

ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS  
**Boussard & Gavaudan Holding Limited**

For the year ended 31 December 2009.

	<b>Page</b>
COMPANY INFORMATION	2
CHAIRMAN'S STATEMENT	3-4
DIRECTORS' REPORT	5-8
STATEMENT OF DIRECTOR'S RESPONSIBILITIES	9
INVESTMENT MANAGER'S REPORT AND FINANCIAL HIGHLIGHTS	10-21
REPORT OF INDEPENDENT AUDITORS	22
 <u>FINANCIAL STATEMENTS</u>	
STATEMENT OF FINANCIAL POSITION	23
STATEMENT OF COMPREHENSIVE INCOME	24
STATEMENT OF CHANGES IN EQUITY	25
STATEMENT OF CASH FLOWS	26
NOTES TO THE FINANCIAL STATEMENTS	27-48

# **Boussard & Gavaudan Holding Limited**

## **Company Information**

**For the year ended 31 December 2009**

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### **Directors**

Christopher Fish  
Sameer Sain  
Nicolas Wirz

### **Advisers**

Investment Manager  
Boussard & Gavaudan Asset Management, LP  
Calder House - 1 Dover Street  
London W1S 4LA  
(Telephone +44 207 514 0700)

### **Legal Advisers to the Company (as to English and United States law)**

Herbert Smith LLP  
Exchange House, Primrose Hill  
London EC2A 2HS

### **Advocates to the Company (as to Guernsey law)**

Carey Olsen  
7 New Street  
St Peter Port  
Guernsey GY1 4BZ

### **Legal Advisers to the Company (as to Netherlands law)**

Stibbe N.V.  
Strawinskylaan 2001  
1077 ZZ Amsterdam  
The Netherlands

### **Auditors**

Ernst & Young LLP  
Royal Chambers  
St Julian's Avenue  
St. Peter Port  
Guernsey GY1 4AF

### **Administrator and Registrar**

Close Fund Services Limited  
Trafalgar Court  
Admiral Park, St. Peter Port  
Guernsey GY1 2JA

### **Custodian**

BNP Paribas Jersey Branch  
PO Box 158  
BNP House, Anley Street  
St Helier  
Jersey JE4 8RD

### **Sub-Administrator**

GlobeOp Financial Services LLC  
One South Road  
Harrison  
NY 10528  
USA

**Boussard & Gavaudan Holding Limited**  
**Chairman's Statement**  
**For the year ended 31 December 2009**

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I am pleased to present to shareholders the Annual Report and Audited Financial Statements of the Company for the year ended 31 December 2009.

From 1 January to 31 December 2009 ("the period"), European equity markets rallied with the Dow Jones Eurostoxx 50 up 21.1%. In addition, the credit markets finished the year on a relatively strong note.

During the period, prices of the Company's Euro shares and Sterling shares have significantly outperformed equity indices such as the Stoxx 600 (by 33.48% and 29.49%, respectively) and the S&P 500 (by 38.02% and 34.03%, respectively).

The net asset value (NAV) of the Company's Euro share increased 27.15% while the share price went up 61.48%. The NAV of the Sterling share increased 20.91% while the share price went up 57.49%. As an adjunct of these results, the discount of the share price to the NAV narrowed significantly but remains wide.

The determinants of share price are the NAV reflecting the performance of the underlying investment fund (Sark Fund Limited), and the degree of discount or premium to NAV at which the shares trade, which in turn is driven by the supply and demand in the market place, the liquidity of the underlying shares and the general market sentiment.

With regard to the performance of the NAV and the review of recent developments, I refer you to the Directors' Report and the Investment Manager's Report which highlight the main features of the results of the business over the period. For your information, the Company also publishes on its website ([www.bgholdingltd.com](http://www.bgholdingltd.com)) daily and monthly NAVs and monthly newsletters based on data provided to the Company by the Administrator and the Investment Manager.

In order to offer sufficient liquidity to the investors, the Company has been actively buying back its own shares since early 2008. In 2009, the Company bought back 8,202,243 Euro shares (23,973,889 in 2008) and 30,000 Sterling shares (1,363,812 in 2008). As at 31<sup>st</sup> December 2009 3,369,832 Euro shares were held in Treasury representing 5.71% of the total share capital issued.

We believe the strengthening of the regulatory and supervisory environment which is emerging from the recent turmoil will bring back more stability to our industry and the financial markets and in turn benefit the shareholders of the Company. As before, we will continue to make every endeavour to seek measures to narrow the discount to NAV and to increase the liquidity of the shares.

**Boussard & Gavaudan Holding Limited**  
**Chairman's Statement**  
**For the year ended 31 December 2009**

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On behalf of the Board I wish to thank the shareholders and advisors to the Company for their continued support.

Christopher Fish

Chairman

22 April 2010

# **Boussard & Gavaudan Holding Limited**

## **Directors' Report**

**For the year ended 31 December 2009**

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The Directors present their annual report and audited financial statements for the year ended 31<sup>st</sup> December 2009.

### **Principal Activities**

Boussard & Gavaudan Holding Limited ("the Company") has invested substantially all of its assets in the Sark Fund Limited ("the Fund"), a Europe-focused multi-strategy hedge fund which aims primarily at arbitraging instruments with linear or non-linear pay-offs on equities and credit markets. The overall investment objective of the Fund is to provide investors with consistent absolute returns primarily through investing and trading in financial instruments of companies incorporated in or whose principal operations are in Europe.

Additionally, the Company may enter into private equity investments and approximately 1% of its assets under management is currently so invested.

Boussard & Gavaudan Asset Management LP ("BGAM" or "the Investment Manager") is the investment manager for both the Company and the Fund.

### **Review of Recent Developments**

The performance of the Company is driven primarily by the financial results of the Fund and, to a much lesser extent, from the accretive effect of the share buy back. Over the period, the contribution of the non-Sark investments to the performance of the Company has been marginal.

From 1 January to 31 December 2009, the NAV of the Fund's Euro A share class has posted a 25.13% return with a volatility of 5.79%.

Over the five year period ending on 31 December 2009, the NAV of the Fund's Euro A share class has posted an annualised return of 6.88% with an annualised volatility of 8.08%. This compares favourably with the Credit Suisse/Tremont Hedge Fund / Convertible Bond Index which has posted an annualised return of 2.08% with an annualised volatility of 12.37% and with the Credit Suisse/Tremont Hedge Fund / Multi Strategy Index which has posted an annualised return of 4.07% with an annualised volatility of 7.53% over the same period.

In the circumstances, the Directors are satisfied with the Fund strategies and performance, particularly given the volatile market conditions.

After the difficult market conditions from the middle of 2007 until February 2009, the period since has seen a strong recovery in the financial markets and the close monitoring of the various strategies deployed by the Investment Manager has shown its efficiency.

Accordingly, the assets under management grew from €622 million at 31 December 2008 to €690 million at 31 December 2009 and the share price and discount to NAV improved significantly. The euro share closed at the end of the period at €9.85 up 61.48% and the sterling share saw a 57.49% increase closing at £9.47. Whilst the NAV of the euro shares went up 27.15% to €12.38 and the NAV of the sterling shares went up 20.91% to £11.75, the discount to NAV reduced significantly from -37.3% to -20.4% for the euro share and from -38.1% to -19.4% for the sterling share.

Finally, the Company continued to actively improve the liquidity of the shares in the market by continuing its share buy-backs and sales of treasury shares on Euronext Amsterdam and London Stock Exchange.

### **Results for the year and State of Affairs at 31<sup>st</sup> December 2009**

The Statement of Financial Position and the Statement of Comprehensive Income for the year ended 31<sup>st</sup> December 2009 are set out in the enclosed financial statements.

### **Directors**

The Directors at the date of this report include:

- Christopher Fish, Chairman;
- Nicolas Wirz;
- Sameer Sain.

# Boussard & Gavaudan Holding Limited

## Directors' Report

### For the year ended 31 December 2009

All of the Directors have been appointed for two Annual General Meetings and therefore are required to stand for re-election at the forth coming Annual General Meeting.

Save as disclosed in these financial statements, the Company is not aware of any potential conflicts of interest between any duty of any of the Directors owed to it and their respective private interests. Each Director is paid an annual fee of €30,000, the Chairman is entitled to receive €50,000 per annum and the Chairman of the Audit Committee will receive an additional fee of €7,500 per annum.

#### Directors' interests in shares

As at 31<sup>st</sup> December 2009, Christopher Fish had invested, directly or indirectly, in 8,631 ordinary € shares of the Company. Sameer Sain had invested, directly or indirectly, in 40,000 ordinary € shares of the Company. Nicolas Wirz had invested, directly or indirectly, in 16,168 ordinary € shares of the Company.

On 4 June 2009 the shareholders renewed the authority to make market purchases of the shares of the Company to the Directors. Under such authority the Company is allowed to purchase up to 14.99% of its own shares. From 4 June 2009 to 31<sup>st</sup> December 2009 the Company had purchased 4,054,844 shares of the Company representing 6.17% of the total 14.99% authorised by the shareholders.

#### Corporate Governance

As a Guernsey incorporated company, the Company is not, strictly speaking, required to comply with the Combined Code (the "Code") appended to the listing rules of the UK's Financial Services Authority. However, the Directors place a high degree of importance on ensuring that high standards of corporate governance are maintained and have adopted the spirit of the Code which sets out principles of good governance and a code of best practice for listed companies. There are no significant requirements of the Code that the Company does not comply with.

The Board meets formally at least four times a year. In addition to these scheduled meetings, over the past period the Board has met on an ad hoc basis and has consulted the Investment Manager regularly. The Directors are satisfied that they have been kept fully informed of the investment performance, financial and operational controls, and other matters relevant to the business of the Company. The Directors have, where necessary to the furtherance of their duties, taken independent professional advice at the expense of the Company.

The attendance record of the Directors is set out below:

	Quarterly Board Meeting	Ad hoc Board Meetings	Audit Committee
Number of Meetings	4	3	2
Meetings attended:			
Christopher Fish*	2	2	1
Nicolas Wirz	4	3	2
Sameer Sain	3	3	2

\* Mr Fish was unable to attend 2 meetings as a result of ill health. He has since made a full recovery.

The focus at Board Meetings is a review of investment performance, marketing/investor relations, risk management, general administration and compliance, peer group information and industry, regulatory and corporate governance issues. Board papers are circulated in advance allowing Directors the opportunity to add agenda items they consider appropriate for Board discussion. Each Director is required to inform the Board of any potential or actual conflicts of interest prior to Board discussion.

The Board evaluates its performance and the performance of individual Directors on an annual basis, and believes that the current mix of skills and experience of the Directors are appropriate to the requirements of the Company.

#### Directors' Duties and Responsibilities

A summary of the Directors responsibilities are as follows:

- Statutory obligations and public disclosure;
- Strategic matters and financial reporting;

# **Boussard & Gavaudan Holding Limited**

## **Directors' Report**

**For the year ended 31 December 2009**

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- Oversight of management and advisors matters;
- Risk assessment and management, including reporting, monitoring, governance and Control;
- Other matters having a material effect on the Company.

### **Committees of the Board**

The Board has not deemed it necessary to appoint a nomination or remuneration committee as, being comprised wholly of non-executive Directors, the whole Board considers these matters.

### **Audit Committee**

An Audit Committee, with defined terms of reference and duties, has been established to consider inter alia: (a) annual and semi-annual accounts, (b) auditors reports, and (c) terms of appointment and remuneration for the auditor (including overseeing the independence of the auditor particularly as it relates to non-audit services). In addition, the Audit Committee will ensure that the Company maintains high standards of integrity, financial reporting and internal controls. The Audit Committee comprises the following as members: Nicolas Wirz (Chairman), Christopher Fish and Sameer Sain.

So far as each of the Directors is aware, there is no relevant audit information of which the Company's Auditors are unaware and each Director has taken all reasonable steps he ought to have taken as a Director to make himself aware of any relevant information and to establish that the Company's Auditors are aware of that information.

### **Internal Controls**

The Board is ultimately responsible for the Company's system of internal control and for reviewing its effectiveness. The Board has developed a framework that is designed to identify, evaluate and manage the primary operating risks faced by the company. The framework specifies an ongoing review timetable that ensures at least an annual review of the Company's system of internal controls, including financial, operational, compliance and risk management.

The Board has delegated the management of the Company's investment portfolio; the provision of custody services; the administration, registrar and corporate secretarial functions (including the independent calculation of the Company's Net Asset Value); and the production of the Annual Report and Financial Statements which are independently audited. The Board retains accountability for the functions it delegates and is responsible for the system of internal control. Formal contractual arrangements have been put in place between the Company and the Providers of these services.

The Company has appointed Boussard & Gavaudan Asset Management, LP as Investment Manager pursuant to an investment management agreement entered into on 13 October 2006. The Board has reviewed the performance of the Investment Manager and is satisfied that the continuing appointment of the Investment Manager on the terms agreed is in the interests of the Shareholders. Please refer to the above section entitled "Review of Recent Developments" of this Report for a review of the performance of the Company. Also, please refer to note 9 to the financial statements for further details on the terms of the investment management agreement.

Compliance reports are provided at each quarterly Board meeting by the Company Secretary.

### **Corporate Responsibility**

The Company considers the ongoing concerns of investors on the basis of open and regular dialogue with the Investment Manager.

The Company keeps abreast of regulatory and statutory changes and responds as appropriate.

The Board will assess its performance on an annual basis based on the guidelines set out by the AIC and the Combined Code.



# **Boussard & Gavaudan Holding Limited**

## **Directors' Report**

**For the year ended 31 December 2009**

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### **Going Concern**

The Board conducts a rigorous and proportionate assessment of the Company's operational and financial risk with reference to the Company's cash flow requirements, debt position and the liquidity of the Sark Fund.

Currently the Company has a small debt position the purpose of which is to finance share buy back transactions. The debt position is repaid in full through redemptions of Sark shares, on a monthly basis. It remains at the discretion of the Company to continue its share buy back activity in the future.

Other than this debt position, the only financial commitments of the Company are its ongoing fees and expenses.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus the financial statements have been prepared on a going concern basis.

### **Relations with Shareholders**

While the Company reports formally to the shareholders twice a year, it also maintains a website which contains comprehensive information ([www.bgholdingltd.com](http://www.bgholdingltd.com)). This includes all historical communication, investment philosophy, risk management policies, Investment Managers reports, statistical information and Corporate Governance guidelines. Additionally, shareholders are welcome to contact Directors of the Company, should they wish to have a dialogue and/or provide any feedback. Finally, if required, the Company can also make available the Investment Manager to shareholders.

By order of the Board

Christopher Fish  
Chairman

Nicolas Wirz  
Director

22nd April 2010

**Boussard & Gavaudan Holding Limited**  
**Statement of Director's responsibilities**  
**For the year ended 31 December 2009**

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The Directors are responsible for the preparation of financial statements for each financial period which give a true and fair view of the state of affairs of the company as at the end of the year and the results of operations for the period then ended.

In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them on a consistent basis;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is not appropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 2008. They are also responsible for the system of internal controls for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors each confirm to the best of their knowledge that: the accounts have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and the Chairman's Statement and Investment Manager's report include a fair view of the developments and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face as required by the Disclosure and Transparency Rules of the UK Listing Authority.

By order of the Board

Christopher Fish  
Chairman

Nicolas Wirz  
Director

22 April 2010

# Boussard & Gavaudan Holding Limited

## Investment Manager's Report and Financial Highlights

### For the year ended 31 December 2009

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#### A- Background and Highlights

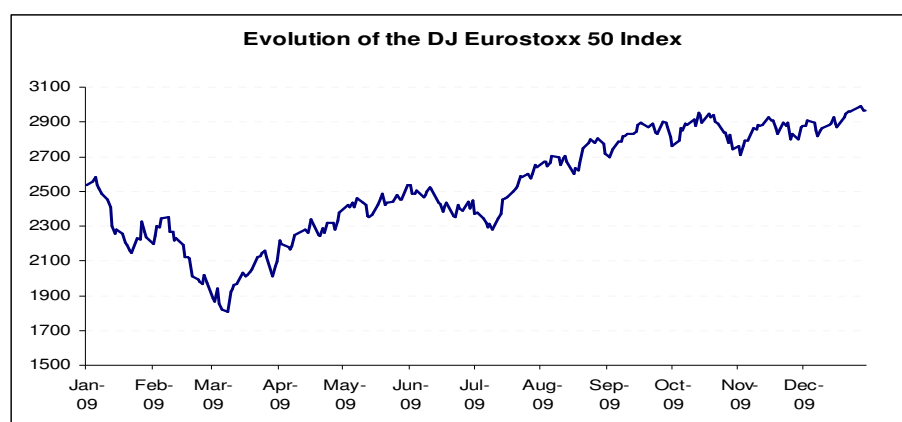
##### Background

Boussard & Gavaudan Holding Limited ("the Company") is a closed-ended investment company registered and incorporated under the laws of Guernsey on 3 October 2006. The Company's shares are listed and traded on the Euronext Market operated by Euronext Amsterdam by NYSE Euronext, and are subject to Dutch securities regulations and to supervision by the relevant Dutch authorities. The Company is registered with the Dutch Authority for the Financial Markets as a collective investment scheme.

Since 28 July 2008, the Company's shares are also admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange plc's main market for listed securities. At the time of this dual listing, the Company has created a class of shares denominated in Sterling (the "Sterling Shares") through the conversion of existing Euro shares into new Sterling shares at the prevailing net asset value ("NAV") per Euro share at 30 June 2008. From this date, shareholders have been able to convert their existing holding of shares in the Company from one class into another class on a quarterly basis, subject to satisfying certain requirements.

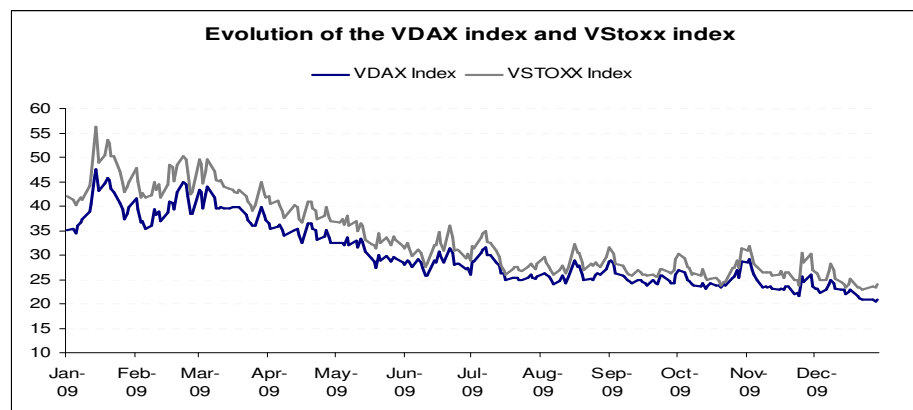
Through Sark Fund Limited, its main investment, the Company is sensitive to equity and volatility prices as well as to credit spreads. the Company is exposed to other markets factors but to a lesser extent.

From 1 January to 31 December 2009 ("the period"), European equity markets rallied with the Dow Jones Eurostoxx 50 up 21.1%.



Graph 1 (source Bloomberg)

Volatilities on stock markets went down with the VDAX index ending at 20.8% from 37.8% and the VStoxx index at 24.1% from 43.9%.



Graph 2 (source Bloomberg)

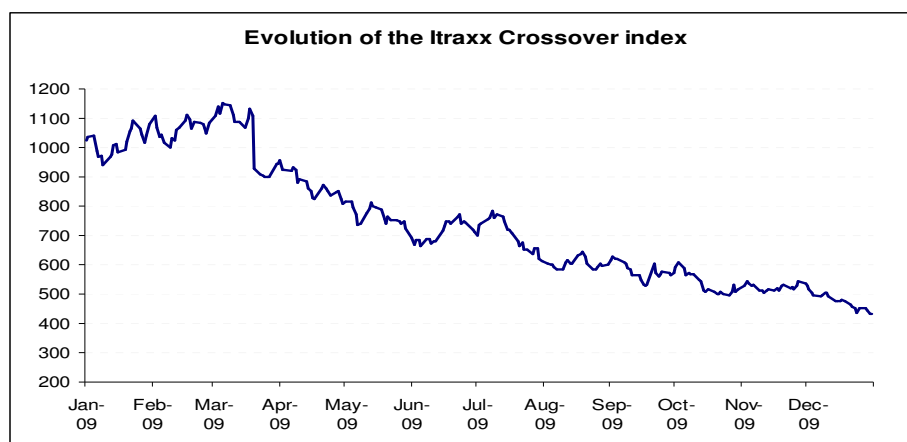
# Boussard & Gavaudan Holding Limited

## Investment Manager's Report and Financial Highlights

### For the year ended 31 December 2009

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Credit spreads tightened with the Itraxx Crossover finishing at 432bps from 1,029bps.



Graph 3 (source Bloomberg)

### Highlights

As of 31 December 2009, the Company's assets under management were approximately €690 million, up from €622 million at 31 December 2008. Positive performance explains the increase in the assets under management.

### Performance

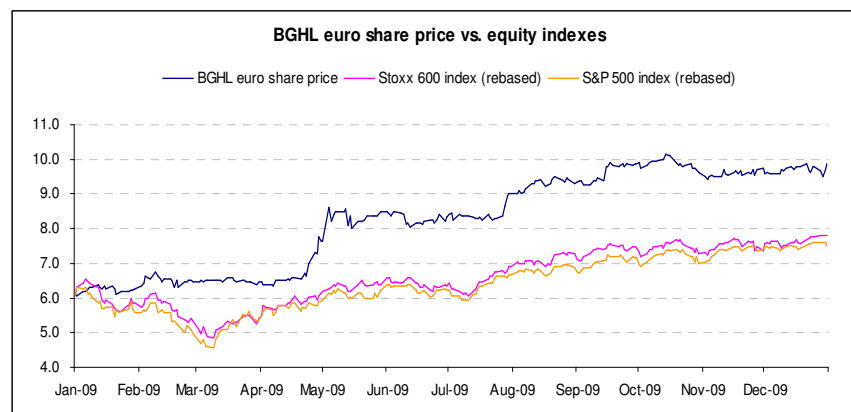
During the period, the performance of the Euro and the Sterling share were as follows:

	31 December 2009	31 December 2008	Variation
Euro share price <sup>1</sup>	€9.85	€6.10	+61.48 %
Nav Euro share	€12.38	€9.73	+27.15%

	31 December 2009	31 December 2008	Variation
Sterling share price <sup>2</sup>	£9.47	£6.01	+57.49%
Nav Sterling share	£11.75	£9.72	+20.91%

Euro share and Sterling share prices have significantly outperformed equity indexes such as the Stoxx 600 and the S&P 500.



Graph 4 (source Bloomberg)

<sup>1</sup> Amsterdam (AEX) market close for euro share

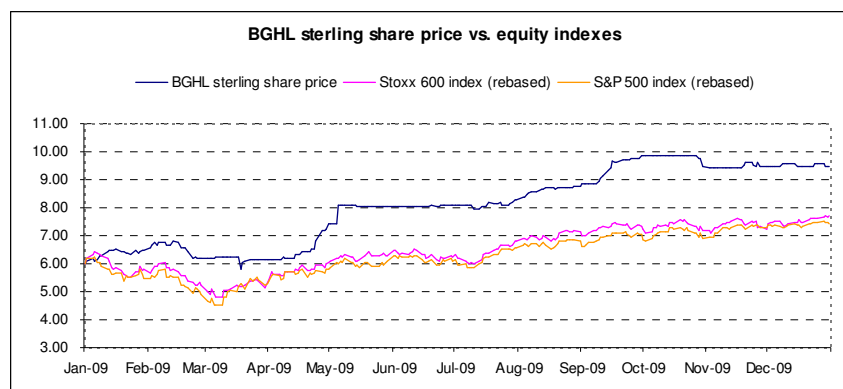
<sup>2</sup> London (LSE) market close for sterling share

# Boussard & Gavaudan Holding Limited

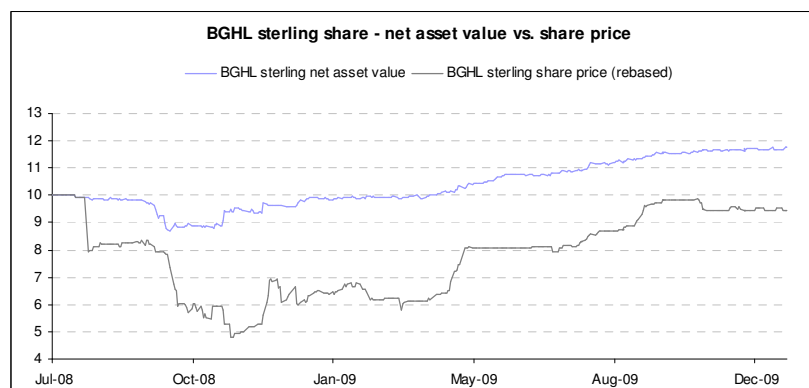
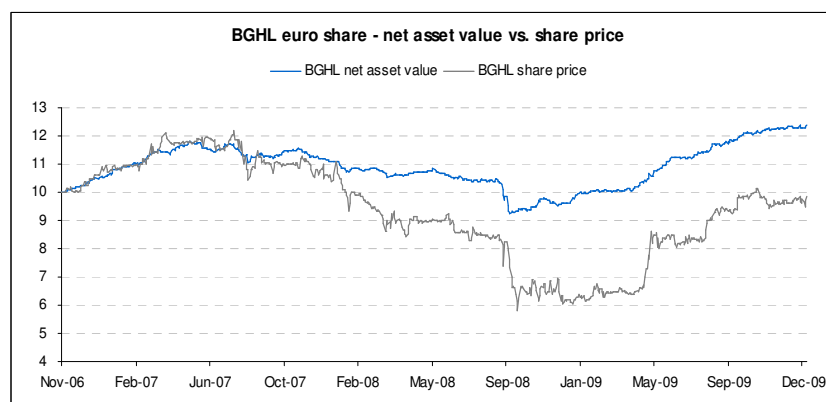
## Investment Manager's Report and Financial Highlights

### For the year ended 31 December 2009

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Euro share and Sterling share prices have also significantly outperformed their NAV during this period reflecting the catching up of previous underperformance.



# **Boussard & Gavaudan Holding Limited**

## **Investment Manager's Report and Financial Highlights**

### **For the year ended 31 December 2009**

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#### Share buy back and discount to NAV.

##### Share buy back programme

Since its listing, the Company has set up a share buy back programme voted by its shareholders. The volume of the share buy back programme during the period shows the Investment Manager's commitment to the Company's strategy and its efforts to reduce the discount to NAV.

##### Liquidity enhancement agreement

To increase the liquidity of the Company's shares, the Company has set up a liquidity contract with Exane BNP Paribas on 14 August 2008. Exane BNP Paribas handles the execution of the liquidity enhancement agreement of the Company in accordance with the Dutch accepted market practice. The Company intends to limit to 1% of its market capitalisation per year the amount allocated to the execution of this contract.

Share buy backs from both programmes are relative to shareholders and have contributed to the tightening of the discount of the Euro and of the Sterling share price to their respective net asset values. Relution also contributes to the overperformance of the Company's net asset value with respect to the one of Sark respectively 27.15% and 25.13%.

Discount to NAV	31 December 2009	31 December 2008
Euro share	-20.4%	-37.3%
Sterling share	-19.4%	-38.1%

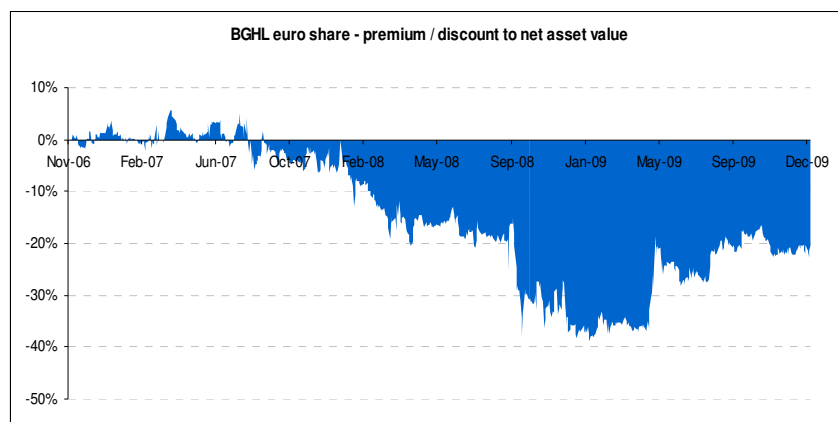
# Boussard & Gavaudan Holding Limited

## Investment Manager's Report and Financial Highlights

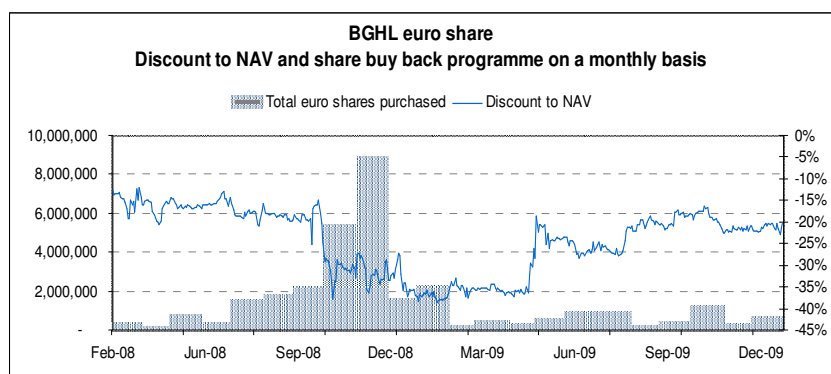
### For the year ended 31 December 2009

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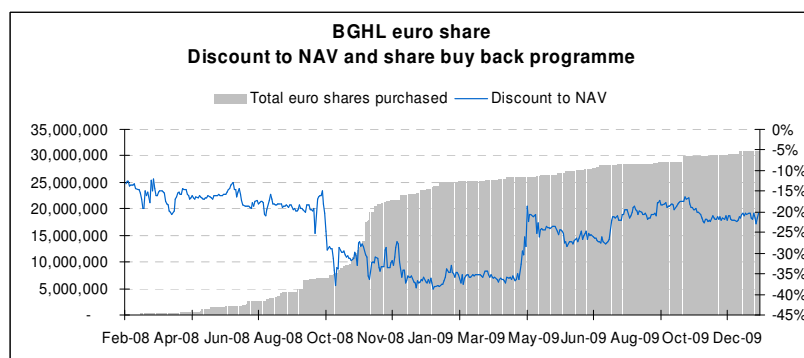
Euro Share (discount and share buy back)



Graph 8 (source BGAM estimates / Bloomberg)



Graph 9 (source BGAM estimates)



Graph 10 (source BGAM estimates)

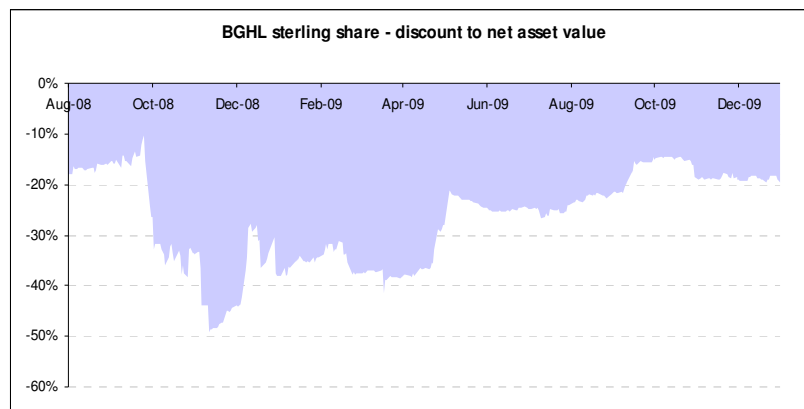
# Boussard & Gavaudan Holding Limited

## Investment Manager's Report and Financial Highlights

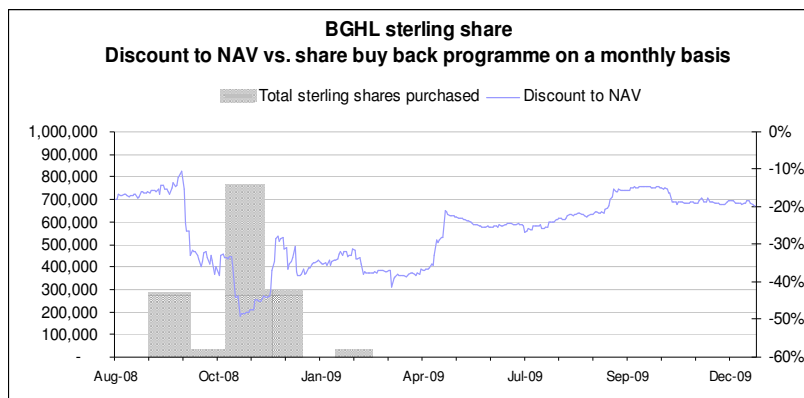
### For the year ended 31 December 2009

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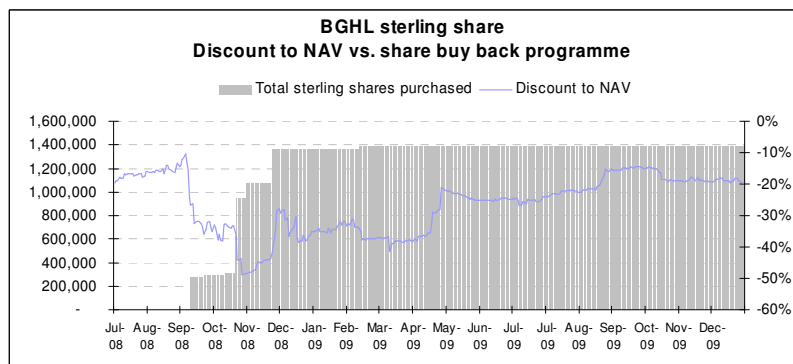
Sterling Share (discount and share buy back)



Graph 11 (source BGAM estimates / Bloomberg)



Graph 12 (source BGAM estimates)



Graph 13 (source BGAM estimates)



# **Boussard & Gavaudan Holding Limited**

## **Investment Manager's Report and Financial Highlights**

### **For the year ended 31 December 2009**

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#### **B- Review of the development of the business**

The Company had almost 99% of its total assets invested in the **Sark Fund Limited** ("the Fund"), a Europe-focused multi-strategy fund, which aims primarily at arbitraging instruments with non-linear pay-offs in special situations. The Fund implements diversified investment strategies, including volatility, equity and credit strategies.

In addition to its investment in the Fund, and as described in the offering memorandum, the Company may enter into **Private equity investments**. Since the credit banking facility has been terminated in early 2009, these investments are being financed through the Company's equity. Part of the cash allocated to the liquidity enhancement programme, which has still not being used to buy back the shares of the Company, is invested by the liquidity provider in "BNP Paribas Cash Invest", a pure money market fund distributed by a subsidiary of the BNP Paribas SA group.

#### **C- Risks and Results**

Below is the private equity investment's overview during the period followed by the Sark Fund limited investments.

##### **Investments other than Sark Fund Limited**

As at 31 December, 2009, the Company had the following two investments in the portfolio which both represent in aggregate approximately 1% of the assets under management.

##### **Rasaland**

The Company entered into a private equity investment in Rasaland in June 2008 for \$10 million.

##### **DSO Interactive**

On 9 December 2009, the Company acquired a minority stake in DSO Interactive for €1.2 million (4.3% of the share capital and 3.6% on a fully diluted basis). DSO Interactive is a private company incorporated in France and headquartered in Paris, where it employs over 122 people. DSO Interactive provides bad debt collection services to consumer creditors such as telecom operators, banks and specialized credit institutions.

Over the period, the contribution of private equity investment to the performance of the Fund has been marginal.

##### **Investment in Sark Fund Limited**

##### **Strategies**

The Fund has three main strategies, which can be split into the following sub-strategies.

##### **Volatility strategies include:**

- Mandatory convertible bond arbitrage ("mandatories")
- Convertible bond arbitrage
- Gamma trading
- Corporate warrant arbitrage

##### **Equity strategies include:**

- Risk arbitrage
- Special situations
- Value with Catalyst

##### **Credit strategies include:**

- Capital structure arbitrage
- Credit long / short

In addition the Fund has a **Trading** strategy.

# Boussard & Gavaudan Holding Limited

## Investment Manager's Report and Financial Highlights

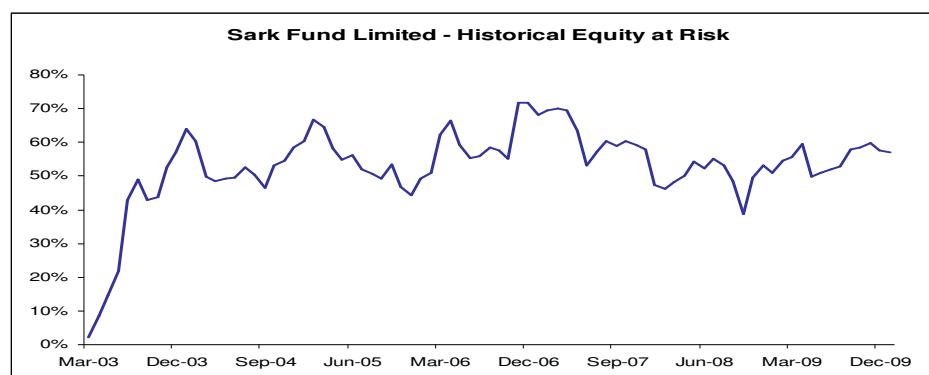
### For the year ended 31 December 2009

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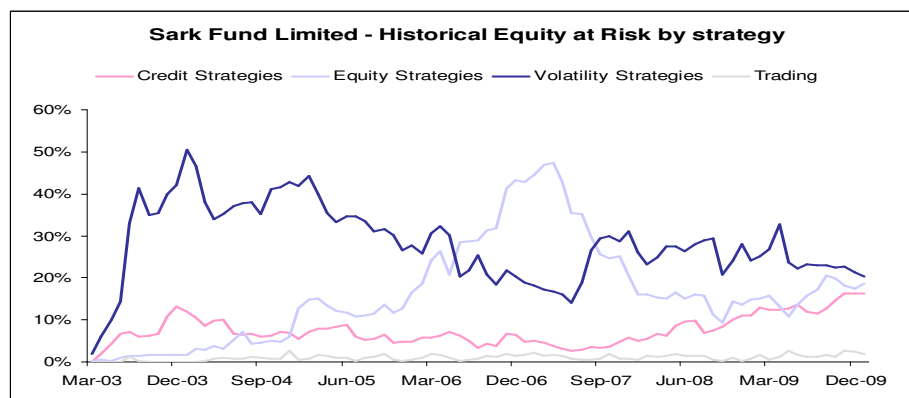
#### Risks of the Fund and capital allocation

The Investment Manager monitors the leverage of the Fund according to, and within the limits of the equity-at-risk which is an internal risk indicator aiming to replicate the risk limits used by its prime brokers. Over the period, the Fund has increased the equity-at-risk used to 57% of the capacity versus 53% at the end of the previous period. The Investment Manager continued to be very selective when deploying equity-at-risk with a specific focus on liquid and short-term trades with hard catalysts.

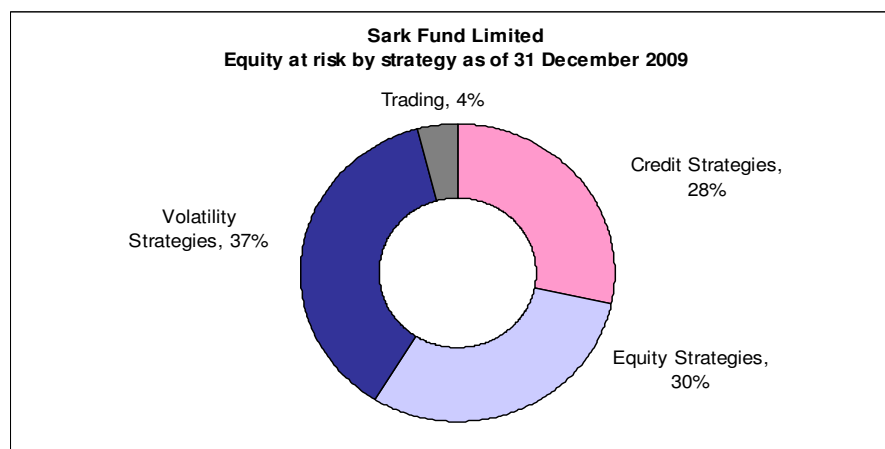
The graphs below illustrate the evolution of the equity at risk of the Fund as a whole and by strategy since its inception.



*Graph 12 (source BGAM Estimates)*



*Graph 13 (source BGAM estimates)*



*Graph 14 (source BGAM estimates)*

# Boussard & Gavaudan Holding Limited

## Investment Manager's Report and Financial Highlights

### For the year ended 31 December 2009

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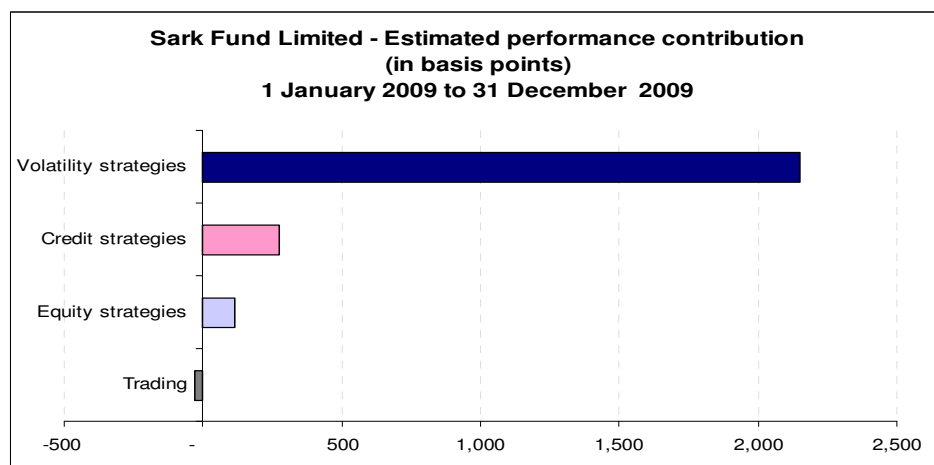
#### Results

From 1 January to 31 December 2009, the Fund posted a 25.13% return for the Euro A share class which closed at €157.2717.

#### Results by strategies

Almost all strategies contributed positively to the performance of the Fund, volatility strategy has been the main driver. Across all strategies, trading has been the sole strategy contributing negatively to the performance.

The contribution of each strategy to the performance of the Fund (Euro A share class) is as follows:



*Graph 15 (source BGAM Estimates)*

#### **Credit strategies**

Primary markets were particularly active in 2009. An unprecedented wave of non-financial issuance set the market alight. This raised questions in many investors' minds during the fourth quarter about whether this issuance was sustainable. The market saw €265bn of issuance in 2009, beating the all-time high of €200bn set in 2001. Corporates were issuing debt instead of taking loans from banks, and banks were issuing less as they were trimming down their balance sheets. Therefore there was plenty of scope for activity not only in investment grade but also in high yield. Credit markets finished 2009 on a strong note, in a benign interest rate environment, with falling default rates, and rising equity markets.

In this environment, credit strategies returned a positive contribution to the performance of the Fund, mostly driven by credit long/short sub-strategy.

On the positive side, one of the core positions benefited not only from the massive tightening in high yield spreads, but also from the receding discount given to holding companies in the credit market. Several stressed positions particularly in the cable sector and senior financial paper also performed very well on the back of company specific improvements as well as the overall tightening of credit spreads. The Investment Manager therefore took the opportunity of the rally from the summer onwards, to almost fully monetise these situations along with several recovery stories. To a lesser extent, capital structure arbitrage also posted a positive return during the period thanks to long debt/short equity trades, part of which were monetised.

On the negative side, the underperformance stemmed mostly from an adverse development in one of the Fund's main investments. The Investment Manager negotiated a debt restructuring with the corporate, alongside a group of lenders which was finally agreed on in July.

During the second half, the Investment Manager started to increase the short pocket of the portfolio by buying protection on low beta investment grade names that had potential Merger & Acquisition events as widening catalysts. There was a focus on buying 6 to 7 years Credit Default Swaps. The Investment Manager also reduced the beta of the Fund's portfolio by buying iTraxx index protection. Towards year-end, the Investment Manager started to hedge the portfolio fairly aggressively, anticipating a wave of crossover and high yield supply in the first quarter of 2010. The Fund ended the period theta neutral with hedges having a longer duration than core credit positions.

# **Boussard & Gavaudan Holding Limited**

## **Investment Manager's Report and Financial Highlights**

### **For the year ended 31 December 2009**

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Given the current structure of the portfolio, future performance is expected from the potential outperformance of long positions versus the overall market, and/or a potential remark of the Fund's distressed positions. The current positioning allows the Investment Manager to deploy capital if the primary market presents interesting opportunities.

#### **Equity strategies**

Equity strategies posted a marginal positive contribution to the performance of the Fund.

During the period, equity markets were volatile and driven by macro factors rather than company fundamentals. In this particularly constricted market environment, no major position was initiated. The Investment Manager continued to be very selective with investments, the focus being on liquid trades with short maturities and hard catalysts.

Overall, the focus on those types of trades performed well. The Fund has been involved in: i) some risk arbitrage trades offering attractive risk rewards ii) trades in anticipation of earnings announcements iii) trades on very liquid large caps iv) pair trades mainly in telecommunication, construction, banks and media and v) dividend trades. At the beginning of the period, the Investment Manager bought dividends on certain specific names on the back of banks offloading some of their risk. The Fund also fully benefited from the re-opening of equity capital markets and has been successfully active both in primary and secondary offerings.

Negative contributions mostly arose from historical stakes in GFI Informatique and Camafeu which underperformed their hedges without any specific news and on limited volumes during the period. Whilst most of the short term trades with hard catalysts were profitable, in the few cases where trades performed poorly, the Investment Manager remained rigorous in its risk management process and decided to cut positions swiftly.

Finally, towards the end of the period, the Investment Manager decided to tighten the Fund's hedges as the market had performed quite well but the economic outlook remained uncertain.

For the upcoming year, the Investment Manager will continue to focus on short term liquid trades and avoid any major directional bias. 2010 may be a year of corporate activity; the Investment Manager is therefore ready to deploy further capital in this strategy as soon as attractive investment opportunities arise.

#### **Volatility strategies**

##### Convertible Bond Arbitrage

This sub-strategy was the main driver to the Fund's performance. Most of the performance came from legacy positions which the Investment Manager had decided to keep or even to increase at the end of 2008, as well as from restructuring trades.

The Fortis CASHES position was the best performer. The revised deal with BNP Paribas, which was finally voted at the end of April, removed some of the long-running uncertainty surrounding Fortis Holding and Fortis Bank Belgium. The position also benefited strongly from the performance of the overall European Tier 1 bank debt market which recovered from extremely depressed levels. The Investment Manager remains convinced by the investment case in this position. Despite the strong rebound witnessed in 2009, the steep discount at which the Fortis CASHES continue to trade compared to BNP Paribas Tier 1 capital, as well as the unfavourable regulatory treatment of the instrument, should create a highly compelling opportunity for BNP Paribas to restructure these bonds.

The Fund's long-standing position in Jazztel finally came to a conclusion as the company announced it had reached an agreement for the restructuring of the €275m 5% convertible bonds due April 2010. The restructuring scheme, which the Investment Manager designed and negotiated directly with the corporate, provided for i) a rights issue ii) the buyback and cancellation of bonds for around half of the original amount outstanding iii) the rescheduling of the other half and iv) the free allotment of warrants to bondholders. The restructuring closed successfully in July. At the end of the period, the rescheduled bonds still remained heavily discounted - and therefore very attractive - despite the strong credit improvement experienced by the company since the restructuring. To a lesser extent, part of the Fund's gains also derived from the unfolding of the Theolia restructuring situation which was made public at the end of the period and which is expected to close in the first semester 2010.

# **Boussard & Gavaudan Holding Limited**

## **Investment Manager's Report and Financial Highlights**

### **For the year ended 31 December 2009**

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The rest of the credit-sensitive part of the convertible bonds portfolio also performed well, on the back of investors' increased risk appetite and hunt for yield across the board. In a context of very low short-term yields, short-dated straight debt proxies were in demand. In some instances, such bonds were bid strongly on the back of refinancing and/or buybacks by their issuers.

Finally, the Fund's 'balanced' convertible bonds benefited strongly from the global enrichening of the European convertibles market which continued to be well bid by outright buying interest.

Since the re-opening of the primary market in March 2009, around €25bn has been raised by European corporates through more than 65 transactions. During the first semester, the Investment Manager participated in most of them and received large allocations. Those deals met very strong demand and were mostly allocated to outright accounts. From June onwards there was a significant shift in the offer/demand balance between issuers and investors. Deals came at or sometimes above fair value and often traded around or below issue price in the immediate aftermarket. Towards the end of the year, deals were issued on much more credit sensitive names and pricing was even more challenging. These transactions were thus more difficult to place and were not well received in some cases. In this context, the Investment Manager has adopted a more cautious stance on new issues, as it saw growing signs that the pricing power has turned to the benefit of issuers and has played the calendar selectively as a result.

Even if the new deals were less attractively priced towards the end of the period, the Investment Manager believes the renewal of the European convertible universe underway is extremely positive as it paves the way for very interesting potential future investment opportunities in the secondary market, particularly in a market now dominated by outright investors. The Investment Manager also believes that convertibles remain at risk of liquidity drying up in case of a shift in investor sentiment and therefore continues to favour short-dated paper where refinancing is not an issue on one side, and the most liquid high delta / low-premium-to-parity bonds on the other side.

#### Mandatory Convertible Bond Arbitrage

The mandatory convertible bond arbitrage sub-strategy was the second main driver of the Fund's performance, with each single position bringing a positive contribution.

The UBS / BBVA mandatory exchangeable was the best performer of this sub-strategy as the bond traded higher on the back of a much better perception of UBS' credit risk, the rise in the BBVA share price and the improvement in the market perception of BBVA's future dividends. The Fund also managed to book profit on the dividend payment thanks to the pass-through feature and to trade some gamma on the BBVA options bought to hedge the downside exposure in the mandatory.

The Bayer mandatory arbitrage was also a key contributor as the bonds traded progressively towards fair value when approaching maturity on 1 June 2009. The Fund also earned a significant amount of theta thanks to the options it had sold in the market as a dynamic hedge, thereby marginally exceeding the target performance the Investment Manager had set at the end of 2008 for this trade.

The Fund also benefited as the Investment Manager sold a long standing position at a level very close to fair value. The Fund has held this bond since issuance and has managed to increase the position in the course of 2009. The bond was almost flat from the beginning of 2009, but the Investment Manager was successful in finding an outright buyer who was ready to pay a level on the basis of which the expected return on equity was hardly above the return of cash.

The rest of the performance was split evenly between the remaining positions which, in the Investment Manager's view, reflect an overall improvement of the European mandatories market.

Prime brokerage conditions have started to ease significantly during the period and the use of capital remains limited for most of the Fund's mandatory convertible bonds with a number of them having short residual maturities. This means that their return on equity remain extremely compelling despite higher valuations. Towards year-end, some positions have been unwound in the market; the Investment Manager also managed to selectively increase some of the Fund's mandatories positions.

Primary markets were subdued during the period for mandatories with only 2 deals coming out in Europe since last year's deal from Fresenius. However, the Investment Manager expects an interesting 2010 pipeline to arise from potential M&A activity and corporates looking for financing.

# **Boussard & Gavaudan Holding Limited**

## **Investment Manager's Report and Financial Highlights**

### **For the year ended 31 December 2009**

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#### Gamma trading

The year started off with high implied volatilities and limited liquidity on single stock options. During this period, equity markets grinded lower in an orderly fashion before recovering, all this happened in an environment of low realised volatility in both index and single stocks. This in turn dragged short term implied volatilities along; the bright side of this move lower in volatilities being a greater liquidity and smaller bid-offer spreads for options.

This scenario was anticipated by the Investment Manager, therefore the Fund had close to the minimum long exposure on its long gamma books. During the second semester, the Investment Manager decided to cut the gamma exposure further, reflecting the reduced risks on the downside in the Fund. The Fund continued to carry an overall small net long volatility bias on the gamma books targeted mostly at specific opportunities in single stocks on the back of earnings. However, the Fund suffered from both low realised and falling implied volatilities.

The Investment Manager continuously monitored the situation during the period in order to raise the gamma exposure, in case downside risks increased.

#### Corporate Warrant Arbitrage

This sub-strategy was almost flat for the period.

#### **Trading**

Trading posted a small negative return.

#### **D- Review of important events since the period end**

The Investment Manager continues to be fully committed to the strategies of the Fund. Financial prospects will be linked to the level of opportunities created across the Fund's strategies in the European corporate environment.

#### **E- Principal Risks and Uncertainties**

The equity-at-risk of the Fund, which is the main investment of the Company, is expected to be deployed in a very cautious way as the market environment remains uncertain. As the Company's liabilities are very low, the liquidity risk is limited. Investments other than Sark are being financed through the Company's equity rather than using credit as there is currently no banking facility in place.

#### **F- Related Party Transactions**

There have been no related party transactions during the period except for transactions described under the note 9 of the financial statements.

Emmanuel Gavaudan, Director of BGPL  
as General Partner of BGAM, the Investment Manager

# **Boussard & Gavaudan Holding Limited**

## **Report Of Independent Auditors**

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### **Report of the Independent Auditors to the members of Boussard & Gavaudan Holding Limited**

We have audited the Company's financial statements for the year ended 31 December 2009 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

The Directors are responsible for the preparation of the financial statements in accordance with applicable Guernsey law and International Financial Reporting Standards as adopted by the European Union, as set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies (Guernsey) Law, 2008. We also report to you if, in our opinion, the Company has not kept proper accounting records, if the company's financial statements are not in agreement with the accounting records or if we have not received all the information and explanations we require for our audit.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises the Company Information, Chairman's Statement, Directors' Report, Statement of Directors' Responsibilities and the Investment Manager's Report and Financial Highlights. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

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

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

### **Opinion**

In our opinion the financial statements give a true and fair view, in accordance with International Financial Reporting Standards as adopted by the European Union, of the state of the Company's affairs as at 31 December 2009 and of total comprehensive income for the year then ended and have been properly prepared in accordance with the Companies (Guernsey) Law, 2008.

**A J Offen, Partner**

**Ernst & Young LLP**

**Guernsey, Channel Islands**

**22nd April 2010**

**Boussard & Gavaudan Holding Limited**  
**Statement of Financial Position**  
**31 December 2009**

		<b>2009</b>	<b>2008</b>
	<b>Note</b>	<b><u>Euro</u></b>	<b><u>Euro</u></b>
<b><u>Assets</u></b>			
<b><u>Non-current Assets</u></b>			
Investments at fair value through profit or loss			
Cost € 676,122,772 (2008: €789,324,249)	3,6	717,835,226	656,354,663
<b><u>Current Assets</u></b>			
Unrealised gain on foreign exchange forward derivatives contracts	3,4	169,351	-
Due from brokers		312,142	295,847
<b>Total assets</b>		<b>718,316,719</b>	<b>656,650,510</b>
<b><u>Equity and Liabilities</u></b>			
<b><u>Current Liabilities</u></b>			
Bank loan	12	-	24,925,991
Other short term loan	13	5,500,000	-
Unrealised loss on foreign exchange forward derivatives contracts	3,4	-	5,745,209
Due to brokers		288,482	730,779
Performance fees payable	9	19,370,343	-
Management fee payable	9	2,672,436	2,665,069
Interest payable		5,062	14,483
Administrative fee payable		23,937	-
Audit fees payable		23,671	70,000
Legal fees payable		-	133,997
<b>Total liabilities</b>		<b>27,883,931</b>	<b>34,285,528</b>
<b><u>Equity</u></b>			
Share Capital	10	5,588	6,394
Share Premium		739,210,492	785,523,000
Treasury Shares	11	(31,477,788)	(11,714,342)
Retained Earnings		(17,305,504)	(151,450,070)
<b>Total Equity</b>		<b>690,432,788</b>	<b>622,364,982</b>
<b>Total Equity and Liabilities</b>		<b>718,316,719</b>	<b>656,650,510</b>
<b>Net asset value per share:</b>			
Class A EURO shares outstanding 53,978,004 (2008: 60,335,176)		€ 12.3770	€ 9.7345
Class A GBP shares outstanding 1,688,474 (2008: 3,464,566)		£11.7479	£9.7161

The financial statements were approved by the Board of Directors on 22 April 2010 and signed on behalf by:

Christopher Fish  
**Chairman**

Nicolas Wirz  
**Director**

The accompanying notes on pages 27 to 48 form an integral part of these financial statements



**Boussard & Gavaudan Holding Limited**  
**Statement of Comprehensive Income**  
**For the year ended 31 December 2009**

		<b>2009</b>	<b>2008</b>
	<b>Note</b>	<b><u>Euro</u></b>	<b><u>Euro</u></b>
<b>Income</b>			
Net realised (loss)/gain on financial instruments at fair value through profit or loss	6	(12,626,950)	5,838,980
Change in unrealised gain/(loss) on financial instruments at fair value through profit or loss		174,682,040	(181,934,989)
Net gain/(loss) on financial assets at fair value through profit or loss	6	162,055,090	(176,096,009)
Realised and unrealised foreign currency loss on bank loan		(355,738)	(689,409)
Realised and unrealised foreign currency gain/(loss) on forward derivatives contracts	5	2,468,072	(7,805,156)
Other realised and unrealised foreign currency loss		(4,708)	(226,496)
		164,162,716	(184,817,070)
Interest income		15,481	131,308
<b>Total income/(loss)</b>		<b>164,178,197</b>	<b>(184,685,762)</b>
<b>Trading Expense</b>			
Interest expense		121,694	20,965
<b>Company expenses</b>			
Performance fees	9	19,370,343	-
Management fees	9	9,980,154	13,325,092
Administrative fees	8	119,980	151,183
Directors fees	7	117,500	117,500
Professional fees		98,341	1,174,841
Audit fees		(3,948)	46,934
Other expenses		229,567	333,816
<b>Total expenses</b>		<b>30,033,631</b>	<b>15,170,331</b>
<b>Profit/(loss) for the year</b>		<b>134,144,566</b>	<b>(199,856,093)</b>
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<b>134,144,566</b>	<b>(199,856,093)</b>
<b>Basic and diluted earnings/(loss) per share</b>			
Class A EURO €128,035,848 / 57,221,522 shares (2008: €182,538,545 loss / 60,335,176 shares)		€ 2.2375	€ ( 3.0254)
Class A GBP £3,722,576 / 2,063,858 shares (2008: £7,555,335 loss / 3,464,566 shares)		£1.8037	£(2.1807)

All activities are of a continuing nature.

The accompanying notes on pages 27 to 48 form an integral part of these financial statements

# Boussard & Gavaudan Holding Limited

## Statement of Changes in Equity

For the year ended 31 December 2009

	Share Capital	Share Premium	Treasury Shares	Retained Earnings	Total Equity
	<u>Euro</u>	<u>Euro</u>	<u>Euro</u>	<u>Euro</u>	<u>Euro</u>
Balance as at 1st January 2009	6,394	785,523,000	(11,714,342)	(151,450,070)	622,364,982
Total comprehensive income	-	-	-	134,144,566	134,144,566
Treasury shares acquired	-	-	(66,076,760)	-	(66,076,760)
Shares cancelled	(806)	(46,312,508)	46,313,314	-	-
Balance as at 31 December 2009	5,588	739,210,492	(31,477,788)	(17,305,504)	690,432,788

For the year ended 31 December 2008

	Share Capital	Share Premium	Treasury Shares	(Revenue Deficit)/ Retained Earnings	Total Equity
	<u>Euro</u>	<u>Euro</u>	<u>Euro</u>	<u>Euro</u>	<u>Euro</u>
Balance as at 1 January 2008	9,743	951,870,007	-	48,406,023	1,000,285,773
Effect of conversion of C shares	(732)	732	-	-	-
Total comprehensive income	-	-	-	(199,856,093)	(199,856,093)
Treasury shares acquired	-	-	(178,064,698)	-	(178,064,698)
Shares cancelled	(2,617)	(166,347,739)	166,350,356	-	-
Balance as at 31 December 2008	6,394	785,523,000	(11,714,342)	(151,450,070)	622,364,982

The accompanying notes on pages 27 to 48 form an integral part of these financial statements

**Boussard & Gavaudan Holding Limited**  
**Statement of Cash Flows**  
**For the year ended 31 December 2009**

	<b>2009</b>	<b>2008</b>
	<b><u>Euro</u></b>	<b><u>Euro</u></b>
<b>Cash flows from operating activities</b>		
Profit/(loss) for the year	134,144,566	(199,856,093)
Adjustments to reconcile net profit to net cash used in operating activities:		
Unrealised (gain)/loss on financial instruments at fair value through profit and loss	(174,682,040)	181,934,989
Realised loss/(gain) on financial instruments at fair value through profit and loss	12,626,950	(5,838,980)
Realised and unrealised foreign currency loss/(gain) on forward derivatives contracts	(2,468,072)	7,805,156
Increase in due from brokers	(16,295)	(293,028)
Decrease in due to brokers	(442,297)	715,507
Increase/(decrease) in performance fee payable	19,370,343	(6,433,656)
Increase/(decrease) in management fee payable	7,367	(1,216,018)
Decrease in interest payable	(9,421)	(20,594)
Increase/(decrease) in administrative fee payable	23,937	(35,008)
(Decrease)/increase in audit fees payable	(46,329)	35,261
(Decrease)/increase in legal fees payable	(133,997)	133,997
Realised foreign currency loss on bank loan	512,011	300,461
Unrealised foreign currency (gain)/loss on bank loan	(160,532)	388,949
<b>Net cash used in operating activities</b>	<b>(11,273,809)</b>	<b>(22,379,057)</b>
<b>Cash flows from investing activities</b>		
Purchase of investments at fair value through profit or loss	(1,187,500)	(965,827,861)
Sales of investments at fair value	101,762,027	1,161,230,907
<b>Net cash provided by investing activities</b>	<b>100,574,527</b>	<b>195,403,046</b>
<b>Cash flows from financing activities</b>		
Treasury shares acquired	(66,076,760)	(178,064,698)
Net purchases of foreign exchange forward derivative contracts	(3,446,488)	(2,059,947)
Proceeds from other short term loan	54,450,000	-
Repayment of other short term loan	(48,950,000)	-
Proceeds from bank loan	17,956,875	274,021,212
Repayment of bank loan	(43,234,345)	(266,920,556)
<b>Net cash used in financing activities</b>	<b>(89,300,718)</b>	<b>(173,023,989)</b>
<b>Net movement in cash and cash equivalents</b>	<b>-</b>	<b>-</b>
Cash and cash equivalents, beginning of the period	-	-
<b>Cash and cash equivalents at 31 December 2009</b>	<b>-</b>	<b>-</b>
<b>Supplementary information</b>		
Interest received	15,481	131,308
Interest paid	131,115	55,973

The accompanying notes on pages 27 to 48 form an integral part of these financial statements

# **Boussard & Gavaudan Holding Limited**

## **Notes to the Financial Statements**

### **For the year ended 31 December 2009**

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#### **1. General information**

##### **Company information**

Boussard & Gavaudan Holding Limited (the “Company”) is a closed-ended investment company registered and incorporated on 3 October 2006, under the laws of Guernsey. Since 3 November 2006 the Company’s shares are listed and traded on the Eurolist Market operated by Euronext Amsterdam by NYSE Euronext. Prior to the listing of the Company, there has not been a public market for the shares. Upon listing and trading of the shares on Euronext Amsterdam and, as a result, the Company is subject to Dutch securities regulations and to supervision by the relevant Dutch authorities. The Company is registered with the Dutch Authority for the Financial Markets as a collective investment scheme.

Since 28 July 2008, the Company’s shares are also admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange plc’s main market for listed securities. Upon admission to the Official List of the UK Listing Authority and, as a result, the Company is subject to the Financial Services Authority’s Rules.

At the time of this dual listing, the Company has created a class of shares denominated in Sterling (the “Sterling Shares”) through the conversion of existing Euro shares into new Sterling shares at the prevailing net asset value (“NAV”) per Euro share at 30 June 2008. From this date, shareholders have been able to convert their existing holding of shares in the Company from one class into another class on a quarterly basis, subject to satisfying certain requirements.

##### **Investment policy**

The Company will invest its assets in order to deliver an exposure to multiple alternative investment strategies. Boussard & Gavaudan Asset Management, LP (the “Investment Manager”) is responsible for the day-to-day management of the Company’s investments.

The Company will seek to achieve its investment objective by investing the proceeds of any fund raising, net of any amounts retained to be used for working capital requirements, into Sark Fund Limited (the “Fund”), which is a feeder fund of Sark Master Fund and by utilising its borrowing powers to make leveraged investments into private equity situations. The gross investment exposure of the Company at any time may represent a maximum of 200 percent of Net Asset Value at the time of investment.

The Company will invest in a separate class of Euro denominated shares of the Fund which will not be subject to management fees and performance fees at the Fund level, as the Investment Manager will receive management fees and performance fees in respect of its role as Investment Manager of the Company. Therefore, the Company will benefit from exposure to the multiple strategies offered by the Fund but with no multiple layering of fees.

Over time, a proportion of the net assets of the Company may, at the discretion of the Investment Manager, be invested in other hedge funds and/or other financial assets within the limits set out under the heading “Asset allocation” below and subject to the limit on the leverage set out under the heading “Gearing” below, provided that, where such hedge funds are managed by the Investment Manager, the Company will invest through a share class which will not be subject to management or performance fees at the level of the underlying hedge fund.

The Investment Manager may also use the Company’s borrowing facilities to enable it to make private equity investments at its discretion within the limits set out under the heading “Asset allocation” below. The Investment Manager’s ability to use borrowings for such purposes is subject to the limit on leverage set out under the heading “Gearing” below. Such investments may include the acquisition of minority or majority interests in unlisted companies or listed companies (“Direct Investments”). The Investment Manager may also make private equity investments through investing in funds that have a private equity investment focus (“Indirect Private Equity Investments”).

With the possible application of leverage and when taken with the returns achieved from the Fund, non-Sark Fund investments as described above are intended to allow the Company to achieve its target annualised return. The Company’s investments in non-Sark Fund assets are expected to consist of investment opportunities that are identified by the Investment Manager in connection with its and its affiliates current activities but which are not pursued by the Sark Master Fund due to risk profiles or liquidity profiles inconsistent with those of the Fund and the Sark Master Fund.

# **Boussard & Gavaudan Holding Limited**

## **Notes to the Financial Statements**

### **For the year ended 31 December 2009**

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#### **1. General information (continued)**

##### ***Gearing***

As described above, the Company intends to make use of its borrowing facilities to allow it to have an investment exposure of up to 200 per cent. of Net Asset Value at the point of investment.

The Company has power under its Articles of Incorporation to borrow up to an amount equal to 100 per cent. of its Net Asset Value as at the time of borrowing.

It is intended that leverage will be used by the Company for the purposes of (i) managing day to day cash flow, i.e. for meeting expenses of the Company and for funding repurchases of Shares and (ii) leveraging investments made by the Company.

The Company may make use of borrowing facilities in order to leverage its investments, including its investment in the Fund or in other hedge funds managed by the Investment Manager (hereafter, "Manager Funds"), provided that the Company complies with the exposure limitations set out under the heading "Asset allocation" below.

##### ***Asset allocation***

###### ***Investments in Manager Funds***

Substantially all of the net assets of the Company are currently invested in the Sark Fund and it is anticipated that a significant proportion of the Company's net assets will remain invested in the Sark Fund.

Over time, no less than 90 per cent of the Net Asset Value and no more than 110 per cent of the Net Asset Value will be invested in Manager Funds, with at least 80 per cent. of the Net Asset Value invested in the Fund.

###### ***Investments in assets other than Manager Funds***

In relation to those investments in assets other than Manager Funds, the Directors have determined that such investments shall not exceed certain limits:

###### **Direct Investments**

The aggregate value of Direct Investments may not exceed an amount equal to 50 per cent. of the Net Asset Value at the time of making any such investment.

###### **Indirect Private Equity Investments**

The aggregate value of Indirect Private Equity Investments may not exceed an amount equal to 25 per cent. of the Net Asset Value at the time of making any such investment. In addition, the Company will not make any single private equity investment representing in excess of an amount equal to 10 per cent. of its Net Asset Value as at the time that investment is made. Private equity investments made in linked transactions will be aggregated for the purposes of this calculation.

###### **Hedge fund investments (other than Manager Funds)**

The Directors have also determined that the Company's investments in hedge funds (other than Manager Funds) when aggregated may not exceed an amount equal to 25 per cent. of the Net Asset Value at the time of making any such investment.

##### ***Diversification***

The Company's investment policy will be diversified by exposure to the investment strategies of Sark Master Fund through the Company's investment in Sark Fund and through the other leveraged investments made by the Investment Manager as described above.

Close Fund Services (the "Administrator") arranges for the monthly publication of the NAV of the Company as at the end of the previous month and the Investment Manager provides daily estimates.

As of 31 December 2009 none of the Company, the Fund or the Sark Master Fund currently has any employees or owns any facilities.

# **Boussard & Gavaudan Holding Limited**

## **Notes to the Financial Statements**

**For the year ended 31 December 2009**

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### **2. Accounting policies**

#### **Statement of compliance**

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and with legislation and rules pertaining to Amsterdam Euronext and London Stock Exchange listings, as well as in accordance with the Companies (Guernsey) Law, 2008.

#### **New accounting standards**

The following standards, amendments and interpretations are effective for 2009 but had no impact on the financial position or performance of the Company:

Amendment to IFRS 2 Share-based Payments – Vesting Conditions and Cancellations  
Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation  
Amendment to IAS 23 Borrowing Costs  
IFRS 8 Operating Segments  
IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement  
IFRIC 13 Customer Loyalty Programmes  
IFRIC 15 Agreements for the Construction of Real Estate  
IFRIC 16 Hedges of a Net Investment in a Foreign Operation

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these financial statements.

IFRS 3 Business Combinations (Revised) – for accounting periods commencing on or after 1 July 2009  
IFRS 1 First Time Adoption of International Financial Reporting Standards (revised) – for accounting periods commencing on or after 1 January 2010  
IFRS 1 First Time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters (Amendments) – for accounting periods commencing on or after 1 January 2010  
IFRS 2 Group cash-settled share-based payment arrangements (Amendments) – for accounting periods commencing on or after 1 January 2010  
IFRS 9 Financial Instruments – for accounting periods commencing on or after 1 January 2013  
IAS 24 Related Party Transactions (Revised) – for accounting periods commencing on or after 1 January 2011  
IAS 27 Consolidated and Separate Financial Statements (Amendment) – for accounting periods commencing on or after 1 July 2009  
IAS 32 Classification of Rights Issues (Amendments) – for accounting periods commencing on or after 1 February 2010  
IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (Amendment) – for accounting periods commencing on or after 1 July 2009  
IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendments) – for accounting periods commencing on or after 1 January 2011  
IFRIC 17 Distributions of Non-Cash Assets to Owners – for accounting periods commencing on or after 1 July 2009  
IFRIC 18 Transfer of Assets from Customers – for accounting periods commencing on or after 1 July 2009  
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments – for accounting periods commencing on or after 1 July 2010

'Improvements to IFRS' were issued in May 2008 and April 2009 respectively and contain numerous amendments to IFRS, which the IASB consider non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2009 and 1 January 2010 respectively, with earlier application permitted. No material changes to accounting policies are expected as a result of these amendments.

# **Boussard & Gavaudan Holding Limited**

## **Notes to the Financial Statements**

### **For the year ended 31 December 2009**

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## **2. Accounting policies (continued)**

### **Basis of preparation**

The financial statements have been prepared on a historical cost basis except for financial assets held at fair value through profit or loss that have been measured at fair value.

The same accounting policies, presentation and methods of computation are followed in these financial statements as those followed in the preparation of the Company's annual financial statements for previous years.

### **Use of estimates and judgement**

The preparation of financial statements in conformity with IFRS requires management to make judgement, estimates and assumptions that affect the amounts in the financial statements and accompanying notes. Management believes that the estimates utilised in preparing its financial statements particularly with reference to the valuation of unquoted investments based on the audited NAV or management judgement applied are reasonable and prudent. However, actual results could differ from these estimates.

### **Functional and presentation currency**

Items included in the financial statements are measured using the currency of the primary economic environment in which company operates ('the functional currency'). The functional currency is Euro, which reflects the Company's primary activity of investing in Euro denominated securities. The Company has adopted the Euro as its presentation currency. 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 period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income. Translation differences on non-monetary items held at fair value through profit or loss are reported as part of the fair value gain or loss.

### **Investments at fair value through profit and loss**

Financial assets are designated by management at fair value through profit or loss at inception as the group of assets is managed and its performance is evaluated on a fair value basis in accordance with the company's investment strategy and information about the investment is provided to the board of Directors on that basis.

Investment transactions are accounted for on a trade date basis. Investments are initially recognised at fair value excluding attributable purchase costs. Investments are subsequently carried at fair value determined, by the Valuation Agent, GlobeOp Financial Services Limited, at the un-audited NAV of the Fund on a monthly basis except for the year end NAV which is based on the audited NAV.

Changes in the fair value of investments are recorded in the Statement of Comprehensive Income.

### **Recognition/derecognition**

Purchases and sales of investments are recognised on the trade date - the date on which the Company commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Company has transferred substantially all risks and rewards of ownership.

### **Taxation**

The Company has been granted exemption under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 from Guernsey Income Tax, and is charged the annual fee of £600. As a result, no provision for income taxes has been made in the financial statements.

### **Income and expenses**

Other income is recognised in the Statement of Comprehensive Income as it occurs on an accrual basis.

Expenses are accounted for as they occur on an accrual basis. Expenses are charged to the Statement of Comprehensive Income.

**Boussard & Gavaudan Holding Limited**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2009**

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**2. Accounting policies (continued)**

**Interest income and expense**

Interest income, arising on cash and interest expense, arising on overdrafts, borrowed debt securities are recognised in the Statement of Comprehensive Income within interest income and interest expense using the effective interest method.

**Basic earnings per share, and NAV per share**

Basic earnings per share are calculated by dividing the net income by the weighted average number of registered shares in issue, during the period. There is no difference between the basic and diluted earnings per share.

Net Asset Value per share is calculated by dividing the net assets at the Statement of Financial Position date by the number of shares outstanding at the Statement of Financial Position date.

**Share issue cost**

Share issue costs have been borne by the Investment Manager.

**Bank loan**

Bank loans are carried at amortised cost. Interests paid on loans are recognised in the Statement of Comprehensive Income within interest expense using the effective interest method.

**Treasury shares**

When the Company purchases its own equity instruments (treasury shares), they are deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

**Forward currency contracts**

A forward currency contract involves an obligation to purchase or sell a specific currency at a future date, at a price set at the time the contract is made. Forward foreign exchange contracts are valued by reference to the forward price at which a new forward contract of the same size and maturity could be undertaken at the valuation date. The unrealised gain or loss on open forward currency contracts is calculated as the difference between the contract rate and this forward price, and is recognised in the Statement of Comprehensive Income.

**Operating segments**

The Company has adopted IFRS 8, 'Operating segments' as of 1 January 2009. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Board is of the view that the Company is engaged in a single segment of business, being investment in financial instruments

The Board, as a whole, has been determined as constituting the chief operating decision maker of the Company. The key measure of performance used by the Board to assess the Company's performance and to allocate resources is the total return on the Company's net asset value, as calculated under IFRS, and therefore no reconciliation is required between the measure of profit or loss used by the Board and that contained in the financial statements.

The majority of the Company's investments are in the Fund which is domiciled in the Cayman Islands. The Company is domiciled in Guernsey.



### **3 Fair value of financial instruments**

In accordance with IFRS, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the “exit price”) in an orderly transaction between market participants. The three levels of the fair value hierarchy are described below:

Level 1 – quoted prices in active markets for identical investments that the Company has the ability to access.

Level 2 – valuations based on other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.) or quotes from inactive exchanges.

Level 3 – valuations based on significant unobservable inputs (including the Company’s own assumptions in determining the fair value of investments).

The valuation techniques used by the Company to measure fair value during the year ended December 31, 2009 maximized the use of observable inputs and minimized the use of unobservable inputs.

The following is a summary of the inputs used to value the Company’s net assets as of December 31, 2009:

**Boussard & Gavaudan Holding Limited**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2009**

**3 Fair value of financial instruments (continued)**

**Fair Value Measurements at December 31, 2009**

Description	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	€	€	€	€
<b>Financial assets</b>				
Investments in securities				
Investment in Sark Fund Limited	708,929,113	-	-	708,929,113
Private equity deals	8,166,332	-	-	8,166,332
Money market fund	739,781	739,781		
Derivative contracts, at fair value				
Forward currency contracts	169,351	-	169,351	-
<b>Total</b>	<b>718,004,577</b>	<b>739,781</b>	<b>169,351</b>	<b>717,095,445</b>

**Changes in investments measured at fair value for which Level 3 inputs have been used**

Financial assets	Non listed equities	Private equity deals	Total
	€	€	€
Balance as of December 31, 2008	647,842,523	7,180,042	655,022,565
Total gains and losses (realized and unrealized)	162,245,357	(201,210)	162,044,147
Purchases	-	1,187,500	1,187,500
Sales	(101,158,767)	-	(101,158,767)
Balance as of December 31, 2009	708,929,113	8,166,332	717,095,445

There were no transfers between levels in the period.

Level 3 investments are fair valued by the Investment Manager's portfolio management team using a variety of techniques including discounted cash flows and public/private company comparables. Instruments are valued in the risk management system which is fed by real time market data in order to price the portfolio. Some instruments such as, but not limited to, derivatives are priced by using in house plugged in models. The system calculates profits and losses as well as net asset values. Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, spot and volatility prices, interest rate, credit and foreign exchange levels, default probabilities, liquidity factors as well as other data.

Each level 3 valuation is documented. This documentation is updated and reviewed monthly by the Investment Manager's Valuations Committee. The Directors have reviewed the Level 3 valuations and are satisfied that they fairly represent the value of the assets held by the Company as at 31 December 2009.

#### **4. Financial instruments and associated risks**

##### **(a) Risk management policy**

The Investment Manager seeks to achieve the Company's investment objective principally by investing most of its net assets in the Fund and by investing its remaining net assets in other financial instruments. The Company is exposed to various types of risk which are associated with the financial instruments and markets in which it invests. As a consequence, an effective and rigorous risk management is central to the operation of the business.

Given the significance of the exposure to the Fund, the risk management principles applied by the Investment Manager when managing the Fund are described hereunder.

The Investment Manager has established a separate Risk Management Unit which reports to the Chief Executive Officer ("CEO"). Risks and responsibilities are split between the Quantitative Risk Management team which is in charge of market risk and the Qualitative Risk Management team which is in charge of counterparty and operational risk.

A Risk Management Committee oversees the Risk Management Unit. The committee formally meets on a weekly basis to review the exposures of the Company and take decisions regarding risk and performance.

Exposures are calculated from a risk management system which is third party proprietary software provided by a leading risk & portfolio management solution provider. The system provides extensive real time information on the Company's as well as on the Fund's exposures and limits. The system provides sensitivities and calculates stress-tests scenarios. The open architecture of the system allows the Investment Manager to create specific in-house reports for risk management purposes.

Through a rigorous investment process the Investment Manager carefully identifies and assesses risks before investing.

The Investment Manager seeks to achieve the investment objective of the Fund by arbitraging linear and non-linear instruments that can be exchange-traded or over-the-counter, derivatives or non derivatives. The Investment Manager may use derivative financial instruments for investment purposes or to hedge against fluctuations in the relative values of the Fund's portfolio positions. The investments of the Company as well as the investments of the Fund are subject to normal market fluctuations and to the risks inherent to investment in securities and there can be no assurances that appreciation will occur. The value of financial instruments can increase as well as decrease and investors may not realise their initial investment on the disposal of their investments.

The main types of financial risk to which the Company is exposed to are **market risk, credit risk and liquidity risk**.

The Company is - to a lesser extent - exposed to operational risk which is monitored by the Qualitative Risk Management team. As part of its corporate governance the Investment Manager has ensured strict separation of duties between finance, administration, operation, legal & compliance, internal control, technology and risk management functions. All the units report to the CEO. Some middle and back office functions are outsourced to the administrator.

##### **(b) Market Risk**

The Company is exposed to market risk directly from the investments it makes and indirectly as a result of the types of investments that the Fund makes. Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market variables.

Both the Company and the Fund take significant market risk exposure from the investments they make. When assessing market risks the Investment Manager always combines:

- a *macroeconomic, portfolio level* with a *microeconomic, position specific*, approach
- *quantitative* measures with *qualitative* assessments
- a *local risk* measurement which captures the impact of *limited market moves* with *stress scenarios* type measurements which captures *large market moves*

The Investment Manager has also replicated the model used by the prime brokers to apprehend the Fund's risk. Given that prime brokers are the financing and leverage providers of the Fund, their view of the risk is central to the Investment Manager and so is the consequence of any restriction they may take. Their measure constitutes an independent risk measurement.

**4. Financial instruments and associated risks (continued)**

**(b) Market Risk (continued)**

**Macroeconomic risk**

Macroeconomic risk is defined as the risk having a wide ranging effect on the *entire portfolio* or on a significant portion of it. It results from exogenous events such as economic changes, geopolitical uncertainty or general market disruptions.

*Quantitative analysis*

For *limited market moves* the Investment Manager assesses exposure by using *Greek sensitivity factors* (“Greeks”) mainly to equity, credit, interest rate and foreign exchange. Greeks are used for real time portfolio hedging.

For *extreme market variations*, *stress scenarios* are run to measure the impact, on the portfolio, of a large panel of market situations. Scenarios, which stress all types of market data, are produced daily and can be generated on demand. To apprehend convexity, each scenario requires a full recalculation of the portfolio. The reports allow looking at risks from the portfolio level down into each strategy, sub-strategy, trade and finally individual instrument in order to identify the main contributors to losses. A “trade” generally means a combination of financial instruments which contribute to the same arbitrage. Scenarios are graduated from level 1 to 5 with level 5 scenarios bearing the largest shocks. Level 3 scenarios are tested against our tolerance limits and trigger adjustment of the portfolio when limits are breached.

Results are checked daily by the front office and the quantitative risk management. Given the non linear nature of the portfolio and the wide range of instruments and strategies used, stress scenarios calculations have been judged more accurate than value at risk calculations.

A wide range of reports are also produced to monitor exposures and concentrations of risk. “*What-if type scenarios*” as well as other *risk indicators* which aggregate all type of exposures in different ways are scrutinised. A non aggregated vision, focusing on nominal and/or notional amounts, is also used to track excessive concentrations of risk.

*Qualitative analysis*

The qualitative assessment will focus on *hard to measure risks* such as potential changes in the *liquidity* of various underlying financial instruments. Small and mid caps, levered positions as well as speculative (crowded) positions entailing a hedge fund liquidation risk are examples of positions exposed to liquidity changes. The qualitative approach may require exchange of information with market participants to get a better feel of the general situation.

**Microeconomic risk**

Microeconomic risk is defined as the risk applying to a *specific “trade” position* in the portfolio and one of its main components is the *idiosyncratic risk* which measures the risks applying to *one single issuer* on whom the Company or the Fund have exposure. Idiosyncratic risk can assess events such as bankruptcy, takeovers, bond offers, credit rating changes or any other credit event. Idiosyncratic risks are identified in the decision-making phases before the investments takes place and during the investment’s life.

*Quantitative analysis*

For *limited market moves* the Investment Manager assesses exposure by using the Greeks by issuer.

For *extreme market variations*, *crash tests* by issuer are run. The scenario which aims at assessing the bankruptcy of an issuer aggregates all the positions of the Company and of the Fund by issuer and then applies extreme shocks which magnitude depend on each financial instrument type contributing to the trade and on their recovery rate which themselves depend on the seniority of instruments.

*Qualitative analysis*

Qualitative analysis contemplates many events such as regulatory changes, changes in the management but also liquidity risk. Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. It also means the ability of the Company to unwind a specific trade in a reasonable timeframe. Liquidity has, by definition, an idiosyncratic component, but, as seen, it also varies according to macroeconomic conditions.

**Boussard & Gavaudan Holding Limited**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2009**

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**4. Financial instruments and associated risks (continued)**

**(b) Market Risk (continued)**

***Independent risk measurement (Equity at risk and Unencumbered cash)***

Prime brokers, when providing financing to hedge funds, take a risk that they assess using their own methodologies. Even though each prime broker has its own risk measure, approaches tend to be quite similar across them. Risk measure is achieved by the use of haircuts. Haircuts reflect the level of risk attributed by a prime broker to a position. The higher the level, the higher the risk is. The models take into account, to a large extent, the benefits of hedging by applying specific haircut and netting effect to hedged positions. Under this model, an amount of equity, considered at risk, is allocated through the use of haircuts to each position. Each prime broker calculates its risk exposure to the sole portion of the Fund's portfolio it holds in custody.

The Investment Manager replicates the methodology applied by prime brokers through a model, named *Equity-at-risk*. The model, applied to the *entire portfolio*, is a proxy to the calculations of the prime brokers with a slight conservative bias. Equity-at-risk calculations are run every night and reconciled against the prime broker ones.

Haircuts condition the level of *Excess Margin* or *Unencumbered Cash* which is the level of risk spare to increase positions or enter into additional ones. An Excess Margin of 25%, which corresponds to a 75% level of Equity-at-Risk, means that the Fund can theoretically increase all of the positions in portfolio by approximately 25% without having to raise further cash. The model allows estimating the Fund's potential for additional leverage across all its prime brokers. *Unencumbered Cash* is a key indicator, used by the Investment Manager to monitor the *solvency* of the Fund. A large level of excess is maintained at any time. The Investment Manager secures contractually the excess margin of the Fund by signing Term Margin Agreements with its prime brokers. These agreements allow freezing haircut levels over a pre-agreed period of time.

The Equity-at-risk allocated to each trade is used to calculate the return on equity which is the ratio used to assess the profitability of a trade.

**(i) Equity price risk**

Equity price risk is the risk of changes in the fair values of equities or equity-linked financial instruments as the result of changes in the levels of equity indices and the value of individual shares. Equity price risk exposure arises from the Company's investments in equity securities and in the Fund.

The Company takes significant equity price risk exposure from the investments it makes.

The table below shows the Company's exposure by class of financial assets:

**Investments at fair value through profit or loss**

	As at 31 December 2009	% of Investments	As at 31 December 2008	% of Investments
	<u>EURO</u>		<u>EURO</u>	
Investments in Sark Fund Limited (Cost: 2009:€667,853,983 2008:€763,803,839)	708,929,113	98.76%	647,842,523	98.70%
Investments in Private equity Cost €7,537,896 (2008: €25,520,410)	8,166,332	1.14%	7,180,042	1.10%
Investment in money market fund Cost €730,893 (2008: €1,330,313)	739,781	0.10%	1,332,098	0.20%
Total	717,835,226	100.00%	656,354,663	100%

The Company invested in two private equity investments which are being valued at their estimated fair value. Overall, the weight of the private equity type investments in the portfolio has increased from 1.10% to 1.14%.

At 31 December 2009, should the price of the Fund and investments other than the Fund have increased/decreased by 10% with all other variables remaining constant, the effect on increase/decrease in profit and loss for the year and on net assets would result in an increase/decrease of approximately €71,783,523 (2008: €65,635,466).

**4. Financial instruments and associated risks (continued)**

**(b) Market Risk (continued)**

**(ii) Interest rate risks**

The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its Statement of Financial Position and Statement of Cash Flows. Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. Volatility in interest rates could make it more difficult or expensive for the Company to obtain debt financing, and could negatively cause the prices of long or short positions to move in directions not initially anticipated and could decrease the returns that the Company's investments generate.

The Company has entered into an intra month interest bearing advance agreement with the Fund for the purposes of financing its share buybacks. The Company borrows money under the advance agreement with maturities up to one month. As a consequence, the Company has exposure to short term interest rate risk and more specifically to an increase in short term rates.

Over the year, the Company has borrowed money in Euro at a rate that has ranged from 1.927% and 3.258%. The Company has been benefited by the decrease of short term interest rates on the market.

An increase by 1% of short term rates will increase the Company's cost of borrowing, and accordingly, the profit and loss for the year and the net assets, by EUR 55,000 based on the position at the end of 2009 compared to EUR 249,259 based on the position at the end of 2008.

**(iii) Foreign currency risks**

Foreign currency risk is the risk the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

The functional and presentational currency of the Company is Euro. As a result, the investments that are carried as assets in the respective financial statements are stated in Euros. When valuing investments that are denominated in currencies other than the Euro, the Company is required to convert the values of such investments into Euros based on prevailing exchange rates as of the end of the applicable accounting period.

The Company is mainly invested in the Fund which is a fund denominated in Euro on which the Company has no direct exposure to the foreign exchange risk. However the Company has indirect foreign exchange exposure to the investments of the Fund.

The Company uses forward foreign exchange contracts with maturities of less than three months to hedge the sterling share class exposure in order to give to the sterling shareholders the Sterling equivalent of the Euro performance. The Company uses forward foreign exchange contracts with maturities up to three months to hedge its private equity investments which are denominated in foreign currencies.

*Forward contracts* are commitments either to purchase or sell a designated financial instrument, currency, commodity or an index at a specified future date for a specific price and may settle in cash or another financial asset. Forwards are individually traded over-the-counter contracts. Forward contracts result in credit exposure to the counterparty. Forward contracts result in exposure to market risk based on changes in market prices relative to contracted amounts. Market risks arise due to the possible movement in foreign currency exchange rates, indices, and securities' values underlying these instruments. In addition, because of the low margin deposits normally required in relation to notional contract sizes, a high degree of leverage may be typical of forward trading account. As a result, a relatively small price movement in an underlying of a forward contract may result in substantial losses to the Company. Forward contracts are generally subject to liquidity risk. If prices fluctuate during a single day's trading beyond those limits, the Company could be prevented from promptly liquidating unfavourable positions and thus could be subject to substantial losses. Notional amounts are the underlying reference amounts to stock exchange indices equities and foreign currencies upon which the fair value of the forward contracts traded by the Company are based. While notional amounts do not represent the current fair value and are not necessarily indicative of the future cash flows of the Company's forward contracts, the underlying price changes in relation to the variables specified by the notional amounts affect the fair value of these derivative financial instruments.

Forward foreign exchange contracts settle on a net basis, the gross amounts payable at 31 December 2009 were €345,572 (2008: €5,986,504)

**Boussard & Gavaudan Holding Limited**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2009**

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**4. Financial instruments and associated risks (continued)**

*(b) Market Risk (continued)*

**(iii) Foreign currency risks (continued)**

The table below summarises the Company's exposure to foreign currency risks:

<b>Amount Stated in EURO</b>		
<b>31 December 2009</b>		
	<b><u>GBP</u></b>	<b><u>USD</u></b>
Investments at fair value through profit or loss	-	6,978,832
Due from brokers	83	-
Asset leg related to open foreign exchange forward derivatives contracts		
- Foreign exchange contract other than the one hedging the GBP share class	-	(6,978,854)
Administrative Fee Payable	(23,937)	-
<b>Net FX exposure of the portfolio</b>	<b>(23,854)</b>	<b>(22)</b>
Foreign exchange forward linked to the hedge of the GBP share class	19,773,459	-
<b>Net FX exposure of the Company including hedge of the sterling class</b>	<b>19,749,605</b>	<b>(22)</b>

**Boussard & Gavaudan Holding Limited**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2009**

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**4. Financial instruments and associated risks (continued)**

**(b) Market Risk (continued)**

**(iii) Foreign currency risks (continued)**

	<b>31 December 2008</b>	
	<b><u>GBP</u></b>	<b><u>USD</u></b>
Investments at fair value through profit or loss	-	7,183,391
Due from brokers	62,768	381
Bank loan		(7,311,764)
Asset leg related to open foreign exchange forward derivatives contracts		
- Foreign exchange contract other than the one hedging the GBP share class	-	-
Due to brokers	(22,099)	-
Interest payable	-	(744)
Legal fees Payable	(103,997)	-
<b>Net FX exposure of the portfolio</b>	<b>(63,328)</b>	<b>(128,736)</b>
Foreign exchange forward linked to the hedge of the GBP share class	26,179,602	-
<b>Net FX exposure of the Company including hedge of the sterling class</b>	<b>26,116,274</b>	<b>(128,736)</b>

The following table provides an analysis of the effect of a 5% strengthening in the reporting currency against each of the relevant foreign exchange currencies, assuming all the other variables remain constant. A negative amount in the table reflects a potential net reduction in the profit and loss for the year and on its net assets, while a positive amount reflects a net potential increase. If the reporting currency weakened by 5% it would have had the equal but opposite effect, on the basis that all other variables remain the same.

<b>31 December 2009</b>	<b>GBP</b>	<b>USD</b>
Change in currency rate in %	5%	5%
Effect on profit and loss and net assets	(1,193)	(1)
<b>31 December 2008</b>	<b>GBP</b>	<b>USD</b>
Change in currency rate in %	5%	5%
Effect on profit and loss and net assets	(3,166)*	(6,437)

\* Amount in 2008 financial statements was €1,305,814. Comparative figure is changed to reflect current year calculation method change where effect of foreign exchange forward linked to the hedge of the GBP share class is excluded from sensitivity analysis.

**(c) Credit risk**

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Company.

The Qualitative Risk Management team is in charge of measuring and monitoring counterparty risk. A Counterparty Risk Committee oversees the activity of the team.

The Company is exposed to the credit risk of the counterparties with which, or to the brokers, dealers and exchanges through which, it deals, whether they engage in exchange-traded or off-exchange transactions. The Company may be subject to the risk of loss of assets placed on deposit with a broker in the event of the broker's bankruptcy, the bankruptcy of any clearing broker through which the broker executes and clears transactions, or the bankruptcy of an exchange clearing house.

The Company's exposure to brokers-dealers is with reputable broker-dealers. The Company's principal trading activities are primarily with brokers and other financial institutions located in Europe. At the end of the period, substantially all the investments in securities owned and securities sold, not yet purchased, due from brokers and due to brokers, are positions with and amounts due to or from these brokers. All securities transactions of the Company are cleared by major securities firms pursuant to customer agreements. The Company had substantially all its individual counterparty concentrations with these brokers and their affiliates.



**Boussard & Gavaudan Holding Limited**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2009**

**4. Financial instruments and associated risks (continued)**

**(c) Credit risk (continued)**

Amounts appearing in the Statement of Financial Position as due from and due to brokers reflect gross maximum exposures which contribute to credit risk and which are detailed by main categories in the following table.

<b>31 December 2009</b>		
<b>Due from Brokers</b>	<b>Due to Brokers</b>	<b>Net</b>
<b>€</b>	<b>€</b>	<b>€</b>
Unsettled trades	(288,482)	(288,482)
Cash held with custodians	-	312,142
	(288,482)	23,660
<b>31 December 2008</b>		
<b>Due from Brokers</b>	<b>Due to Brokers</b>	<b>Net</b>
<b>€</b>	<b>€</b>	<b>€</b>
Unsettled trades	(317,201)	(316,841)
Cash held with custodians	(413,578)	(118,091)
	(730,779)	(434,932)

**Unsettled trades**

Amounts receivable or payable for securities transactions that have not settled at the year end are reflected under the line unsettled trade. The nominal amount is the maximum exposure. Most of the transactions settle on a delivery versus payment basis. The risk on unsettled trades is the difference between the contractual price and the replacement price of the transaction would the broker default. Dividends receivable from brokers are at risk for their full nominal amount. All securities transactions of the Company are cleared by major securities firms pursuant to customer agreements.

**Cash held with custodian**

BNP Paribas, Jersey Branch has been appointed as the Company's Custodian pursuant to a custodian agreement, under which it is appointed to act as a custodian of the Company's investments, cash and other assets and accepts responsibility for the safe custody of the property of the Company, which is delivered to and accepted by the Custodian. The Custodian is entitled to receive a fee from the Company based on an agreed percentage per annum of the assets held in custody.

BNP Paribas is a large financial institution having investment grade ratings from the major rating agencies of Aa2 (Moody's) and AA (Standard & Poors and Fitch).

The Company has entered into a liquidity enhancement agreement with Exane BNP Paribas SA ("Exane") on 14 August 2008. Under the agreement, Exane, acting independently but on behalf and in the name of the Company, effects purchases and sales of euro shares of the Company on Euronext Amsterdam. To enable Exane to operate the Company has opened a cash account and a securities account with BNP Paribas Securities Services. BNP Paribas Securities Services SA is a wholly-owned subsidiary of BNP Paribas SA. Any shares of the Company purchased by Exane on behalf of the Company and not cancelled are held on this securities account in the name of the Company. The cash account is being credited from time to time by the Company with the necessary amount in order to fund further purchases of shares. This agreement is tacitly renewed for one year every 31 December.

Because the assets in custody (other than cash) are segregated from the assets of the custodian, the credit risk exposure of the Company to BNP Paribas and BNP Paribas Securities Services SA is limited to the amount of cash deposited by the Company with these banks. As of 31 December 2009 the net credit exposure was €23,660 (2008: Nil as the net cash balance was negative).

**Off balance sheet risk in relation to over-the-counter derivatives**

Some of the markets in which the Company operates are "over-the counter" markets. Participants in these markets are typically not subject to credit valuation and regulatory oversight as are members of "exchange-based" markets. To the extent that the Company invests in over-the-counter transactions in these markets, it may take a credit risk with regard to parties with which it trades and also may bear the risk of settlement default. These risks may differ materially from those involved in exchange-traded transactions described above.

**Boussard & Gavaudan Holding Limited**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2009**

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**4. Financial instruments and associated risks (continued)**

*(c) Credit risk (continued)*

Off balance sheet risk in relation to over-the-counter derivatives (continued)

Transactions entered into directly between two counterparties generally do not benefit from these protections, which in turn may subject the Company to the risk that a counterparty will not settle a transaction in accordance with agreed terms and conditions because of a dispute over the terms of the contract or because of a credit or liquidity problem. Counterparty risk is increased for contracts with longer maturities when events may intervene to prevent settlement. The ability of the Company to transact business with any one or any number of counterparties, the lack of any independent evaluation of the counterparties or their financial capabilities, and the absence of a regulated market to facilitate settlement, may increase the potential for losses to the Company.

All of the Company's exposure to counterparties are with reputable financial institutions which are at least single A investment grade rated from the major rating agencies. Counterparty risk exposure is monitored daily.

The risk management system gives real time marked to market position, collateral and risk exposure.

The Company's exposure to counterparty risk associated with counterparty non-performance on over-the-counter derivatives is generally limited to the fair value of over the counter contracts reported as assets which are not covered by an equivalent collateral amount and to the independent amounts requested by counterparties to cover the risk of a derivative contract.

Exposure to investment other than on Sark Fund Limited

Part of the cash allocated to the liquidity enhancement programme, which has still not being used to buy back the shares of the Company, is invested by the liquidity provider in "BNP Paribas Cash Invest" a pure money market fund distributed by a subsidiary of the BNP Paribas SA group.

The Company enters forward foreign currency contracts with Credit Suisse London which is a well known and large financial institution which is investment grade and at least single A rated by the major rating agencies. On 31 December 2009, the Company had a credit exposure relative to these derivative instruments of Euro 169,351. There is no collateral agreement to protect this exposure and consequently no collateral amount paid.

Open forward currency contracts

At 31 December 2009, the Company had contracted to buy and sell the following amounts:

<b>Purchase Currency</b>	<b>Unit</b>	<b>Sale Currency</b>	<b>Settlement Date</b>	<b>Unrealised gain/(loss) Euro</b>
GBP	(21,912,833)	EUR	06/01/2010	514,923
<b>Net unrealised gain</b>				<u>514,923</u>
EUR	2,651,857	GBP	06/01/2010	(2,440)
EUR	6,635,722	USD	03/03/2010	(343,132)
<b>Net unrealised Loss</b>				<u>(345,572)</u>
				<u>169,351</u>

At 31 December 2008, the Company had contracted to buy and sell the following amounts:

<b>Purchase Currency</b>	<b>Unit</b>	<b>Sale Currency</b>	<b>Settlement Date</b>	<b>Unrealised gain/(loss) Euro</b>
GBP	(42,801,863)	EUR	01/17/2009	(5,986,504)
<b>Net unrealised loss</b>				<u>(5,986,504)</u>
EUR	10,877,052	GBP	01/17/2009	241,295
<b>Net unrealised gain</b>				<u>241,295</u>
				<u>(5,745,209)</u>

Exposure to Sark Fund Limited

As 98.76% of the Company's investments are in the Fund (as per Investments at fair value through profit or loss), there is a risk that the Fund will be unable to pay amounts in full when due. The Company has indirect credit risk exposure through its investment in the Fund.

**Boussard & Gavaudan Holding Limited**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2009**

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**4. Financial instruments and associated risks (continued)**

**(d) Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in realising assets or otherwise raising funds to meet financial commitments.

The Company's financial commitments are represented from time to time by:

- fees and other expenses payable
- amounts payable for the share buy backs
- repayment of short term borrowing contracted to finance the share buy backs until the proceeds of the redemption from the Fund are received and to finance non Sark investments
- interests on loans and other expenses and amounts payable
- amounts due under forward foreign exchange contracts

The Company manages its ability to fulfil these commitments by combining:

- the use of the working capital
- redemptions in the Fund
- the use of intra-month bridge facility agreement (see note 13).

The Company retains an amount of cash with its custodian which is used as working capital in order to manage day to day expenses such as fees and expenses payable.

The Company may redeem its units, shares or interests in the Fund on a monthly basis and does not have any special or preferential rights in the Fund. This may limit the Company's ability to realise its investments at an optimal price. Redemptions and subscriptions in the Fund are used to ensure that the exposure of the Company to the Fund is in adequacy with the offering memorandum. The impact of the Sterling versus Euro due to the sterling shares will also require such adjustments. Share buy backs are financed by redemptions in the Fund which permit the repayment of the money borrowed under short term bridge facility. The timing and ability in redeeming the Fund's shares may expose the Company if the bridge facility agreement is recalled by the Fund.

All financial liabilities of the Company at 31 December 2009 were due to settle in one month. All these liabilities, except for the audit fees did settle in January 2010.

In EURO	Less than 1 month	
	At 31 December 2009	At 31 December 2008
Foreign exchange forward derivatives contracts	-	(5,745,209)
Other short term loan	(5,500,000)	-
Bank loan	-	(24,925,991)
Due to brokers	(288,482)	(730,779)
Performance fees payable	(19,370,343)	-
Management fee payable	(2,672,436)	(2,665,069)
Interest payable	(5,062)	(14,483)
Administrative fee payable	(23,937)	-
Audit fees payable	(23,671)	(70,000)
Legal fees payable	-	(133,997)
<b>Total financial liabilities</b>	<b>(27,883,931)</b>	<b>(34,285,528)</b>

The decrease in the liabilities over the period is mainly due to the termination of the bank loan facility. Other than Sark Fund Ltd investments bear no liquidity risk as they are financed on the Company's equity.

**Boussard & Gavaudan Holding Limited**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2009**

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**4. Financial instruments and associated risks (continued)**

**(e) Capital management**

In managing the capital of the Company the Investment Manager seeks to provide consistent absolute returns in accordance with the Company's investment objectives and policies, for example those related to gearing. The Company operated a share buy-back programme designed to reduce its capital, which has had the favorable effect of increasing the net asset value per share since the shares bought back have been purchased at a discount to their net asset value. Transactions under the programme are disclosed in Note 11.

	<b>31 December 2009</b>	<b>31 December 2008</b>
External Debt	€5,500,000	€24,925,991
Equity	690,432,788	622,540,319
Ratio = External Debt / Equity	0.80%	4.00%

Over the year the external indebtedness of the company has decreased from 4.00% to 0.80% which is all comprised of short-term commitments. As explained more in details in note 13 (Other short term loan), short-term commitments are being used in order to finance the share-buy back programme on a monthly basis, until the Company receives the proceeds from its monthly redemptions in the Fund.

Long term commitments like Private equity investments are currently being financed through equity share capital.

The Company is not subject to any externally imposed capital requirements.

**5. Net gain from financial assets and liabilities designated as held for trading**

	<b>31 December 2009</b>	<b>31 December 2008</b>
	<b><u>EURO</u></b>	<b><u>EURO</u></b>
<b>Held for trading</b>		
Net realised gain on forward contracts	(3,446,488)	(2,059,947)
Net unrealised gain on forward contracts	5,914,560	(5,745,209)
<b>Net gain/(loss) from financial assets and liabilities designated as held for trading</b>	<b>2,468,072</b>	<b>(7,805,156)</b>

**6. Investments in financial instruments through profit or loss**

	<b>31 December 2009</b>	<b>31 December 2008</b>
	<b><u>EURO</u></b>	<b><u>EURO</u></b>
<b>Investments</b>		
Beginning cost	789,324,249	978,887,037
Additions	1,187,500	965,827,861
Disposals	(101,762,027)	(1,161,230,907)
Realised gain	(12,626,950)	5,840,258
Ending cost	676,122,772	789,324,249
Unrealised gains/(losses) on investments at fair value through profit and loss	41,712,454	(132,969,586)
<b>Investments at fair value through profit or loss:</b>	<b>717,835,226</b>	<b>656,354,663</b>

**Boussard & Gavaudan Holding Limited**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2009**

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**6. Investments in financial instruments through profit or loss (continued)**

**Net (loss)/gain on financial assets and liabilities at fair value through profit or loss**

	<b>31 December 2009</b>	<b>31 December 2008</b>
	<u><b>EURO</b></u>	<u><b>EURO</b></u>
Net gain /(loss) on financial instruments at fair value through profit or loss (Realised & unrealised gains)	162,055,090	(176,096,009)

**7. Related Party transactions**

There have been related party transactions as set out below over the period and as disclosed in notes 8 and 9.

The Directors are paid an annual fee of €30,000; the Chairman is entitled to receive €50,000 per annum and the Chairman of the audit committee receives an additional fee of €7,500 per annum.

**8. Administration fees**

Close Fund Services Limited, the Administrator, is entitled to a per annum fee. In addition, the Administrator outsources the accounting to GlobeOp Financial Services LLC for an annual service fee payable monthly.

**9. Management fees and Performance fees**

The Company has appointed Boussard & Gavaudan Asset Management, LP as investment manager pursuant to an investment management agreement entered into on 13 October 2006.

Under the Investment Management Agreement, the Investment Manager has been given responsibility for the day-to-day discretionary management of the Company's assets in accordance with the Company's investment objective and policy, subject to the overall supervision of the Directors.

The Investment Management Agreement is terminable by either party giving to the other not less than twelve months' notice in writing, such notice not to expire before the third anniversary of admission of the Company's existing Shares to Euronext Amsterdam, except in certain circumstances where, inter alia, the Investment Manager ceases to have all necessary regulatory permissions, becomes insolvent or is in material breach of the Investment Management Agreement, in which case the Investment Management Agreement may be terminated forthwith.

In the event that the Investment Management Agreement is terminated before the third anniversary of admission of the Company's existing Shares to Euronext Amsterdam other than, inter alia, as a result of the material breach or insolvency of the Investment Manager, the Company would, nonetheless, be obliged to pay the Investment Manager any management fee or performance fee that would otherwise be payable in respect of the period to such third anniversary. This has been agreed on the basis of the Investment Manager bearing all the costs and expenses of establishing the Company.

If the Investment Management Agreement is terminated before 31 December in any year, the performance fee in respect of the then current Calculation Period will be calculated and paid as though the date of termination were the end of the relevant Calculation Period.

The Investment Manager receives a management fee, accrued monthly and payable quarterly, calculated at the annual rate of 1.5 per cent of the Net Asset Value. The Investment Manager is also entitled to receive a performance fee.

The Performance Fee will be calculated in respect of each Calculation Period. The Performance Fee shall be deemed to accrue on a monthly basis as at each Valuation Day. For each Calculation Period, the Performance Fee will be equal to 20 per cent. of the appreciation in the Net Asset Value per share during that Calculation Period above the net asset value per Share of the relevant class (the "Base Net Asset Value per Share"). The Base Net Asset Value per Share is the highest Net Asset Value per Share achieved as at the end of any previous Calculation Period (if any).

**Boussard & Gavaudan Holding Limited**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2009**

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**9. Management fees and Performance fees (continued)**

The Performance Fee in respect of each Calculation Period will be calculated by reference to the Net Asset Value per Share before deduction for any accrued Performance Fee. The Performance Fee attributable to each class of Shares shall be paid solely from the relevant Pool underlying each class of Shares such that no class of Share shall bear any part of the Performance Fee attributable to any other class of Shares. The effect of hedging the currency exposure of a class of Shares on the relevant Pool will be included when the Performance Fee is calculated. For the purposes of calculating the Performance Fee and for the avoidance of doubt, the Net Asset Value per Share of a class will include in full any increase in the Net Asset Value per Share of that class attributable to any repurchase by the Company of that class of Shares.

On 17 July 2009, the Company and the Investment Manager agreed to apply a different method to calculate the performance fee payable by the Company to the Investment Manager other than the method set out in the Management Agreement. The objective was to avoid a potential inequitable treatment of shareholders which would have resulted from overpayment of performance fee on a per share basis.

Under the original method performance fee could become payable based on the full year performance in relation to shares that were no longer in existence at year end, leading to the remaining shares in issue paying too much performance fees on a per share basis. This situation could arise because the number of shares in issue varies over time, either because of (i) conversions between the two share classes, or (ii) buy back of shares by the Company.

Under the revised method performance fee is calculated on each share based on the performance attributable to that share until such time as that share no longer exists.

At the time of adoption, the Board together with its advisers concluded that the new method was fair and reasonable and the Financial Services Authority was duly notified.

To the year ended 31 December 2009, the revised method has resulted in less performance fee being paid by the Company than would have been payable to the Investment Manager under the existing method set out in the Management Agreement, the benefit to the Company being approximately €300,000.

Any benefit to the Company in terms of a decrease in the performance fee payable under the new methodology is unrestricted. Any benefit to the Investment Manager in terms of an increase in the performance fee payable under the new methodology is restricted to no more than 5 per cent. of the Company's net asset value.

For the year ended December 31, 2009 the Management fees were €9,980,154 (for year ended December 31, 2008: 13,325,092), at December 31, 2009 €2,672,436 (December 31, 2008: €2,665,069) was payable.

For the year ended December 31, 2009, the Performance fees were €19,370,343 (for year ended December 31, 2008: €Nil), at December 31, 2009 €19,370,343 (December 31, 2008: €Nil) was payable.

**10. Share Capital**

*Authorised Shares*

On incorporation, the authorised share capital of the Company was represented by 100,000,000 shares of €0.0001 par value. At incorporation, two shares were subscribed by CO1 Limited and CO2 Limited of 7 New Street, St Peter Port, Guernsey, the subscribers to the Memorandum of Association. On 13 October 2006 the holders of the two subscriber shares in the Company, CO1 Limited and CO2 Limited, passed a written special resolution approving the cancellation of the entire amount standing to the credit of the share premium account immediately after the initial public offering of the Company's existing shares, conditionally upon the issue of such shares and the payment in full thereof. An application was made to the Royal Court of Guernsey to confirm the reduction of the share premium account.

This cancellation was confirmed by the Royal Court on 10 November 2006, enabling the Company to effect purchases of its own shares and/or C shares.

On 1 November 2006, 43,999,998 Class A shares were issued fully paid for cash at a price of €10 each. By a resolution of shareholders passed on 30 April 2007, the authorised share capital of the Company was increased from €10,000 to €1,010,000 by the creation of 5,000,000,000 shares of €0.0001 each and 5,000,000,000 C shares of €0.0001 each.

**Boussard & Gavaudan Holding Limited**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2009**

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**10. Share Capital (continued)**

*Allotted, issued and fully paid*

<b>As on 31 December 2009</b>	<b>Shares</b>	<b>Euro</b>
Class A EURO of €0.0001	53,978,004	5,398
Class A GBP of €0.0001	1,688,474	190
<b>As on 31 December 2008</b>	<b>Shares</b>	<b>Euro</b>
Class A EURO of €0.0001	60,335,176	6,034
Class A GBP of €0.0001	3,464,566	360

*Voting*

The shareholders shall have the right to receive notice and to attend and vote at general meetings of the Company and each holder of shares being present in person or by attorney at a meeting shall upon a show of hands have one vote and upon a poll each such holder present in person or by proxy or by attorney shall have one vote in respect of each share held by him.

Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, any share in the Company may be issued with such preferred, deferred or other special rights or restrictions whether as to dividend, voting, return of capital or otherwise as the Company at any time by ordinary resolution may determine and subject to and in default of such determination as the Board may determine.

Subject to the provisions of the Companies Laws, the terms and rights attaching to any class of shares, the Articles and any guidelines established from time to time by the Directors, the Company may from time to time purchase or enter into a contract under which it will or may purchase any of its own shares. The making and timing of any buy back will be at the absolute discretion of the Directors. If at any time the share capital is divided into further classes of shares the rights attached to any class (unless otherwise provided by the terms of issue) may whether or not the Company is being wound up be varied with the consent in writing of the holders of three-fourths of the issued shares of that class or with the sanction of a special resolution of the holders of the shares of that class.

On a winding-up, the shareholders shall be entitled to the surplus assets remaining after payment of all the creditors of the Company.

**11. Treasury shares**

The acquisition of treasury shares started on 27 February 2008. The Company holds 5.71% (2008: 2.84%) of its issued share capital in treasury shares on 31 December 2009.

The Company shall not hold more than 10% of its issued share capital in treasury.

**Situation**

**Company's allotted, issued and fully paid share capital**

**Prior to the effect of the treasury shares held at €0.0001 each**

	<u><b>Nominal Euro</b></u>	<u><b>Shares Euro</b></u>	<u><b>Nominal GBP</b></u>	<u><b>Shares GBP</b></u>
31 December 2009	€ 5,734.7836	57,347,836	€ 190.1993	1,688,474
31 December 2008	€6,179.0142	61,790,142	£403.4439	3,877,316

**After the effect of the treasury shares acquired at €0.0001 each**

	<u><b>Nominal Euro</b></u>	<u><b>Shares Euro</b></u>	<u><b>Nominal GBP</b></u>	<u><b>Shares GBP</b></u>
31 December 2009	€ 5,397.8004	53,978,004	€ 190.1993	1,688,474
31 December 2008	€6,033.5176	60,335,176	£360.4963	3,464,566

**Boussard & Gavaudan Holding Limited**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2009**

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**11. Treasury shares (continued)**

**Activity**

The Company has bought back the following shares during the period

	<b>Number of EUR shares</b>	<b>EUR amount</b>	<b>Average Price</b>	<b>Number of GBP shares</b>	<b>GBP amount</b>	<b>Average Price</b>
For the year ended 31 December 2009	8,202,243	€ 65,869,535	€ 8.0307	30,000	£184,685	£6.1562
For the year ended 31 December 2008	23,973,889	€ 168,990,174	€ 7.0489	1,363,812	£7,631,526	£5.5957

The Company has cancelled the following shares during the period

	<b>Number of EUR shares</b>	<b>EUR amount</b>	<b>Average Price</b>	<b>Number of GBP shares</b>	<b>GBP amount</b>	<b>Average Price</b>
For the year ended 31 December 2009	6,287,377	€ 43,428,714	€ 6.9073	442,750	£2,365,827	£5.3435
For the year ended 31 December 2008	22,518,923	€ 159,953,207	€ 7.1031	951,062	£5,450,384	£5.7308

**12. Bank loan**

	<b>For the year ended December 31, 2009</b>	<b>For the year ended December 31, 2008</b>
<b>Bank Loan</b>	<b>Euro</b>	<b>Euro</b>
Beginning cost	(24,765,459)	(17,364,342)
Repayments	43,234,345	266,920,556
Drawdown	(17,956,875)	(274,021,212)
Foreign currency realised loss	(512,011)	(300,461)
Ending Cost	-	(24,765,459)
Change in unrealised foreign currency loss on bank loan	-	(160,532)
<b>Bank loan at fair value</b>	<b>-</b>	<b>(24,925,991)</b>

On 31 December 2008 the Company had a loan facility with Natixis for €40,000,000 of which €24,925,991 was due to Natixis. €133,069,533 in Sark Fund EUR B Class Shares were pledged as collateral as at 31 December 2008. The facility granted by Natixis has been terminated early during the reporting period. All outstanding loans have been repaid in full. The pledge of Sark Fund EUR B shares has been fully released by Natixis. The facility has not been replaced by another credit facility. Private equity investments are currently being financed through equity share capital.



**Boussard & Gavaudan Holding Limited**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2009**

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**13. Other short term loan**

The share buy back programme is financed by redemptions of the Fund shares which are payable only once in each calendar month. As a result, the share buy back programme creates a need for intra-month bridge financing. Since 28 January 2009, the Fund has agreed to make an intra-month interest bearing advance to the Company under a facility agreement. All amounts outstanding under the facility must be repaid in full by the end of each calendar month, subject to cash settlement delays. The facility has a maximum amount of €30 million. The facility has a tacitly renewable one year stated term. The Fund may at any time terminate the facility on a 90 calendar days notice. As of 31 December 2009 €5,500,000 was due to the Fund under the loan facility agreement. There is no collateral agreement and consequently no requirement and no collateral amount paid.

The terms of the agreement are at arms' length and have been approved by the Board of the Company and the Board of the Fund. The Company borrows from the Fund at a 1.5 percent spread over the 1 month Euribor. Both the Company (as well as the Fund) has a real and sufficient corporate benefit and is paying an adequate consideration.

	<b>For the year ended 31 December 2009</b>
<b>Other short term loan</b>	<b><u>Euro</u></b>
Repayments	48,950,000
Drawdown	(54,450,000)
<b>Ending cost and fair value</b>	<b><u>(5,500,000)</u></b>

**14. Segment information**

For management purposes, the Company is engaged in one main operating segment, which invests in financial instruments. All of the Company's activities are interrelated, and each activity is dependent on the others. Accordingly, all significant operating decisions are based upon analysis of the Company as one segment. The financial results from this segment are equivalent to the financial statements of the Company as a whole.

The following table analyses the Company's operating income per geographical location. The basis for attributing the operating income is the place of incorporation of the instrument's counterparty.

	<b>2009</b>	<b>2008</b>
Cayman Islands	162,245,358	(162,274,447)
Rest of the world	1,932,839	(22,411,315)
<b>Total</b>	<b><u>164,178,197</u></b>	<b><u>(184,685,762)</u></b>

The following table analyses the Company's operating income per investment type.

	<b>2009</b>	<b>2008</b>
Equity securities	162,055,090	(176,096,009)
Debt instruments	(355,739)	(689,409)
Derivative financial instruments	2,468,072	(7,805,156)
Foreign exchange gains on financial instruments not at fair value through profit or loss	10,774	(95,188)
<b>Total</b>	<b><u>164,178,197</u></b>	<b><u>(184,685,762)</u></b>

**15. Comparatives**

Comparative information has been provided for the year ended 31 December 2008. Certain comparative figures have been reclassified in order to conform to the presentation.

**16. Post balance sheet events**

There were no material post balance sheet events subsequent to period end.

**17. Approval of financial statements**

The financial statements were approved by the Company on 22 April 2010 at which date these financial statements were considered final.