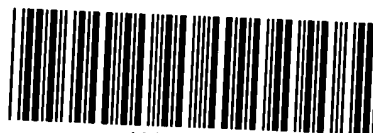


Registered Number 08755484

**European Capital Fund Management Limited (formerly European
Capital Debt Management Limited)**
Annual Report and Consolidated and Company Financial Statements
Year ended 31 December 2016

TUESDAY



A6ESQSFE

A01

12/09/2017

#238

COMPANIES HOUSE

European Capital Fund Management Limited
Annual Report and Financial Statements
Year ended 31 December 2016
Contents

Directors and Advisers	1
Strategic Report for the year ended 31 December 2016	2
Directors' Report for the year ended 31 December 2016	3
Independent Auditor's Report to the members of European Capital Fund Management Limited	6
Consolidated and Company Balance Sheets as at 31 December 2016	8
Consolidated and Company Statements of Comprehensive Income for the year ended 31 December 2016	9
Consolidated and Company Statements of Changes in Equity for the year ended 31 December 2016	10
Consolidated and Company Cash Flow Statements for the year ended 31 December 2016	11
Notes to the Consolidated and Company Financial Statements	12

European Capital Fund Management Limited

Directors and Advisers

Directors

Mrs N Faure Beaulieu (resigned 11 January 2017)
Mr J Bloomstein (appointed 11 January 2017)
Mr J C Morales Cortes (resigned 7 February 2017)
Mr G O'Brien (resigned 11 January 2017)
Mr B Jacobson (appointed 11 January 2017)
Mr H A Phillips (appointed 11 January 2017)

Company Secretary

Ms C Loiseau

Auditor

Ernst & Young LLP
PO Box 9
Royal Chambers
St Julian's Avenue
St Peter Port
Guernsey
GY1 4AF

Registered Office

25 Bedford Street
London
WC2E 9ES

European Capital Fund Management Limited

Strategic Report for the year ended 31 December 2016

The directors present their strategic report for the year ended 31 December 2016.

Numbers within this report are in thousands, unless otherwise indicated.

Review of business and key performance indicators

The principal activity of the Group is to provide marketing, investment management and advisory services to a small number of debt focused Alternative Investment Funds ("AIF").

The key financial and other performance indicators during the year were as follows:

	Year ended 31 December 2016 €' 000	Period ended 31 December 2015 €' 000
Revenue	5,560	2,246
Operating loss:	(5,874)	(3,055)
Loss attributable to the Company's equity holder	(5,651)	(3,075)
Equity shareholder's funds	3,728	2,891

The directors feel that business has performed broadly in line with expectations with regards to its fundraising activities.

European Capital Fund Management Limited's ("ECFM" or "the Company") principal activity is to provide marketing, investment management and advisory services to a small number of debt focused Alternative Investment Funds ("AIF"). ECFM currently has an investment management agreement in place with the European Capital UK SME Debt Fund LP, the European Capital Private Debt Fund LP and the European Capital Private Equity 1 SCSp ("the Funds").

European Capital UK SME Debt Fund LP has £100 million of capital commitments focused on providing credit solutions for UK Sponsored transactions for businesses with less than £100 million in revenue. The European Capital Private Debt Fund LP has in place subscription agreements for a total of €473 million in commitments, up from €387 million as of 31 December 2016. The European Capital Private Equity 1 SCSp Fund has total commitments of €100 million.

The directors consider that the principal risk facing the Group is its ability to raise sufficient capital for its next prospective fund. It is expected that a new fund will be launched in 2017 with fundraising efforts commencing in the second quarter. With the successful deployment of the majority of the Group's existing fund commitments, the new fund will be needed to grow and maintain the Group's potential investment management income, by increasing assets under management ("AUM") while replacing assets as they are realised in the existing Funds. During 2016, the Funds deployed a significant proportion of their total commitments of €692m (2015: €524 million), with AUM totalling €548million (2015: €277 million). The board expect the AUM figure to continue to increase during 2017.

ECFM have the team required to manage the funds in place, having scaled its operations and procedures in 2016 to the appropriate size for current and forecast activity levels.

In January 2017, the immediate and ultimate controlling party changed as described in note 13 and note 14 of the financial statements.

On behalf of the Board



Hugh Phillips

Director

Date: 18 April 2017

European Capital Fund Management Limited

Directors' Report for the year ended 31 December 2016

Numbers within the Directors' Report are in thousands.

The directors present their report and audited consolidated financial statements of the Group for the year ended 31 December 2016. The Group consists of:

European Capital Fund Management Limited
European Capital UK SME Debt 1 Limited
European Capital UK SME Debt 2 Limited
European Capital UK SME GP LLP
European Capital UK SME Carry GP LLP
European Capital Private Debt 1 Limited
European Capital Private Debt 2 Limited
European Capital Private Debt GP LLP
European Capital Private Debt Carry GP LLP
European Capital Private Equity 1 GP S.à. r.l.

A number of items stated in this Directors' Report have also been included in the Strategic Report outlined on page 2.

International Financial Reporting Standards

The directors have prepared the consolidated financial statements for the Group and the Company under EU endorsed International Financial Reporting Standards, IFRIC interpretations (together "IFRS") and in accordance with the Companies Act 2006.

Principal activity

The principal activity of the Group is to provide marketing, investment management and advisory services to a small number of debt focused Alternative Investment Funds ("AIF").

On 16 July 2014 ECFM was granted authorisation from the Financial Conduct Authority ("FCA") with the registration number 611379. This authorisation was further enhanced on 8 September 2014, when the FCA granted authorisation to ECFM to act as an Alternative Investment Fund Manager ("AIFM") and to conduct cross border marketing of Alternative Investment Funds to professional investors in other EEA states. The company also operates in France where it has a registered branch.

Future plans

It is expected that a new fund will be launched in 2017 with fundraising efforts commencing in the second quarter. It is envisaged that the new fund will be similar to existing funds in terms of structure and in its principal activity of providing debt financing to private companies.

Change of company name

On 25 March 2016, European Capital Debt Management Limited changed its name to European Capital Fund Management Limited.

Ares Capital Corporation's (NASDAQ: ARCC) acquisition of American Capital

On 3 January 2017, the acquisition of American Capital was completed by ARCC and ECFM is now a wholly-owned subsidiary of Ivy Hill Asset Management, L.P., a wholly-owned portfolio company of ARCC (see note 13 and note 14).

Functional currency

The consolidated and company financial statements are denominated in Euros and the directors consider Euros to be the currency of the primary economic environment in which the Group operates.

Results and dividends

The results for the financial year are shown on page 8. The directors do not recommend the payment of a dividend.

European Capital Fund Management Limited

Directors' Report for the year ended 31 December 2016 (continued)

Significant events

On 20 February 2017, a Sale and Purchase Agreement was signed for the subsequent sale of ECFM from Ivy Hill Asset Management, L.P. to LGT UK Holdings Limited. The transaction is expected to complete in April 2017 (see note 13 and note 14).

Going concern

The financial statements have been prepared on a going concern basis and it is the intention for the Company to continue to be a going concern for the next 12 months following approval of the financial statements. The directors consider that the Company has sufficient liquid resources to satisfy its upcoming commitments.

Directors

The directors who served during the year and up to the date of this report are detailed on page 1.

Directors' interests

None of the directors have held any interest in the shares of the Group during the financial year or to date.

Creditor payment policy

For all trade creditors, it is the Group's policy to:

- agree the terms of payment at the start of business with that supplier;
- ensure that suppliers are aware of the terms of payment; and
- pay in accordance with its contractual and other legal obligations.

In 2016, the majority of the invoices the Group incurred were recharges from entities under common control.

Risk management policy

The Group's risk management policy and objectives are detailed in note 3 of the Consolidated and Company financial statements.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and Consolidated and Company Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare consolidated and company financial statements for each financial year. The directors have prepared the Group financial statements in accordance with IFRS as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for the year.

In preparing these consolidated and company financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- ensure that these financial statements comply with IFRS as adopted by the European Union; and
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The directors confirm that they have complied with the above requirements in preparing the consolidated and company financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

European Capital Fund Management Limited

Directors' Report for the year ended 31 December 2016 (continued)

The directors confirm that so far as they are aware, there is no relevant audit information of which the Group's auditor is unaware and the directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Auditor

Ernst & Young LLP have indicated their willingness to continue in office and a resolution to this effect will be proposed at the Annual General Meeting.

On behalf of the Board



Hugh Phillips

Director

Date: 18 April 2017

European Capital Fund Management Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EUROPEAN CAPITAL FUND MANAGEMENT LIMITED

We have audited the financial statements of European Capital Fund Management Limited ("the Company") for the year ended 31 December 2016 which comprise the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Comprehensive Income, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Cash Flow Statements, and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements:

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2016 and of the Group's and the parent company's result for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

European Capital Fund Management Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EUROPEAN CAPITAL FUND MANAGEMENT LIMITED (CONTINUED)

Opinion on other matter prescribed by the Companies Act 2006

Based on the work undertaken in the course of the audit

- ▶ the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- ▶ the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

Andrew Jonathan Dann, FCA (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP,
Statutory Auditor
Guernsey, Channel Islands

Date: 25 April 2017

European Capital Fund Management Limited

Consolidated and Company Balance Sheets as at 31 December 2016

	Note	Group 2016 €' 000	Group 2015 €' 000	Company 2016 €' 000	Company 2015 €' 000
Assets					
Non-current assets					
Investment in affiliates		-	-	20	-
Total non-current assets		-	-	20	-
Current assets					
Trade and other receivables	5	3,921	3,173	3,921	3,173
Amounts due from entities under common control	6	1,816	1,102	2,098	1,096
Cash and cash equivalents	7	3,284	2,520	3,146	2,464
Total current assets		9,021	6,795	9,165	6,733
Total assets		9,021	6,795	9,185	6,733
Equity and liabilities					
Capital and reserves					
Ordinary shares	8	12,491	6,000	12,491	6,000
Foreign exchange reserve		(3)	-	-	-
Accumulated losses		(8,760)	(3,109)	(8,819)	(3,140)
Total equity shareholder's funds		3,728	2,891	3,672	2,860
Liabilities					
Creditors - amounts falling due after more than one year					
Loan	11	2,506	-	2,506	-
		2,506	-	2,506	-
Creditors - amounts falling due within one year					
Trade and other payables	9	310	409	307	409
Other liabilities	9	2,477	3,495	2,700	3,464
Total liabilities	9	2,787	3,904	3,007	3,873
Total equity and liabilities		9,021	6,795	9,185	6,733

The consolidated and company financial statements on pages 8 to 23 were approved by the Board of Directors on 18 April 2017 and were signed on its behalf by:



Hugh Phillips

Director

Date: 18 April 2017

The notes on pages 12 to 23 form an integral part of these consolidated and company financial statements.

European Capital Fund Management Limited

Consolidated and Company Statements of Comprehensive Income for the year ended 31 December 2016

	Group Year ended 31 December 2016 €' 000	Group Year ended 31 December 2015 €' 000	Company Year ended 31 December 2016 €' 000	Company Year ended 31 December 2015 €' 000
Revenue	5,560	2,246	5,453	2,174
Administrative expenses	(11,434)	(5,301)	(11,354)	(5,262)
Operating loss	<u>(5,874)</u>	<u>(3,055)</u>	<u>(5,901)</u>	<u>(3,088)</u>
Foreign exchange gain/(loss)	223	(20)	222	(20)
Loss for the year	<u>(5,651)</u>	<u>(3,075)</u>	<u>(5,679)</u>	<u>(3,108)</u>

All the above activities relate to continuing operations.

European Capital Fund Management Limited
Consolidated and Company Statements of Changes in Equity
for the year ended 31 December 2016

Group	Note	Ordinary shares € '000	Accumulated loss € '000	Foreign exchange € '000	Total € '000
As at 1 January 2015		3,500	(34)	-	3,466
Issue of share capital		2,500	-	-	2,500
Loss for the period		-	(3,075)	-	(3,075)
As at 31 December 2015		6,000	(3,109)	-	2,891
Issue of share capital	8	4,000	-	-	4,000
Additional paid in capital	8	2,491	-	-	2,491
Loss for the year		-	(5,651)	-	(5,651)
Foreign exchange consolidation reserve		-	-	(3)	(3)
As at 31 December 2016		12,491	(8,760)	(3)	3,728

Company		Ordinary shares € '000	Accumulated loss € '000	Foreign exchange € '000	Total € '000
As at 1 January 2015		3,500	(32)	-	3,468
Issue of share capital		2,500	-	-	2,500
Loss for the period		-	(3,108)	-	(3,108)
As at 31 December 2015		6,000	(3,140)	-	2,860
Issue of share capital		4,000	-	-	4,000
Additional paid in capital	8	2,491	-	-	2,491
Loss for the year		-	(5,679)	-	(5,679)
As at 31 December 2016		12,491	(8,819)	-	3,672

The notes on pages 12 to 23 form an integral part of these consolidated and company financial statements.

European Capital Fund Management Limited
Consolidated and Company Cash Flow Statements
for the year ended 31 December 2016

	Note	Group Year ended 31 December 2016 €' 000	Group Year ended 31 December 2015 €' 000	Company Year ended 31 December 2016 €' 000	Company Year ended 31 December 2015 €' 000
Cash used in operations	10	(5,947)	(3,329)	(6,011)	(3,397)
Investment in affiliates		-	-	(20)	-
Net cash (used in)/generated from investing activities		-	-	(20)	-
Proceeds from issue of share capital		6,491	2,500	6,491	2,500
Net cash generated from financing activities		6,491	2,500	6,491	2,500
Net change in cash and cash equivalents		544	(829)	460	(897)
Cash and cash equivalents at the start of the year		2,520	3,369	2,464	3,361
Unrealised foreign exchange loss on cash and cash equivalents		220	(20)	222	-
Cash and cash equivalents at the end of the year		3,284	2,520	3,146	2,464

The notes on pages 12 to 23 form an integral part of these consolidated and company financial statements.

European Capital Fund Management Limited

Notes to the Consolidated and Company Financial Statements for the year ended 31 December 2016 (in thousands of Euros except share data)

1. General information and summary of significant accounting policies

General information

European Capital Fund Management Limited ("the Company" or "the Group") provides marketing, investment management and advisory services to a small number of debt focused alternative investment funds ("AIF").

The Company is a limited liability company incorporated and domiciled in the United Kingdom. The address of its registered office is 25 Bedford Street, London, WC2E 9ES.

The Company is authorised and regulated by the Financial Conduct Authority ("FCA") (under reference number 611379). Permissions were granted to the Company on 16 July 2015.

Basis of preparation

The consolidated financial statements of the Group and the Company have been prepared in accordance with EU Endorsed International Financial Reporting Standards and IFRIC interpretations (together "IFRS") and the Companies Act 2006. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of the consolidated and company financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 2.

Numbers within the financial statements are in thousands, unless otherwise indicated.

(a) Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted, and it is subject to EU endorsement. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date. During 2015, the Group has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. Overall, the Group expects no significant impact on its balance sheet and equity except for the effect of applying the impairment requirements of IFRS 9. The Group will perform a detailed assessment in the future to determine the extent.

European Capital Fund Management Limited

Notes to the Consolidated and Company Financial Statements for the year ended 31 December 2016 (in thousands of Euros except share data)

1. General information and summary of significant accounting policies (continued)

- **Classification and measurement**

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. Quoted equity shares currently held as available-for-sale ("AFS") with gains and losses recorded in Other Comprehensive Income ("OCI") will be measured at fair value through profit or loss instead, which will increase volatility in recorded profit or loss. The AFS reserve currently in accumulated OCI will be reclassified to opening retained earnings. Debt securities are expected to be measured at fair value through OCI under IFRS 9 as the Group expects not only to hold the assets to collect contractual cash flows but also to sell a significant amount on a relatively frequent basis.

The equity shares in non-listed companies are intended to be held for the foreseeable future. The Group expects to apply the option to present fair value changes in OCI, and, therefore, believes the application of IFRS 9 would not have a significant impact. If the Group were not to apply that option, the shares would be held at fair value through profit or loss, which would increase the volatility of recorded profit or loss.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects that these will continue to be measured at amortised cost under IFRS 9. However, the Group will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

- **Impairment**

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Group expects a significant impact on its equity due to unsecured nature of its loans and receivables, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the International Accounting Standards Board ("IASB") finalises their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method.

During 2015, the Group performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the Group is considering the clarifications issued by the IASB in an exposure draft in July 2015 and will monitor any further developments.

The Group recognises revenue from services at the fair value of the consideration received or receivable, net of allowances, discounts and rebates. If revenue cannot be reliably measured, the Group defers revenue recognition until the uncertainty is resolved. Such provisions could give rise to variable consideration under IFRS 15, and would be required to be estimated at contract inception.

IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue.

European Capital Fund Management Limited

Notes to the Consolidated and Company Financial Statements for the year ended 31 December 2016 (in thousands of Euros except share data)

1. General information and summary of significant accounting policies (continued)

The Group continues to assess individual contracts to determine any variable consideration and related constraints.

IFRS 16 Leases

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not

to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.

The Group does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The amendment is effective from 1 January 2017. The Group is currently evaluating the impact, but does not anticipate that adopting the amendments would have a material impact on its financial statements.

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7, Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Group is currently evaluating the impact.

European Capital Fund Management Limited

Notes to the Consolidated and Company Financial Statements for the year ended 31 December 2016 (in thousands of Euros except share data)

1. General information and summary of significant accounting policies (continued)

Consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies and obtain benefits as a result. The consolidated financial statements of the Group include the financial statements of the following:

Subsidiary	Subscribed capital	Percentage Ownership %	Country of Incorporation	Principal Activity	Registered address
European Capital UK SME Debt 1 Limited	£1	100	United Kingdom	Corporate Partner to General Partner	25 Bedford Street, London, WC2E 9ES
European Capital UK SME Debt 2 Limited	£1	100	United Kingdom	Corporate Partner to General Partner	25 Bedford Street, London, WC2E 9ES
European Capital UK SME GP LLP		100	United Kingdom	General Partner	25 Bedford Street, London, WC2E 9ES
European Capital UK SME Carry GP LLP		100	United Kingdom	General Partner	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ
European Capital Private Debt 1 Limited	€1	100	United Kingdom	Corporate Partner to General Partner	25 Bedford Street, London, WC2E 9ES
European Capital Private Debt 2 Limited	€1	100	United Kingdom	Corporate Partner to General Partner	25 Bedford Street, London, WC2E 9ES
European Capital Private Debt GP LLP		100	United Kingdom	General Partner	25 Bedford Street, London, WC2E 9ES
European Capital Private Debt Carry GP LLP		100	United Kingdom	General Partner	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ
European Capital Private Equity 1 GP S.à.r.l.	€20,000	100	Luxembourg	Corporate Partner to General Partner	1 rue Hildegard von Bingen, L-1282 Luxembourg

European Capital Fund Management Limited is a private company limited by shares. It is incorporated under the Companies Act 2006.

European Capital Fund Management Limited

Notes to the Consolidated and Company Financial Statements for the year ended 31 December 2016 (in thousands of Euros except share data) (continued)

1. General information and summary of significant accounting policies (continued)

Income

(a) Provision of services

Revenue comprises the fair value of the consideration received or receivable for the provision of services in the ordinary course of the Group's activities. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(b) Interest income

The Group has not made any substantial loans and has not placed any substantial sum on deposit. Interest income is recognised on an accruals basis that materially approximates to the effective interest rate method.

Foreign currency translation

The results and financial position of Company are measured in euros. The functional currency of the Group is Euros. Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. All monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the year end. Exchange differences arising from the re-translation of foreign currency denominated assets and liabilities together with other exchange differences arising in the year are included in the Consolidated Statement of Comprehensive Income.

Financial assets

The Group classifies its financial assets as loans and receivables; Management determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the Balance Sheets.

The effect of discounting these financial instruments is not considered to be material and loans and receivables are stated gross of any discounting.

Loans and receivables are recognised initially at fair value and subsequently measured at cost less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Consolidated and Company Statements of Comprehensive Income within administrative expenses. When an amount is uncollectible, it is written off within administrative expenses. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the Consolidated and Company Statements of Comprehensive Income.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

European Capital Fund Management Limited

Notes to the Consolidated and Company Financial Statements for the year ended 31 December 2016 (in thousands of Euros except share data) (continued)

1. General information and summary of significant accounting policies (continued)

Financial liabilities

The Group's policy is to classify its financial liabilities into one of two categories, 'fair value through profit or loss' and 'measured at amortised cost' but since inception the Group is yet to classify a financial liability as fair value through profit or loss.

Trade and other payables

These are recognised initially at fair value and subsequently measured at amortised cost. Trade and other payables represent amounts owed to third parties, including related parties. They are non-interest bearing and are normally settled within 30 days.

Share capital

Financial instruments issued by the Group are treated as equity only to the extent they do not meet the definition of a financial liability. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds received.

For the purposes of the disclosures given in note 3, the Group considers its capital to comprise of its ordinary share capital and accumulated comprehensive loss. No financial liabilities are considered capital and no capital items are considered financial liabilities for capital management purposes.

The Company is subject to externally imposed capital requirements as it is an Alternative Investment Fund Manager ("AIFM") authorised Collective Portfolio Management Investment Firms ("CPMIF") under FCA classifications. The Company ensures that it remains compliant with these requirements as described in note 3.

Taxation

The Group and the Company are deemed to have a permanent establishment and be subject to corporate income taxes in the UK and France, the territory that it has a branch in. Please see note 2 for further information.

Current income tax assets and liabilities for the current year are measured at the amount expected to be recovered from or paid to the taxation authorities.

2. Critical accounting estimates and judgments

The Board of Directors continue to evaluate any requirements to make estimates and judgments in the preparation of these financial statements. Any such estimate or assumptions are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

There were no significant estimates or assumptions made that are required to be disclosed in these financial statements.

European Capital Fund Management Limited

Notes to the Consolidated and Company Financial Statements for the year ended 31 December 2016 (in thousands of Euros except share data) (continued)

3. Financial risk management (Group and Company)

In common with other businesses, the Group is exposed to risks that arise from its use of financial instruments. The Group's activities expose it to a variety of financial risks, such as market risk (including currency risk and price risk), credit risk and liquidity risk. The Group's financial risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The principal financial instruments used by the Group, from which financial risk arises, are:

- Cash and cash equivalents
- Trade and other receivables

(a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and pounds Sterling. Foreign exchange risk may arise from future commercial transactions and recognised assets and liabilities.

Other foreign exchange risks affecting the Group are due to the Group purchasing services and assets in currencies other than euros. These services and assets are predominately denominated in pounds Sterling, a 10% change in the exchange rate at balance sheet date would increase/decrease the net loss by €290 (2015: €93).

(b) Price risk

The Group is not exposed to any price risk as it does not hold investments or other assets which are sensitive to market prices or other significant volatility in valuation due to either external conditions or estimation techniques.

(c) Cash flow and fair value interest rate risk

The Group has no significant interest-bearing liabilities and although cash balances do attract interest income, the Group's income and operating cash flows are substantially independent of changes in market interest rates.3. Financial risk management (continued)

(d) Fair value estimation

The carrying values less impairment provisions of trade receivables and payables are considered to approximate their fair values due to the short-term nature of trade receivables.

(e) Liquidity risk

The Group aims to mitigate liquidity risk in various ways, including maintaining high levels of liquid resources, reviewing contingency funding arrangements and incorporating tight credit control processes.

The Group monitors expected cash flows for future years. Excess cash identified in managing liquidity is invested in financial instruments exposed to insignificant risk of changes in market value, being placed on interest-bearing deposit with maturities that will allow the Group to meet its expected future cash needs. As the Group is regulated by the FCA, liquidity requirements are imposed on the Group to which it adheres.

(f) Capital resources

The Group considers its overall capital to comprise of its ordinary share capital, other reserves less accumulated comprehensive loss. No financial liabilities are considered capital.

In managing its capital, the Group's primary objective is to ensure its ability to provide a consistent return for its equity shareholder through distributions and the possible orderly unwinding of its business if this were to happen. In order to achieve this, the Group has established a capital adequacy assessment process, whereby the Group reviews the total risks that face the Group and considers an appropriate amount of capital that should be held to meet these risks.

European Capital Fund Management Limited

Notes to the Consolidated and Company Financial Statements for the year ended 31 December 2016 (in thousands of Euros except share data) (continued)

4. Auditor remuneration

During the year the Group and the Company obtained the following services from the Group's auditor:

	Group 2016 €' 000	Group 2015 €' 000	Company 2016 €' 000	Company 2015 €' 000
Audit services	67	60	67	60

5. Trade and other receivables

	Group 2016 €' 000	Group 2015 €' 000	Company 2016 €' 000	Company 2015 €' 000
Trade debtors	9	-	9	-
Prepayments	3,912	3,173	3,912	3,173
	<u>3,921</u>	<u>3,173</u>	<u>3,921</u>	<u>3,173</u>

6. Amounts due from entities under common control

	Group 2016 €' 000	Group 2015 €' 000	Company 2016 €' 000	Company 2015 €' 000
Due from European Capital UK SME LP	165	206	16	61
Due from European Capital Asset Management	133	-	133	-
Due from European Capital UK SME GP LLP	-	-	122	137
Due from EC UK SME Debt Carry and Co Investment L.P.	1	1	-	-
Due from European Capital Private Debt LP	1,504	894	152	106
Due from European Capital Private Debt GP LLP	-	-	1,362	792
Due from EC Private Debt Carry and Co Investment L.P.	2	1	-	-
Due from ECPE1 GP SARL	-	-	299	-
Due from ECPE1 SCSp	11	-	11	-
Due from ECPD Carry GP LLP	-	-	2	-
Due from EC UK SME Carry GP LLP	-	-	1	-
	<u>1,816</u>	<u>1,102</u>	<u>2,098</u>	<u>1,096</u>

All amounts due from entities under common control are interest free, unsecured, and repayable on demand.

European Capital Fund Management Limited

Notes to the Consolidated and Company Financial Statements for the year ended 31 December 2016 (in thousands of Euros except share data) (continued)

7. Cash and cash equivalents

	Group 2016 €'000	Group 2015 €'000	Company 2016 €'000	Company 2015 €'000
Unrestricted cash	3,284	2,520	3,146	2,464
Cash at bank and on hand	<u>3,284</u>	<u>2,520</u>	<u>3,146</u>	<u>2,464</u>

8. Share capital

The figures in this note are not in thousands.

Group and Company

Ordinary shares	2016 Number	2016 €	2015 Number	2015 €
Issued				
At beginning of the year	6,000,000	6,000,000	3,500,000	3,500,000
Issue of share capital	4,000,000	4,000,000	2,500,000	2,500,000
Additional paid in capital	-	2,491,000	-	-
At end of the year	<u>10,000,000</u>	<u>12,491,000</u>	<u>6,000,000</u>	<u>6,000,000</u>

Holders of the Company's ordinary shares have no restrictions over their rights to the distribution of capital or over receipt of dividends. All shares have equal voting rights.

The authorised share capital of the Company is unlimited.

Additional paid in capital of €2,491,000 relates to the stock compensation cost of the carried interest schemes of the Group's managed funds.

European Capital Fund Management Limited

Notes to the Consolidated and Company Financial Statements for the year ended 31 December 2016 (in thousands of Euros except share data) (continued)

9. Creditors – amounts falling due within one year

	Group 2016 € 000	Group 2015 € 000	Company 2016 € 000	Company 2015 € 000
Trade and other payables	310	409	307	409
Due to European Capital Asset Management Ltd	133	258	133	258
Due to European Capital Financial Services Ltd	786	1,125	786	1,125
Due to ECPC 1 GP SARL	-	-	242	-
Due to EC UK SME Debt Carry and Co Investment L.P.	1	-	1	-
Due to European Capital Private Debt Carry L.P.	1	-	1	-
Taxation and social security	573	275	576	275
Accrued bonuses	687	327	687	327
Other accruals	296	1,510	274	1,479
	<u>2,787</u>	<u>3,904</u>	<u>3,007</u>	<u>3,873</u>

All creditors above are interest free, unsecured, and repayable on demand.

10. Cash used in operations

	Group Year ended 31 December 2016 € 000	Group Year ended 31 December 2015 € 000	Company Year ended 31 December 2016 € 000	Company Year ended 31 December 2015 € 000
Loss before tax	(5,651)	(3,075)	(5,679)	(3,108)
Adjustments for:				
Foreign exchange movements on operating activities	(223)	20	(222)	-
Changes in working capital:				
Trade and other receivables	(1,462)	(4,154)	(1,750)	(4,138)
Trade and other payables	1,389	3,880	1,640	3,849
Cash used in operations	<u>(5,947)</u>	<u>(3,329)</u>	<u>(6,011)</u>	<u>(3,397)</u>

European Capital Fund Management Limited

Notes to the Consolidated and Company Financial Statements for the year ended 31 December 2016 (in thousands of Euros except share data) (continued)

11. Related party transactions

Year end balances with related parties:

Group	Revenue €' 000	Administrative expenses €' 000	Payable at year end €' 000	Receivable at year end €' 000
2016				
Entities under common control	<u>5,544</u>	<u>3,935</u>	<u>3,427</u> **	<u>1,816</u>
2015				
Entities under common control	<u>2,246</u>	<u>2,242</u>	<u>1,383</u>	<u>1,102</u>
Company				
	Revenue €' 000	Administrative expenses €' 000	Payable at year end €' 000	Receivable at year end €' 000
2016				
Entities under common control	<u>5,439</u>	<u>3,935</u>	<u>3,669</u> **	<u>2,098</u>
2015				
Entities under common control	<u>2,174</u>	<u>2,242</u>	<u>1,383</u>	<u>1,096</u>
Subsidiaries	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

** This figure includes the loan of €2,506K due to American Capital Asset Management, LLC.

European Capital Fund Management Limited

Notes to the Consolidated and Company Financial Statements for the year ended 31 December 2016 (in thousands of Euros except share data) (continued)

12. Staff costs (Group and Company)

Staff costs include secondment costs recharged from entities under common control and costs associated with the Company's employees.

Staff costs excluding directors

	Year ended 31 December 2016 €' 000	Year ended 31 December 2015 €' 000
Wages and salaries	5,168	2,250
Social security costs	1,124	506
	<u>6,292</u>	<u>2,756</u>

Average numbers of employees excluding directors

	Year ended 31 December 2016 Number	Year ended 31 December 2015 Number
Administration	<u>16</u>	<u>10</u>

Directors' emoluments, and highest paid director

	Year ended 31 December 2016	Year ended 31 December 2015
Aggregate emoluments paid in respect of qualifying services	<u>366</u>	<u>525</u>

Highest paid director

	Year ended 31 December 2016	Year ended 31 December 2015
Emoluments	<u>292</u>	<u>427</u>

13. Immediate and ultimate parent and controlling parties

During 2016, the immediate parent of the group was American Capital Asset Management, LLC, a company registered in the United States of America. The ultimate parent company and controlling party at that date was American Capital Ltd, also registered in the United States of America (see note 14).

14. Events after the reporting year (Group and Company)

On 3 January 2017, the acquisition of American Capital was completed by Ares Capital Corporation ("ARCC") and ECFM became a wholly-owned subsidiary of Ivy Hill Asset Management, L.P., a wholly-owned portfolio company of ARCC.

On 20 February 2017, a Sale and Purchase Agreement was signed for the subsequent sale of ECFM from Ivy Hill Asset Management, L.P. to LGT UK Holdings Limited. The transaction is expected to complete in April 2017.