

**LEO CAPITAL GROWTH SPC**  
(Incorporated in the Cayman Islands)

**Annual Report and Audited Consolidated Financial Statements for the Year  
Ended 31 December 2010**

## LEO CAPITAL GROWTH SPC

A closed ended segregated portfolio company incorporated in the Cayman Islands

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## LEO CAPITAL GROWTH SPC

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### GENERAL INFORMATION

#### Directors

Mr. Ian Cooper  
Mr. Wolfgang Graebner  
Mr. Claus Helbig  
Mr. Pierre Kladny  
Mr. Jonathan Schwartz/(Chairman)

#### Registered Office

Leo Capital Growth SPC  
Ogier Fiduciary Services (Cayman) Limited  
89 Nexus Way  
Camana Bay  
Grand Cayman  
Cayman Islands KY1-9007

All serve as independent non-executive Directors

#### Manager

Leonardo Capital Management Limited  
20 Parliament Street  
P.O. Box HM2826  
Hamilton HM LX  
Bermuda

#### Sub-Manager

Leo Fund Managers Limited  
2nd Floor, Liscartan House  
127 Sloane Street  
London SW1X 9AS  
United Kingdom

#### Bankers

J.P. Morgan AG  
Junghofstrasse 14  
603110 Frankfurt  
Germany

#### Prime Broker

Goldman Sachs International Ltd.  
Peterborough Court  
133 Fleet Street  
London EC2Y 9AW  
United Kingdom

#### Administrator

Quintillion Limited  
24-26 City Quay  
Dublin 2  
Ireland

#### Independent Auditors

PricewaterhouseCoopers  
Chartered Accountants & Registered Auditors  
One Spencer Dock  
North Wall Quay  
Dublin 1  
Ireland

#### Legal Advisors on Dutch Law

Loyens & Loeff N.V.  
Weena 690  
3012 CN Rotterdam  
The Netherlands

#### Legal Advisors on Cayman Islands Law

Ogier  
89 Nexus Way  
Camana Bay  
Grand Cayman  
Cayman Islands KY1-9007

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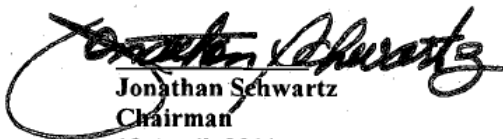
### CHAIRMAN'S STATEMENT

The year 2010 was a difficult one for Leo Capital Growth. Whilst, the MSCI Europe index was up 8.04%, the DAX up 16.1% and the FTSE100 was up 9.0% Leo Capital Growth lost -5.45%. The bulk of the losses for LCG were concentrated in the second quarter when the performance was -4.84% (April), -4.79% (May) and -3.02% (June).

LCG started the year on an encouraging note and finished it with four straight months of positive performance. However, in the end the positives did not outweigh the negative.

During the year LCG continued its activist strategy and this produced some good results. It also continued to have a cautious stance on new investments as it awaited evidence that the recovery was sustainable. As a result, a relatively large proportion of the Leo Capital Growth's assets were held in cash and cash-like liquid assets throughout 2010.

Based on the fundamentals, the economic outlook for 2011 should have been substantially improved. However, recent events in both Japan and North Africa make the economic situation difficult to forecast. For 2011 Leo Capital Growth will continue to use its rigorous approach to risk management and will be quick to react to appropriate investment opportunities.



Jonathan Schwartz  
Chairman  
13 April, 2011

## LEO CAPITAL GROWTH SPC

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### **DIRECTORS' REPORT**

**For the year ended 31 December 2010**

The Directors present their report and the audited consolidated financial statements for the year ended 31 December 2010.

#### **Principal activities**

Leo Capital Growth SPC (the "Company") is an investment company whose objective is to achieve long-term capital appreciation primarily through direct or indirect equity investment in European publicly traded companies.

#### **Operation of the business**

The Company appointed Leonardo Capital Management Ltd. as Investment Manager (the "Manager"). The Manager in turn delegated its responsibilities for investment advice and execution to Leo Fund Managers Limited (the "Sub-Manager"), an investment management company authorised and regulated in the United Kingdom by the Financial Services Authority. The delegation of investment advice and execution to the Sub-Manager was envisaged in the Prospectus.

#### **Results for the year and state of affairs at 31 December 2010**

The Consolidated Statement of Financial Position and the Consolidated Statement of Comprehensive Income for the year ended 31 December 2010 are set out on pages 9 and 10, respectively. The Company returned a loss of 5.45% (2009: profit of 8.3%) for the year ending 31 December 2010, in comparison to its performance benchmark index, the MSCI Europe index, which increased 8.04% in the same period. The Investment Manager's report discusses the performance of the Company for the year ending 31 December 2010.

#### **Dividends**

The Directors do not recommend the payment of a dividend at year end.

#### **Subsequent Events**

On 10 January 2011 the Directors wrote to shareholders advising them of a share buyback offer of up to 5% of the Company's shares. The offer was to be made in two tranches of 2.5% each. The first offer period began on 10 January 2011 and ended on 27 January 2011. A circular regarding the second offer is due to be published in September 2011. The first offer was fully subscribed, resulting in 75 shares being repurchased by the Company.

#### **Directors**

The Directors as at 31 December 2010 are listed on page 1 and are as follows:

Mr. Ian Cooper  
Mr. Wolfgang Graebner  
Mr. Claus Helbig  
Mr. Pierre Kladny  
Mr. Jonathan Schwartz

All of the above are non-executive Directors.

The Company is not aware of any potential conflicts of interest between any duty of any Directors owed to it and their respective private interests. Each Director is paid an annual fee of €50,000.

The Directors acknowledge their responsibility to maintain books and accounts which disclose with reasonable accuracy the positions held in the Company at any point in time. The Directors also acknowledge their responsibility in the safeguarding of the assets of the Company and take reasonable steps in the detection of fraud and other irregularities. The Directors believe they have complied with these guidelines by employing an experienced administrator with appropriate expertise in Quintillion Limited ("Quintillion"), who maintain the books and accounts. Quintillion prepare valuations on a month end basis and annually produce consolidated financial statements in accordance with the International Financial Reporting Standards ("IFRS"). The Directors regularly review the Administrator's performance, the investment strategy and also the risk profile of the Company at the quarterly Board Meetings as well as from time to time during the year as required. The Directors are responsible for preparing the annual report and the consolidated financial statements in accordance with IFRS as adopted by the EU.

## LEO CAPITAL GROWTH SPC

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### **DIRECTORS' REPORT (Continued)** **For the year ended 31 December 2010**

#### **Directors (continued)**

In preparing the consolidated 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 and prepare the consolidated financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business. The Directors confirm that they have complied with these requirements in preparing the consolidated financial statements.

The Directors are also required by the Transparency (Directive 2004/109/EC) Regulations 2007 to include a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the Company. The Directors confirm that they have complied with the above requirements in preparing the annual report.

The Directors confirm that, to the best of each person's knowledge and belief:

- the consolidated financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and loss of the Company; and
- the Report of the Directors includes a fair review of the development and performance of the Company's business and the state of affairs of the business at 31 December 2010, together with a description of the principal risks and uncertainties facing the Company.

The Board of Directors hold quarterly board meetings at which key risks facing the Company are discussed (as referred to in note 6 'Financial Risk Management').

#### **Other**

The Board would also direct your attention to note 7 for 'Related Party Transactions' for the year to 31 December 2010.

With regards to the additional disclosure requirements for closed end companies which flow from the EC (Takeover Bids) Regulations, please note the following:

Note 5, 'Shareholders' Interests' details the rights and obligations of the Participating Shares and the capital structure, including the total capital in the singular Share Class.


The Participating Shares of the Company were listed on the Euronext Amsterdam under the symbol "LEO" on 12 July 2007. Although there is a 7 year lock up period of Participating Shares in the Company, preventing redemption, these Participating Shares may be transferred in accordance with procedures established for this purpose by Euroclear Netherlands or alternatively through the Company's Share registrar. The rights of holders of Participating Shares will rank *pari passu* with each other.

Under the Articles of Association of the Company, the Board of Directors is authorised in its absolute discretion and subject to applicable laws, to effect repurchases of up to 20% of its aggregated issued Participating Shares in any one financial year of the Company at a price per Participating Share not being greater than the Net Asset Value per Participating Share as at the most recent Valuation Day. The Board of Directors will not, however, be obliged to repurchase Participating Shares and holders of Participating Shares will have no right to require such a repurchase. Repurchased Shares will automatically be cancelled.

Please refer to note 5 'Shareholders' Interests' with reference to Management Shares.

The Company's Condensed Schedule of Investments shows no positions of controlling ownership at the year end 31 December 2010.

As noted previously, the Directors receive an annual fee as compensation. The general meeting of shareholders of the Company may appoint and remove the Directors pursuant to a resolution adopted by a simple majority of the votes cast at such meeting.

By order of the Board  
  
13 April, 2011

## LEO CAPITAL GROWTH SPC

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### INVESTMENT MANAGER'S REPORT

For the year ended 31 December 2010

For the year 2010, Leo Capital Growth SPC ("LCG") yielded -5.45%. During this period, the MSCI Europe index was up 8.04%, the DAX up 16.1% and the FTSE100 was up 9.0% (12.8% expressed in Euros). The CAC logged a negative return of -3.34%.

The year 2010 started with the continuation of the upward trend as witnessed towards the end of 2009, supported by encouraging macro data and strong corporate earnings. Although markets were largely swayed by Greece's precarious fiscal position, the Greek Government managed to successfully launch a €5bn 10-year bond which fuelled risk appetite for the first few months of the year. Confidence remained fragile however, and volatility returned to global financial markets with a vengeance in mid-April. The downward trend that characterized the whole of the second quarter began with an SEC fraud probe into Goldman Sachs, followed by an intensification of Euro-area sovereign debt fears as credit rating agencies cut Greece's credit rating to junk and simultaneously lowered that of Spain and Portugal. Risk aversion was so strong that despite the announcement of a near \$1 trillion package from the EU and IMF, investor concerns showed little signs of abating. Following this, fresh banking sector worries resurfaced when one of Spain's largest regional lenders was bailed out by the Spanish Central Bank, and Chinese Government restrictions on lending and real estate which were intended to prevent themselves from overheating added to concerns that global growth may slow. Markets were therefore sent spiralling downwards from these back to back sessions of negative news and investors fled from stocks world-wide and piled into defensive investments like US Treasuries and gold.

After falling to new lows in first half of the year, equity markets were mostly buoyant for the rest of the year. In addition to better than expected Q2 and Q3 earnings, macro data was supportive and only 7 banks out of 91 failed the Euro-area stress tests in July. Speculation of additional stimulus measures by Central Banks and the Fed's eventual announcement of \$600bn of new asset purchases kept investor sentiment high. There were some jitters when the €30bn bail-out cost of Anglo Irish bank was announced, but modest support was provided after the Irish Government agreed to a bailout package from the IMF, UK and Sweden in an attempt to temporarily reduce the risk of further destabilising contagion to other periphery markets. Momentum at year-end was therefore positive, with investors less worried about either European contagion risk or US recession risk. Heightened recovery expectations led to a broad-based Christmas rally and even equities in Spain, Italy, Portugal and Ireland participated. There were also marked improvements in perceptions about economic growth, future sales and expansion plans. The payroll tax cut and investment tax relief, as outlined by President Obama, were also positives and so over in the US the S&P 500 and Dow Jones rose 12.8% and 11% respectively. This is 23% and 20% over their lowest levels which they fell to in July. Volatility, as measured by the VIX index, fell 18.1% to 17.75, a decline of 61.2% from its 2010 highest level of 45.8 which it reached in May. Gold prices remained elevated throughout the year, gaining 29.5% to end at US\$1,420.78 per troy ounce.

### Fund Commentary

During the year, the Fund sought to implement changes on its activist positions and consequently this yielded some positive developments on its existing investments. The Fund continued to have a cautious stance to new investments as it awaited more convincing evidence that the recovery was a sustainable one. As such, relatively few new positions were undertaken maintaining a large part of the fund's holdings in cash and cash-like liquid instruments. Below we review the Fund's main positions and transactions throughout the year.

#### Infigen Energy:

Infigen Energy ("Infigen") fell 62% in the year on the back of a string of negative newsflow from the company. As planned, driven by pressure exerted by LCG as major shareholders, the company had undertaken to sell its entire wind farm portfolio (ex Australia) to crystallise their value. These disposals proceeded well in Europe, with its Spanish, French and Portuguese assets successfully sold. The sale of its US assets however, was abandoned in April following final binding bids being materially lower than what was indicated earlier. This news sent the stock price plummeting and it only managed to recover slightly after the company proceeded to undertake a share buyback of ~5% of its outstanding shares till the end of the second quarter. Following this, the share price continued to be depressed as Infigen guided down its long term production estimates, increased its projections of operating costs and revised its cashflow guidance downwards.

On the positive front, large shareholders including TCI managed to make some changes on the Board. A non-executive Director was appointed, the CFO resigned and the Chairman was replaced by Miles George.

Going forward, we will continue to push the management to break up its Australian and US portfolio in order to facilitate a sale of the company. We believe it is taking the right steps to achieving this objective.

**INVESTMENT MANAGER'S REPORT (Continued)****For the year ended 31 December 2010****Mitchells & Butlers:**

Mitchells & Butlers Plc ("MAB") had another successful year and its share price appreciated by 40%. Significant changes were made to its Board of Directors upon pressure from its largest shareholder, and John Lovering was appointed as its new Chairman. The newly elected Board immediately carried out a strategic review of the company's entire portfolio which included an accelerated roll-out of the company's core pub restaurant brands, simplifying the business to unlock overhead reductions and a renewed focus on return on capital with a drive to reduce capital costs. This strategy has been executed very well; the company has continued to demonstrate robust operational performance and outperform the eating-out market, and as a result of its disposals, net gearing in the company has been reduced to very safe levels. The Board also successfully implemented a Long term Incentive Plan which closely aligns senior management compensation to MAB share price. In light of these positive developments, we believe that the difficulties of the company are now behind and hence remain invested.

**Alpha Immobiliare:**

Alpha Immobiliare ("Alpha") had a neutral year with its share price rising a modest 0.8%. No major operational developments occurred during the period except for the sale of the residential property in Milan for €145k, which represented an anomalous holding in the fund's portfolio. Refurbishment works continued on the properties in Via C. Colombo 44/70 and Via Bavastro 174 as previously agreed with the tenant; on completion this will grant the fund improved tenancy terms. Lastly an application to convert the fund's main vacant property in Via Casal Lumbroso to a university accommodation facility was put forward, and this is still pending. As Alpha's management has stated that it might sell some assets throughout the year, we intend to wait and to recognize this value in its assets which will accrue to shareholders when they are sold.

**Beta Immobiliare:**

Beta Immobiliare ("Beta") had a volatile year but ended the year relatively flat, with its share price posting a 1.3% gain. Our investment rationale panned out as planned. Through our activist efforts we provoked them to sell the assets of the company and return the cash to the shareholders. They have thus committed to liquidate the remaining portfolio of properties and we believe this will be completed by the end of the first half of 2011. As we anticipate most properties can be sold at a considerable gain over book value (and indeed one of its properties in Rome was sold at a 128% gain over book value in December, sending its share price soaring), we expect the liquidation value of the Fund to be above 700.

**Forsys Metals:**

Forsys closed the year 26% down despite several positive developments during the year. Amongst these, a comprehensive review of potential strategic and financial alternatives to maximize shareholder value from its Valencia Uranium deposit was completed and a select group of interested parties were consequently invited to submit proposals for a potential transaction. The company continues to be in discussions with these parties. In addition we, together with the support of fellow shareholders, were successful in appointing a new CEO Mr Marcel Hilmer, replacing two Board directors and adding another seat to the Board. Initial results of its Namibplaas drilling programme, a uranium exploratory project in the vicinity of Valencia was also announced and this has the potential to significantly enhance their measured and indicated reserves. Although uranium prices rose substantially towards the end of 2010, these gains were wiped out after the earthquake which hit Japan on March 11 this year. Uranium spot price fell from ~\$70/lb just before the unfortunate incident to ~\$50/lb afterwards, affected also by the radiation threat from the Fukushima nuclear power plant which followed the earthquake. Despite these events we maintain the view that there is significant upside for uranium prices in the longer term, due to demand-supply dynamics and the present lack of viable non fossil fuel alternatives.

**Symphony:**

The share price of Symphony International Holdings ("SIHL") ended the year up 0.75%. Its last reported NAV per share as at 30 September 2010 was \$1.1981, compared to an NAV per share of \$0.995 at 2009 year end. This was largely attributable to an appreciation of currencies in Singapore and Thailand where its portfolio companies predominantly operate, and improving market valuations of its listed investments. In particular, the healthcare service provider Parkway Holdings was sold; this represented 20% of its portfolio and locked in a cash gain of \$26.6m for Symphony. The company also stated that it is in ongoing advanced discussions with luxury resort operator Amanresorts to build a club and villas at its main asset, Minuet Ltd.

As the company's share price remains at a discount of about 50% to its NAV, our strategy is to keep pursuing the collaboration with other shareholders. We attempted this in Q3 but failed to gather the requisite quorum needed to convene a meeting, but we will endeavour to continue with this strategy. Alternatively, we could engage management for the realisation of the company's value possibly through the liquidation of the company.



**INVESTMENT MANAGER'S REPORT (Continued)**

**For the year ended 31 December 2010**

Actelion:

We initiated a position in the biotechnology company Actelion in September. The company is trading at a discount to the present value of near term cash flows from existing products, and is a potential takeover candidate. Subsequently the stock has reacted positively to news about possible buyers for the company, particularly from Amgen, the world's largest biotech company. No formal offer has been made at this stage, though the share price should be supported in the medium term by its CHF 800m share buyback program (12% of current market value).

Synthes:

At the beginning of December the Fund initiated a position in Synthes, a global orthopaedics company listed in Switzerland. We believe this is a good industry sector to be in as it is defensive and demographic trends indicate a growing demand for its products. In addition, with CHF 2bn of net cash on its balance sheet, the company has the capacity to return a significant amount of cash to shareholders and so we envisage to remain invested.

Innovation Group:

In March we initiated a position in the UK based business process outsourcing company, Innovation Group. It was trading at a significant discount to its peers and under the leadership of a new CEO we believed its restructuring efforts would result in improved financial performance. The company was also a credible takeover target and had received a number of approaches significantly above its share price in recent years. In December we opportunistically exited our position completely to yield a profit of €77,496.

**Outlook**

Based on fundamentals, the economic outlook for 2011 appears substantially improved compared to a year ago. Earnings momentum is positive on both sides of the Atlantic and seems to represent evidence of a sustainable recovery going forward. However, recent events in both Japan and North Africa make the economic situation difficult to forecast. As such, we will continue to adopt a rigorous approach to risk management but will be quick to react as attractive investment opportunities arise.

**Leonardo Capital Management**

**13 April, 2011**

## LEO CAPITAL GROWTH SPC

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### INDEPENDENT AUDITORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

To the Shareholders and Board of Directors of Leo Capital Growth SPC

We have audited the accompanying consolidated financial statements of the Leo Capital Growth SPC (the "Company") which comprise the consolidated statement of financial position and consolidated condensed schedule of investments as of 31 December 2010 and the consolidated statement of comprehensive income, consolidated statement of changes in net assets attributable to holders of participating shares and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

#### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

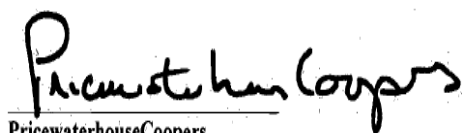
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

This report, including the opinion, has been prepared for and only for the Company's members as a body and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

#### *Opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



PricewaterhouseCoopers

Dublin

13 April 2011

# LEO CAPITAL GROWTH SPC

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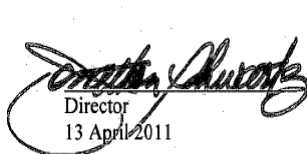
## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

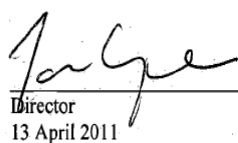
As at 31 December 2010

(Expressed in Euros)

	Note	2010 €	2009 €
<b>Current Assets</b>			
Financial assets at fair value through profit or loss	2,6	199,583,990	163,071,945
Cash and cash equivalents	2	76,076,383	129,052,577
Cash at broker	2	3,958,600	795,287
Interest and dividends receivable		388,529	101,049
Other assets and prepaid expenses		9,971	136,665
Due from Broker	2	4,246	-
<b>Total current assets</b>		<b>280,021,719</b>	<b>293,157,523</b>
<b>Equity</b>			
Ordinary Share Capital		1	1
<b>Total Equity</b>		<b>1</b>	<b>1</b>
<b>Current Liabilities</b>			
Financial liabilities at fair value through profit or loss	2	1,868,081	-
Due to broker		2,510,747	794,772
Investment management fee payable		346,667	726,026
Directors' fee payable		-	126,000
Administration fee payable		16,615	52,281
Audit fee payable		36,750	41,750
Other payables and accrued expenses	2	17,030	118,990
<b>Current liabilities excluding net assets attributable to holders of redeemable Participating Shares</b>		<b>4,795,890</b>	<b>1,859,819</b>
<b>Net Assets attributable to holders of redeemable Participating Shares on a bid/ask price basis</b>		<b>275,225,829</b>	<b>291,297,704</b>
Adjustment for bid/ask price to last traded price		1,760,923	1,662,705
<b>Net Assets attributable to holders of redeemable Participating Shares on a last traded price basis</b>		<b>276,986,752</b>	<b>292,960,409</b>
<b>Net Asset Value per Share (NAV)</b>		<b>2010</b>	<b>2009</b>
Euro Class Shares		2,986	2,986
NAV per Share		€92,761.8058	€98,111.3226

On behalf of the Board

  
Director  
13 April 2011

  
Director  
13 April 2011

See notes to the consolidated financial statements

# LEO CAPITAL GROWTH SPC

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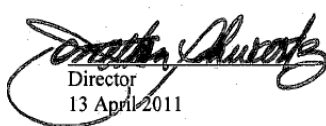
## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

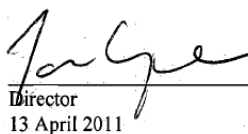
For the year ended 31 December 2010

(Expressed in Euros)

	Note	2010 €	2009 €
<b>Investment income</b>			
Interest income	2	833,490	1,259,256
Dividend income	2	2,966,477	4,241,341
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss	3	(12,833,558)	23,386,077
<b>Total (loss)/income</b>		<b>(9,033,591)</b>	<b>28,886,674</b>
<b>Expenses</b>			
Investment management fees	4	4,107,477	4,263,619
Legal fee		318,352	112,613
Directors' fees	4	249,000	252,000
Administration fee	4	197,390	204,198
Dividend expense	2	134,920	-
Prime broker fees		42,784	14,842
Audit fee		27,750	41,750
Other expenses		200,795	215,631
<b>Total expenses</b>		<b>5,278,468</b>	<b>5,104,653</b>
<b>Operating (loss)/income</b>		<b>(14,312,059)</b>	<b>23,782,021</b>
<b>Finance cost</b>			
Interest expense on margin cash	2	(1,759,816)	(1,423,027)
<b>Total finance cost</b>		<b>(1,759,816)</b>	<b>(1,423,027)</b>
<b>(Loss)/Profit after tax</b>		<b>(16,071,875)</b>	<b>22,358,994</b>
Withholding tax on dividends and other investment income from operations		-	(162,517)
<b>(Decrease)/Increase in net assets attributable to holders of redeemable Participating Shares</b>		<b>(16,071,875)</b>	<b>22,196,477</b>
Adjustment for bid/ask price to last traded price	6	98,218	267,315
<b>(Decrease)/Increase in net assets attributable to holders of redeemable Participating Shares resulting from operations based on last traded price</b>		<b>(15,973,657)</b>	<b>22,463,792</b>

On behalf of the Board

  
Director  
13 April 2011

  
Director  
13 April 2011

See notes to the consolidated financial statements

# LEO CAPITAL GROWTH SPC

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## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF PARTICIPATING SHARES

For the year ended 31 December 2010

(Expressed in Euros)

	Number of Shares	2010 €	Number of Shares	2009 €
<b>Euro Class</b>				
Net assets attributable to holders of redeemable Participating Shares at 1 January	2,986	292,960,409	2,986	270,496,617
(Decrease) / Increase in net assets attributable to holders of redeemable Participating Shares resulting from operations	-	(15,973,657)	-	22,463,792
<b>Net assets attributable to holders of redeemable Participating Shares on a last traded basis</b>	<b>2,986</b>	<b>276,986,752</b>	<b>2,986</b>	<b>292,960,409</b>

See notes to the consolidated financial statements

# LEO CAPITAL GROWTH SPC

A closed ended segregated portfolio company incorporated in the Cayman Islands

## CONSOLIDATED STATEMENT OF CASHFLOWS

For the year ended 31 December 2010

(Expressed in Euros)

	2010 €	2009 €
<b>Cash flow from operating activities</b>		
(Decrease)/Increase in net assets attributable to holders of redeemable Participating Shares from operations	(15,973,657)	22,463,792
<b>Changes in operating assets and liabilities</b>		
Purchase of investments	(143,678,751)	(281,170,039)
Proceeds from sale of investments	108,936,569	203,435,545
Net (increase)/decrease in cash at broker	(3,163,313)	23,338,737
Net increase in due to broker	1,715,975	322,089
Net (decrease)/increase in investment management fee payable	(379,359)	387,462
Net (increase)/decrease in interest and dividends receivable	(287,480)	541,943
Net decrease/(increase) in other assets and prepaid expenses	126,694	(518)
Net (decrease)/increase in directors' fee payable	(126,000)	2,000
Net (decrease)/increase in other payables and accrued expenses	(101,960)	61,216
Net (increase)/decrease in due from broker	(4,246)	14,194,013
Net (decrease)/increase in administration fee payable	(35,666)	36,454
Net (decrease)/increase in audit fee payable	(5,000)	5,000
Net (decrease)/increase in interest expense payable	-	3,339
<b>Net cash used in operations</b>	<b>(52,976,194)</b>	<b>(16,378,967)</b>
Net decrease in cash and cash equivalents	(52,976,194)	(16,378,967)
Cash and cash equivalents at beginning of the year	129,052,577	145,431,544
<b>Cash and cash equivalents at end of the year</b>	<b>76,076,383</b>	<b>129,052,577</b>
<b>Supplementary disclosures of cash flow information</b>		
Net cash received during the year for dividends	2,685,883	4,688,593
Net cash received during the year for interest	825,050	1,353,947

See notes to the consolidated financial statements

## LEO CAPITAL GROWTH SPC

A closed ended segregated portfolio company incorporated in the Cayman Islands

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

#### 1. General information

Leo Capital Growth SPC (the “Company”) was incorporated and registered as a closed ended segregated portfolio company in Cayman Islands on 25 August 2006, under the Companies Law (Revised) of the Cayman Islands. On or prior to the seventh anniversary of the first issue of the Participating Shares (being 31 March 2014), the Board of Directors will convene a general meeting of shareholders at which a resolution will be put to all holders of Participating Shares to continue the existence of the Company beyond that date for a period of up to two years. Initially, only one segregated portfolio has been created: the PS Segregated Portfolio. The PS Segregated Portfolio has only one Class of Shares: the Euro Class. The Participating Shares were listed on Euronext Amsterdam on 12 July 2007.

Liscartan Investments S.a.r.l was set up as a Luxembourg SPV wholly owned by Leo Capital Growth SPC. It holds LCG’s investments in listed Italian real estate funds. Its financial statements are prepared on the 31 December each year and we consolidate these financial statements into the annual report and Audited consolidated Financial Statements of Leo Capital Growth SPC.

The Company’s investment objective is to achieve long-term appreciation of its assets. The Company for and on behalf of PS Segregated Portfolio seeks to achieve its objective by making significant equity investments either directly or indirectly in primarily European publicly traded companies which the Company believes are under-managed and under-valued. The strategy may require medium to longer-term commitment in order to unlock value. There may be at any point in time significant concentration exposures to individual issuers.

The Company’s investment activities are managed by Leonardo Capital Management Limited (the “Manager”) who in turn has delegated responsibility for investment management to Leo Fund Managers Limited (the “Sub-Manager”).

The Company’s administration is delegated to Quintillion Limited (the “Administrator”). The registered office of the Company is Ogier Fiduciary Services (Cayman) Limited, 89 Nexus Way, Camana Bay, Grand Cayman, Cayman Islands KY1-9007.

The consolidated financial statements were authorised for issue by the Directors on 13 April 2011.

#### 2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

##### **Basis of preparation**

The Company’s consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical-cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 6.

There were no changes in accounting policies for the Fund during the year.

##### **Basis of Consolidation**

These consolidated financial statements combine the financial statements of Leo Capital Growth SPC and Liscartan Investments for the year ended 31 December 2010 on a line by line basis by adding together like items of assets, liabilities, equity, income and expenses, intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

##### **Financial assets and liabilities at fair value through profit or loss**

This category has two sub-categories: financial assets and liabilities held for trading, and those designated by management at fair value through profit or loss at inception. These may include equity shares, convertible debt, contracts for difference, exchange traded and OTC options, warrants, futures and other derivative instruments.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the year ended 31 December 2010****2. Summary of significant accounting policies (continued)****Financial assets and liabilities at fair value through profit or loss (continued)**

The Company makes short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, or it may use short sales for various arbitrage transactions. Short sales are classified as financial liabilities at fair value through profit or loss. Gains arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the Consolidated Statement of Comprehensive Income in the period in which they arise. Interest income on debt instruments will be calculated using the effective interest method and presented separately in the Consolidated Statement of Comprehensive Income.

The Company recognises financial assets and financial liabilities at fair value through profit or loss on the trade date, the date it commits to purchase or sell short the instruments. From this date any gains and losses arising from changes in fair value of the assets or liabilities are recognised. Investments are derecognised when the rights to receive cashflows from the investments have expired or the Company has transferred substantially all risks and rewards of ownership.

**Derivative financial instruments**

Derivatives are recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received). Subsequent changes in the fair value of any derivative instrument are recognised immediately in the Consolidated Statement of Comprehensive Income.

The Company may hold the following derivative instruments:

**Contracts for difference (CFDs)**

CFDs and equity swaps are agreements between the Company and third parties, which allow the Company to acquire an exposure to the price movement of specific securities without actually purchasing the securities.

During the period in which the CFDs are open, changes in the value of the contracts are recognised as gains or losses by marking to market the contracts on a daily basis and reflect the difference between the value of the underlying securities and the contract price. Variation margin payments are made or received by the Company depending upon the fluctuation in the value of the underlying security.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the Consolidated Statement of Financial Position, but they do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and do not therefore indicate the Company's exposure to credit or market price risks.

The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

Long and short dividends on CFDs are received or paid based on the dividends paid on the security underlying the CFD. They are posted as variation margin adjustments on the ex date to compensate for the drop in share price which occurs on the ex dividend date. Interest expense or income is charged on the first working day following the day to which it relates and is calculated on the notional value of the open long or short position at rates agreed with the counterparty to the contract. The Company held no CFDs at year end.

**Options**

The Company purchases or sells put and call options through listed exchanges and the OTC markets. Options purchased by the Company provide the Company with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed-upon value either on or before the expiration of the option. The Company is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the year ended 31 December 2010****3. Summary of significant accounting policies (continued)****Options (continued)**

Premiums received from writing options are marked to market and the resulting gain losses are recorded in the Consolidated Statement of Comprehensive Income. As at 31 December all options were exchange traded and the fair value of open option contracts was €96,903 (2009: €Nil).

**Futures contracts**

A futures contract is an agreement between two parties to buy or sell a security, index or currency at a specific price or rate at a future date. Upon entering into a futures contract, the Company is required to deposit with a broker an amount of cash or cash equivalents equal to a certain percentage of the contract amount. This is known as “initial cash margin”. Subsequent payments (“variation margin”) are made or received by the Company each day, depending upon the daily fluctuation in the value of the contract. The daily changes in contract value are recorded as unrealised gains or losses and the Company recognises a realised gain or loss when the contract is closed. Unrealised gains and losses on futures contracts are recognised in the Consolidated Statement of Comprehensive Income. Futures contracts are entered into for speculative purposes or to hedge the Company’s overall market risks. The Company held no futures contracts at year end.

**Forward foreign currency contracts**

Forward foreign currency contracts entered into by the Company represent a firm commitment to buy or sell an underlying asset, or currency at a specified value and point in time based upon an agreed or contracted quantity. The realised/unrealised gain or loss is equal to the difference between the value of the contract at the onset and the value of the contract at settlement date and are included in the Consolidated Statement of Comprehensive Income. As at 31 December the fair value of open forward foreign currency contracts was (€1,265,329) (2009: €Nil).

**Dividend income/(expense)**

Dividends are credited to the Consolidated Statement of Comprehensive Income on the dates on which the relevant securities are listed as “ex-dividend”.

**Interest income and expense**

Interest income and expense are recognised in the Consolidated Statement of Comprehensive Income using the effective interest method.

**Functional and presentation currency**

Items included in the Company’s consolidated financial statements are measured using the currency of the primary economic environment in which it operates (the “functional currency”). This is the Euro, which reflects the Company’s primary activity of investing in EU securities and derivatives. The Company has also adopted the Euro as its presentation currency, as the Company is listed in Amsterdam and its main investors are also based in Europe.

**Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Statement of Comprehensive Income.

Translation differences on non-monetary items, such as equities, held at fair value through profit or loss are reported as part of the fair value gain or loss.

**Cash and cash equivalents**

The Company considers short term, highly liquid investments with original maturities of three months or less to be cash equivalents. The majority of the Company’s cash and cash equivalents are held in Citi deposit accounts. The remainder is held with Goldman Sachs International (the “Prime Broker”) and J.P. Morgan International. Cash and cash equivalents comprise the following balances with original maturity of less than 90 days;

**LEO CAPITAL GROWTH SPC**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the year ended 31 December 2010****2. Summary of significant accounting policies (continued)****Cash and cash equivalents (continued)**

	<b>2010</b>	<b>2009</b>
	€	€
J.P. Morgan Chase	944,186	893,333
Citi deposit accounts	68,232,442	93,029,196
Goldman Sachs Funds PLC - Euro Liquid Reserve Fund	60,994	33,047,192
Goldman Sachs International	6,831,871	2,082,856
ING Bank	6,890	-
	<u>76,076,383</u>	<u>129,052,577</u>

**Cash at brokers**

Amounts receivable from or payable to brokers include cash balances with the Company's clearing broker. Under a revolving facility with the Prime Broker, Goldman Sachs International, the Company is able to borrow amounts in various currencies collateralised by the cash and securities held on its behalf by Goldman Sachs International.

	<b>2010</b>	<b>2009</b>
	€	€
Goldman Sachs International	<u>3,958,600</u>	<u>795,287</u>
	<u>3,958,600</u>	<u>795,287</u>

**Due to/from broker**

Due to/from broker represents monies drawn down by the Company in respect of security purchases and short sales and derivative contracts entered into by the Company.

**Taxation**

The Fund invests in securities issued by entities which are domiciled in countries other than the Cayman Islands. Many of these foreign countries have tax laws which indicate that capital gains taxes may be applicable to non residents, such as the Fund. Typically, these capital gains taxes are required to be determined on a self assessment basis and, therefore, such taxes may not be deducted by the Group's brokers on a "withholding" basis.

In accordance with IAS 12 - Income Taxes, the Group is required to recognise a tax liability when it is probable that the tax laws of foreign countries require a tax liability to be assessed on the Group's capital gains sourced from such foreign country, assuming the relevant taxing authorities have full knowledge of all the facts and circumstances.

The tax liability is then measured at the amount expected to be paid to the relevant taxation authorities using tax laws and rates that have been enacted or substantively enacted by the end of the accounting period. There is sometimes uncertainty about the way enacted tax law is applied to offshore investment funds. This creates uncertainty about whether or not a tax liability will ultimately be paid by the Fund. Therefore when measuring any uncertain tax liabilities management must consider all of the relevant facts and circumstances available at the time which could influence the likelihood of payment, including any formal or informal practices of the relevant tax authorities.

At 31 December 2009 and 2010, the Fund has measured uncertain tax liabilities with respect to foreign capital gains taxes at nil and while this represents management's best estimate the estimated value could differ significantly from the amount ultimately payable.

**Share capital**

The Participating Shares of the PS Segregated Portfolio are classified as financial liabilities.

# LEO CAPITAL GROWTH SPC

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 3. Net gain/(loss) on financial assets and liabilities at fair value through profit or loss and foreign currency

	2010 €	2009 €
<b>Net gain on financial assets and financial liabilities at fair value through profit or loss during the year comprises of:</b>		
Realised gain on investments at fair value through profit or loss	1,616,331	24,914,116
Return of capital	-	366,072
Change in unrealised (loss)/gain on investments at fair value through profit or loss	<u>(5,364,752)</u>	<u>3,653,677</u>
Net realised and change in unrealised (loss)/gain on investments at fair value through profit or loss	(3,748,421)	28,933,865
Realised loss on foreign exchange	(9,486,933)	(3,030,679)
Change in unrealised gain/(loss) on foreign exchange	<u>401,796</u>	<u>(2,517,109)</u>
Net realised and change in unrealised loss on foreign currency	<u>(9,085,137)</u>	<u>(5,547,788)</u>
<b>Net (loss)/gain on financial assets and financial liabilities at fair value through profit or loss</b>	<u>(12,833,558)</u>	<u>23,386,077</u>

### 4. Expenses

#### Investment management fee

Pursuant to the investment management agreement dated 12 January 2007, the Company pays the Manager a monthly investment management fee at an annual rate of 1.5% of the Net Asset Value of the PS Segregated Portfolio (payable in arrears every month).

Investment management fees incurred during the year amounted to €4,107,477 (2009: €4,263,619) and investment management fees payable at 31 December 2010 amounted to €346,667 (2009: €726,026).

#### Performance fee

On the winding-up of the Company or on the redemption of all of the Participating Shares of the PS Segregated Portfolio, the Company shall pay a performance fee to the Manager pursuant to terms of the investment management agreement equivalent to 20% of the appreciation in the Net Asset Value of the PS Segregated Portfolio over the period since a performance fee was last paid or, if no performance fee has been paid, since the date of the first issue of Participating Shares.

In the event that the Manager's appointment is terminated by the Company prior to the winding-up of the Company or the redemption of all of the Participating Shares of the PS Segregated Portfolio for any reason, the Company shall pay a performance fee to the Manager equivalent to 20% of the appreciation in the Net Asset Value of the PS Segregated Portfolio over the period since a performance fee was last paid or, if no performance fee has been paid, since the date of the first issue of Participating Shares to the last Business Day on the month immediately prior to which such termination becomes effective. For the year ended 31 December 2010, the performance fee accrued amounted to €Nil (2009: €Nil).

#### Administration fee

Quintillion Limited (the "Administrator") serves as the Company's administrator, registrar, and transfer agent and performs certain administrative duties, including accounting and clerical functions. The Company pays from the assets attributable to the redeemable participating shares of the Company a monthly administration fee equal to an amount falling between one-twelfth of between 0.06% and 0.08% of the month end net assets, depending on the level of assets under management. The minimum monthly fee for such services will be equal to €10,000. The Administrator also charges an annual fee of €6,000 for audit assistance and is entitled to be reimbursed for reasonable out-of-pocket expenses. As at 31 December 2010, total administration fees for the year amounted to €197,390 (2009: €204,198) with €16,615 (2009: €52,281) payable at year end.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**For the year ended 31 December 2010**

**4. Expenses**

**Directors' fees**

The listing of the members of the Board of Directors is shown on page 3 of the annual report.

Each Director is paid a fee of €50,000 per annum by the Company. The Directors will also be entitled to payment of all reasonable expenses incurred in connection with their appointment as Directors of the Company.

Directors' fees incurred during the year amounted to €249,000 (2009: €252,000) and Directors' fees payable at 31 December 2010 amounted to €Nil (2009: €126,000).

Jonathan Schwartz receives €12,000 in directorship fees from Liscartan Investments S.a.r.l and €20,000 in investment committee fees from the Company.

**5. Shareholders' interests**

The Company has an authorised share capital of €250,000,001 divided into 100 Management Shares with a nominal value of €0.01 each and 5,000 Participating Shares with a nominal value of €50,000 each. All Management Shares have been issued to the Manager at their nominal value.

As at 31 December 2010 2,986 Participating shares were in issue.

The holders of Participating Shares shall be entitled to receive notice and to attend, in person or by proxy, at each general meeting of shareholders of the Company but shall only be entitled to speak or vote at any such meeting in respect of a resolution which proposes to vary the special rights attaching to the Participating Shares, to amend the Memorandum or Articles of Association of the Company, to remove and appoint Directors of the Company, to vote on the winding-up/continuation of the Company at the end of its seven year planned life and to change the Manager as of June 30, 2010 and as of June 30 of each successive year. The holders of Participating Shares and Management Shares where they are entitled to vote shall have one vote for each share held.

Each Management Share will carry the right to one vote on all matters in general meetings of the shareholders of the Company, except on a resolution to change the Manager or wind-up/continue the Company at the end of its seven year life, being 31 March 2014. The Management Shares do not entitle holders to participate in the Company's profits and losses. Upon winding up of the Company the holders of Management Shares are entitled to receive their paid in capital €0.01 per Share after payment of the amounts due to holders of Participating Shares.

The holders of Participating Shares shall be entitled to receive notice of and attend, in person or by proxy, at each meeting of shareholders, but shall only be entitled to speak or vote at any such meeting on a resolution which proposes to vary the special rights attaching to the Participating Shares or to amend the Memorandum or the Articles of Association of the Company, to remove and appoint the Directors of the Company, to vote on the winding-up/continuation of the Company at the end of its seven year life or to vote for a change in Manager. They are entitled to receive any dividends that may be declared by the Company and upon the winding-up of the Company, the full amount of the assets of the PS Segregated Portfolio available for the distribution will be distributed to registered holders of Participating Shares.

**6. Financial risk management**

The Company's financial position and performance is affected by a range of financial risks which include: market risk comprising price risk, currency risk and interest rate risk, credit risk and liquidity risk. The Company endeavours to mitigate the effect of these financial risks on its performance through its risk management policies. The responsibility for monitoring risk on a day-by-day basis in the Company rests with key personnel in the Sub-Manager, Leo Fund Managers Ltd. These key personnel include the Chief Investment Officer, Chief Operating Officer and the Chief Risk Officer. The Board regularly receives information from the Manager (including the VaR) at the quarterly meetings. In the course of its quarterly meetings the Board reviews the Company's risks and also does so outside the Board meetings as required. Outside of these meetings any exceptional risks are communicated to the Board immediately by the Manager.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the year ended 31 December 2010****6. Financial risk management (continued)****Market risk (continued)**

These risk management policies facilitate the Company to pursue its primary goal of achieving above average absolute shareholder returns in both rising and falling markets with a low degree of correlation to European equity markets.

Market risk is due to changes in actual prices, interest rate changes and currency risk. The Investment Manager recognises the interdependency between price, interest and currency risk. As such, the Company Manager employs IT systems which enable real-time monitoring of positions, profit and loss and various other risk factors.

Given the investment strategy and objectives, the Company will tend to have a portfolio comprising a small number of highly concentrated equity positions. The focus of risk monitoring is therefore on real-time profit and loss, concentration as a percentage of the assets under management, the percentage ownership, liquidity in terms of the number of average traded days volume, analysis by industry sector, market capitalisation and country of risk.

The investment objective of the Company is long-term capital appreciation. The Company seeks to achieve this objective by making significant equity investments either directly or indirectly in primarily European publicly traded companies which the Company believes are under-managed and under-valued. Such investments are generally not of a short-term nature.

The Company's holding of financial instruments is susceptible to market price risk arising from uncertainties about future price movements.

The Company's overall market positions are monitored on a daily basis by the Company's Sub-Manager through use of its bespoke real time risk management software ("LeoPos").

Overall market exposures at 31 December 2010 and 2009 are described in the Condensed Schedule of Investments.

The Sub-Manager monitors Value at Risk ("VaR") on a daily basis using LeoPos. The system uses a historical covariance model based upon a one day time horizon and a 95% confidence limit. At the end of each month the figure is compared to a number produced by downloading portfolio data into the standard Bloomberg VaR model. It is the process that the quarterly average VaR and quarterly closing VaR figures are provided to the Directors of the Company at the quarterly Company board meetings. The VaR figure provided is calculated by taking the EUR Value at Risk figure calculated by the standard Bloomberg VaR model and dividing this by the prior month end confirmed Assets Under Management.

Daily) VaR at 31 December 2010	0.72% (2009: 0.77%)
Average (Daily) VaR for year	0.67% (2009: 0.92%)

Some limitations of VAR/sensitivity analysis are;

- the models are based on historical data and cannot take account of the fact that future market price movements, correlations between markets and levels of market liquidity in conditions of market stress may bear no relation to historical patterns;
- the market price risk information is a relative estimate of risk rather than a precise and accurate number;
- the market price information represents a hypothetical outcome and is not intended to be predictive (in the case of probability-based methods, such as VAR, profits and losses are almost certain to exceed the reported amount with a frequency depending on the confidence interval chosen); and
- future market conditions could vary significantly from those experienced in the past.

**Interest rate risk**

The majority of the Company's financial assets and liabilities are either non-interest bearing or held as cash and cash equivalents or cash at broker. As a result, the Company is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates.

# LEO CAPITAL GROWTH SPC

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 6. Financial risk management (continued)

#### Currency risk

While the functional currency for the Company is the Euro, the Company also holds assets denominated in other currencies. The Company aims to reduce its currency exposure by funding the purchase of financial assets denominated in non-Euro currencies with borrowings in the same currency. Adjustments to the level of borrowing are made from time to time to offset any exposures arising from mark to market profits or losses on the respective financial assets. In 2010 the investment manager also used forward foreign currency contracts to hedge the portfolios currency exposure. The Sub-Manager is responsible for monitoring the Company's exposure to currency risk on a daily basis. It is the process that the quarterly average VaR and quarterly closing VaR figures are provided to the Directors of the Company at the quarterly Company board meetings where currency risk to the Company is also considered.

The table below summarises the Company's exposure to non Euro currencies.

#### At 31 December 2010

	Financial assets/ (liabilities) at fair value through profit or loss €	Cash and bank balances €	Other net assets / liabilities €	2010 Total nets assets €
AUD	(468,580)	148,697	-	(319,883)
CAD	96,066	1	-	96,067
CHF	19,111,762	(17,607,328)	-	1,504,434
GBP	1,755,880	37,010	-	1,792,890
USD	14,574,300	(13,990,730)	-	583,570
	<u>35,069,428</u>	<u>(31,412,350)</u>	<u>-</u>	<u>3,657,078</u>

These cash amounts are netted above for presentation on the consolidated statement of financial position. This is due to the right of offset which exists at the Prime Broker Goldman Sachs International. A margining agreement exists with Goldman Sachs International which allows the Company to go negative on cash. Interest is charged for negative margin cash.

#### At 31 December 2009

	Financial assets/ (liabilities) at fair value through profit or loss €	Cash and bank balances €	Other net assets / liabilities €	2009 Total nets assets €
AUD	30,490,940	(30,929,349)	-	(438,409)
CAD	14,706,366	(25,636,206)	-	(10,929,840)
GBP	22,339,697	(24,784,930)	-	(2,445,233)
NOK	10,949,287	(11,302,963)	-	(353,676)
USD	3,448,149	(2,616,968)	-	831,181
	<u>81,934,439</u>	<u>(95,270,416)</u>	<u>-</u>	<u>(13,335,977)</u>

#### Credit risk

The Company is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred by the consolidated statement of financial position date, if any. All transactions in listed securities are settled delivery versus payment thereby eliminating credit risk. Counterparty risk will arise in respect of over-the-counter transactions, including CFDs. Payment is made on a purchase once the broker has received the securities.

## LEO CAPITAL GROWTH SPC

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

#### 6. Financial risk management (continued)

##### Credit risk (continued)

The trade will fail if either party fails to meet their obligation. As Goldman Sachs International has an A-1 credit rating and Citibank Europe Plc has an A-1 rating the credit risk is deemed minimal. Per the Prime Broker Agreement between Goldman Sachs International (the "Prime Broker") and the Company, any part of the Company's property may be commingled with cash or securities of the same description of other customers of the Prime Broker and accordingly the Company shall not necessarily have the right to any specific securities certificates, but will instead be entitled, to the transfer or delivery of an amount of securities of any issue that is of the same description and in the same amount.

The Company's money will not be segregated from the money of the Prime Broker and will be used by the Prime Broker in the course of the Prime Broker's business.

The credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. Rehypothecation (the use of client securities by the Prime Broker for its own purposes) is restricted to a maximum of 140% of liabilities owed to the Prime Broker from time to time.

All CFDs are transacted with the Prime Broker. Collateral and margin management is the process of managing assets pledged by one party to another to mitigate credit risk between the parties and to minimise the effects of potential default. As at 31 December 2010 and 31 December 2009 the Company held no open CFDs. The Sub-Manager monitors the credit/counterparty exposure to the Company on a daily basis. See pages 15 & 16 of this report for other broker exposure. In the event of failure of the Prime Broker or other brokers, the Company will be a general creditor.

##### Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. This extends to both derivative and non-derivative financial liabilities. The Company invests predominantly in publicly traded European equities. Illiquidity may result from the size of the positions taken in any one entity and/or adverse market conditions. The Company invests only a limited proportion of its assets in investments not actively traded on a stock exchange. The Company may from time to time invest in derivative contracts traded over the counter, which are not traded in an organised public market and may be illiquid. As a result, the Company may not be able to liquidate quickly its investments in these instruments at an amount close to their fair value in order to meet its liquidity requirements. As the Company is closed ended there is no requirement to provide funding for capital redemptions. At 31 December 2010 all current liabilities that are stated in the Consolidated Statement of Financial Position are payable within one month.

The Sub-Manager monitors liquidity on a daily basis using LeoPos which shows the number of average traded days volume in real-time. At 31 December 2010 45.80% (2009: 48.19%) of the positions in the portfolio were within weekly liquidity with the remaining 54.2% (2009: 51.81%) of positions being greater than weekly liquidity. The Board of Directors monitors the liquidity of the positions in the portfolio at the quarterly board meetings.

The table below analyses the Fund's derivative financial instruments in a loss position for which the contractual maturities are considered to be essential to an understanding of the timing of cash flows based on the Fund's investment strategy.

As at 31 December 2010

Less than 7 days

##### Options

Norilskiy Nikel January 11 Call option (strike price 24)	(96,903)
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##### Forward contracts

Buy EUR15,620,959/Sell AUD21,441,750	(751,197)
Buy EUR14,075,595/Sell CAD18,930,000	(123,729)
Buy EUR16,570,561/Sell CHF21,840,000	(896,252)

As at 31 December 2009 the Fund held no derivative financial instruments in a loss position.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the year ended 31 December 2010****6. Financial risk management (continued)****Fair value estimation risk (continued)**

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, exchange traded funds and trading securities) is based on quoted market prices at the Consolidated Statement of Financial Position date. The quoted market price used for financial assets held by the Company is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price. When the Company holds derivatives with offsetting market risks, it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies the bid or ask price to the net open position, as appropriate. In the case of money market funds, unaudited net asset valuations are provided by the underlying funds' administrators.

The Company may from time to time invest in financial instruments that are not traded in an active market (for example, in over-the-counter derivatives). The fair value of such instruments is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each consolidated statement of financial position date. As required by IAS 39, a bid/ask adjustment has been made to the last traded price.

Effective 1 January 2009 the Company adopted the Amendments to IFRS 7 'Financial Instruments: Disclosures', which requires enhanced disclosures about financial instruments carried at fair value and liquidity risk.

Investments measured and reported at fair value are classified and disclosed in one of the following fair value hierarchy levels based on the significance of the inputs used in measuring its fair value:

Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the valuation date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 inputs are inputs other than quoted prices in active markets included within Level 1 that are observable for the asset or liability, either directly or indirectly. Fair value is determined through the use of models or other valuation methodologies.

Level 2 inputs include the following:

- a. Quoted prices for similar assets or liabilities in active markets.
- b. Quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly.
- c. Inputs other than quoted prices that are observable for the asset or liability (e.g. interest rate and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks and default rates).
- d. Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs reflect the Company's own assumptions about how market participants would be expected to value the asset or liability. Unobservable inputs are developed based on the best information available in the circumstances, other than market data obtained from sources independent of the Company and might include the Company's own data.

An investment is always categorised as level 1, 2 or 3 in its entirety. In certain cases, the fair value measurement for an investment may use a number of different inputs that fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement requires judgment and is specific to the investment.



# LEO CAPITAL GROWTH SPC

A closed ended segregated portfolio company incorporated in the Cayman Islands

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

### 6. Financial risk management (continued)

#### Fair value estimation risk (continued)

The fair values of investments valued under Levels 1 to 3 are as follows:

At 31 December 2010

	Level 1	Level 2	Level 3	Total Balance
	€	€	€	€
<b>Assets</b>				
Financial assets at fair value through profit or loss				
Equity securities	118,818,984	-	-	118,818,984
Exchange traded funds	80,259,157	-	-	80,259,157
Forward contracts	-	505,849	-	505,849
<b>Total Assets</b>	<b>199,078,141</b>	<b>505,849</b>	<b>-</b>	<b>199,583,990</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss				
Forward contracts	-	1,771,178	-	1,771,178
Options	96,903	-	-	96,903
<b>Total Liabilities</b>	<b>96,903</b>	<b>1,771,178</b>	<b>-</b>	<b>1,868,081</b>

At 31 December 2009

	Level 1	Level 2	Level 3	Total Balance
	€	€	€	€
<b>Assets</b>				
Financial assets at fair value through profit or loss				
Equity securities	163,071,945	-	-	163,071,945
<b>Total Assets</b>	<b>163,071,945</b>	<b>-</b>	<b>-</b>	<b>163,071,945</b>

### 7. Related party transactions

At 31 December 2010:

- Francesco Marotta a Director of the Investment Manager (Leonardo Capital Management Limited) held 2 Participating Shares.
- Leonardo Capital Management Limited held 1 Participating Shares of the Company.
- Woodbourne Trustees, as Trustee of the C&C Trust, 50% owner of Leonardo Capital Management, held 42 Participating Shares.
- Woodbourne Trustees, as Trustee of the Leonardo Trust, 50% owner of Leonardo Capital Management, held 251 Participating Shares.
- Ian Cooper, a Director of the Company held 5 Participating Shares.

The above share holdings were the same as at 31 December 2009.

The Investment Manager is considered a related party to the Company. Investment Management and Performances fees are detailed in note 4 of the financial statements.

The Directors are considered related parties to the Company. The Company is not aware of any potential conflicts of interest between any duty of any Directors owed to it. Directors fees are detailed in note 4 of the financial statements.

## LEO CAPITAL GROWTH SPC

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

#### 8. Foreign currency rates versus Euro (functional currency) at 31 December 2010

	2010	2009
AUD	1.3088	1.5953
CAD	1.3330	1.5041
CHF	1.2505	1.4832
GBP	0.8569	0.8885
NOK	-	8.2882
SEK	-	10.2442
USD	1.3416	1.4347

#### 9. Subsequent events

On 10 January 2011 the Directors wrote to shareholders advising them of a share buyback offer of up to 5 % of the Company's shares. The offer was to be made in two tranches of 2.5% each. The first offer period began on 10 January 2011 and ended on 27 January 2011. A circular regarding the second offer is due to be published in September 2011. The first offer was fully subscribed, resulting in 75 shares repurchased by the Company.

#### 10. Changes in accounting standards

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2010, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the measurement of the amounts recognised in the consolidated financial statements of the Fund. IFRS9 Financial Instruments issued in November 2009 (IFRS 9 (2009)) will change the classification of financial assets.

The standard is not expected to have an impact on the measurement basis of the financial assets since the majority of the Fund's financial assets are measured at fair value through profit or loss.

IFRS 9 (2009) deals with classification and measurement of financial assets and its requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables.

For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified to profit or loss. However, dividends on such investments are recognised in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in profit or loss.

The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value. The standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Fund does not plan to adopt this standard early.

IAS 24 Related Party Disclosures (Amendment) is effective for annual periods beginning on or after 1 January 2011. This amendment simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. It will impact upon the disclosure of related party relationships, transactions and outstanding balances, including commitments in the consolidated financial statements of the Fund.

**LEO CAPITAL GROWTH SPC**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**For the year ended 31 December 2010**

**11. Approval of consolidated financial statements**

These consolidated financial statements were approved on 13 April, 2011.

# LEO CAPITAL GROWTH SPC

A closed ended segregated portfolio company incorporated in the Cayman Islands

## CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS

As at 31 December 2010

Description/Sector	2010		2009	
	Fair Value €	% of Net Assets	Fair Value €	% of Net Assets
<b>Financial assets at fair value through profit or loss</b>				
<b>Common stock</b>				
<b>Australia</b>				
Industrials	15,903,576	5.74%	30,490,940	10.41%
	<b>15,903,576</b>	<b>5.74%</b>	<b>30,490,940</b>	<b>10.41%</b>
<b>Canada</b>				
Industrials	14,295,390	5.16%	14,706,366	5.02%
	<b>14,295,390</b>	<b>5.16%</b>	<b>14,706,366</b>	<b>5.02%</b>
<b>Germany</b>				
Industrials	-	-	2,018,578	0.69%
	<b>-</b>	<b>-</b>	<b>2,018,578</b>	<b>0.69%</b>
<b>Great Britain</b>				
Consumer	32,602,585	11.77%	22,339,697	7.63%
	<b>32,602,585</b>	<b>11.77%</b>	<b>22,339,697</b>	<b>7.63%</b>
<b>Norway</b>				
Industrials	-	-	10,949,287	3.74%
	<b>-</b>	<b>-</b>	<b>10,949,287</b>	<b>3.74%</b>
<b>Switzerland</b>				
Healthcare	20,200,586	7.29%	-	-
Industrials	16,377,989	5.92%	-	-
	<b>36,578,575</b>	<b>13.21%</b>	<b>-</b>	<b>-</b>
<b>United States</b>				
Financial	5,323,842	1.92%	3,448,149	1.18%
Industrials	14,115,016	5.10%	-	-
	<b>19,438,858</b>	<b>7.02%</b>	<b>3,448,149</b>	<b>1.18%</b>
<b>Total common stock</b>	<b>118,818,984</b>	<b>42.90%</b>	<b>83,953,017</b>	<b>28.68%</b>
<b>Investment funds</b>				
<b>Italy</b>				
Financial	80,259,157	28.98%	79,118,928	27.01%
	<b>80,259,157</b>	<b>28.98%</b>	<b>79,118,928</b>	<b>27.01%</b>
<b>Total Investment funds</b>	<b>80,259,157</b>	<b>28.98%</b>	<b>79,118,928</b>	<b>27.01%</b>

See notes to the consolidated financial statements

**LEO CAPITAL GROWTH SPC**

A closed ended segregated portfolio company incorporated in the Cayman Islands

**CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS (Continued)**

**As at 31 December 2010**

Description/Sector	2010		2009	
	Fair Value €	% of Net Assets	Fair Value €	% of Net Assets
<b>Financial assets at fair value through profit or loss</b>				
<b>Forward foreign currency contracts</b>				
Buy EUR31,260,765/Sell GBP26,432,321	414,060	0.15%	-	-
Buy EUR4,859,444/Sell USD6,396,000	91,789	0.03%	-	-
<b>Total forward foreign currency contracts</b>	<b>505,849</b>	<b>0.18%</b>	<b>-</b>	<b>-</b>
 Total financial assets at fair value through profit or loss	 <b>199,583,990</b>	 <b>72.06%</b>	 <b>163,071,945</b>	 <b>55.68%</b>
<b>Financial liabilities at fair value through profit or loss</b>				
<b>Listed options</b>				
<b>United States</b>				
Industrials	(96,903)	(0.04%)	-	-
<b>Total listed options</b>	<b>(96,903)</b>	<b>(0.04%)</b>	<b>-</b>	<b>-</b>
<b>Forward foreign currency contracts</b>				
Buy EUR15,620,959/Sell AUD21,441,750	(751,197)	(0.28%)	-	-
Buy EUR14,075,595/Sell CAD18,930,000	(123,729)	(0.04%)	-	-
Buy EUR16,570,561/Sell CHF21,840,000	(896,252)	(0.32%)	-	-
<b>Total forward foreign currency contracts</b>	<b>(1,771,178)</b>	<b>(0.64%)</b>	<b>-</b>	<b>-</b>
 Total financial liabilities fair value through profit or loss	 <b>(1,868,081)</b>	 <b>(0.68%)</b>	 <b>-</b>	 <b>-</b>
<b>Net assets consist of:</b>				
Total investments	197,715,909	71.38%	163,071,945	55.68%
Other assets	79,270,843	28.62%	129,888,464	44.32%
 <b>Net assets attributable to holders of redeemable Participating Shares on a last traded basis</b>	 <b>276,986,752</b>	 <b>100.00%</b>	 <b>292,960,409</b>	 <b>100.00%</b>

See notes to the consolidated financial statements