u>

9. Loans and other debts due to members

	2005 £	2004 £
Owed to members in respect of profits – falling due within one year	<u>370,811</u>	<u>229,335</u>

Amounts owed to members would rank equally with other unsecured creditors in the event of a winding up of the LLP.

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Notes to the Financial Statements

for the year ended 31 December 2005

10. Reconciliation of movements in members' other and members' total interests

	Members' Capital	Other Reserves	Total	Loans and other debts due from/to members	Total members' interests
	£	£	£	£	£
Amounts due to members				229,335	
Amounts due from members				(95,631)	
Balance as at 1 January 2005 as previously reported	168,560	137,099	305,659	133,704	439,363
Effect of change in accounting policy	(168,560)		(168,560)	168,560	0
Adjusted balance at 1 January 2005	0	137,099	137,099	302,264	439,363
Profit for financial year		985,381	985,381	0	985,381
Members' capital				51,940	51,940
Members' remuneration		(857,491)	(857,491)	857,491	
Drawings				(899,219)	(899,219)
Increase in loan to member				(143,704)	(143,704)
					433,761
Amounts due to members				408,108	
Amounts due from members				(239,335)	
At 31 December 2005	0	264,989	264,989	168,772	433,761

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Notes to the Financial Statements

for the year ended 31 December 2005

11. Reconciliation of operating profit to net cash inflow from operating activities

	2005 £	2004 £
Operating profit	984,974	862,115
Gain on foreign exchange	(15,016)	
Depreciation charge	18,740	8,866
(Increase)/Decrease in debtors	(136,661)	(123,260)
Increase in creditors	46,269	47,319
Net cash flow from operating activities	898,306	795,040

12. Analysis of changes in net funds

	At 31 December 2004 £	Cash inflow £	Exchange Rate Movement £	At 31 December 2005 £
Cash at bank and in hand	<u>361,473</u>	<u>206,064</u>	<u>15,016</u>	<u>582,553</u>

13. Related parties

The ultimate controlling party is Pacific Alternative Asset Management Company LLC ("PAAMCo LLC") incorporated in the United States of America. The LLP received £1,008,560 (2004: £1,119,375) during the period from its controlling member PAAMCo LLC under a 'cost plus' transfer pricing arrangement between the two entities. At the year end £239,335 was due from Paamco LLC (2004: £95,631).

14. Financial commitments

The payments which the LLP is committed to make under non-cancellable operating leases are:

	2005 £	2004 £
Land and buildings – leases expiring:		
In the second to fifth year	<u>58,100</u>	<u>51,644</u>