

A copy of this document, which comprises a prospectus with regard to Standard Life European Private Equity Trust PLC (the “Company”) prepared in accordance with the Listing Rules of the UK Listing Authority made under section 142 of the Financial Services Act 1986, has been delivered to the Registrar of Companies in Edinburgh in accordance with section 149 of that Act.

Application has been made to the UK Listing Authority for all the Ordinary Shares of the Company issued and now being issued to be admitted to the Official List and to the London Stock Exchange for such shares to be admitted to trading on the main market of the London Stock Exchange. It is expected that such admissions will become effective and that dealings in the Ordinary Shares will commence on 29 May 2001.

The directors of the Company whose names appear under “Directors, Managers and Advisers” accept responsibility for the information contained in this document. To the best of the knowledge and belief of the directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

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# **STANDARD LIFE EUROPEAN PRIVATE EQUITY TRUST PLC**

(Incorporated in Scotland under the Companies Act 1985, registered number 216638)

## **Issue of up to 160 million Ordinary Shares at a price of 100p**

**Sponsored by  
UBS Warburg Ltd.**

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UBS Warburg Ltd., which is regulated in the United Kingdom by The Securities and Futures Authority Limited, is acting for the Company and no one else in connection with the matters described in this document and will not be responsible to any person other than the Company for providing the protections afforded to customers of UBS Warburg Ltd. nor for providing advice in relation to such matters.

The Ordinary Shares to be allotted pursuant to the Issue have not been, and will not be, registered under the United States Securities Act of 1933 (as amended) or under any of the relevant securities laws of Canada, Australia or Japan. Accordingly, the Ordinary Shares may not (unless an exemption from such Act or such laws is available) be offered, sold or delivered, directly or indirectly, in or into the USA, Canada, Australia or Japan. The Company will not be registered under the United States Investment Company Act 1940, as amended, and investors will not be entitled to the benefits of such Act.

## CONTENTS

	Page
KEY FEATURES	3
DIRECTORS, MANAGERS AND ADVISERS	4
DEFINITIONS	5
PART I – Introduction	7
– Investment Objective	7
– The European Private Equity Market	7
– Investment Outlook	8
– Investment Policy	8
– Gearing and Over-Commitment Strategy	9
– The Transfer Portfolio	10
– The Board of Directors	10
– Investment Management	11
– Investment Process	12
– Investment Management Arrangements	12
– Administration	13
– Annual Expenses	13
– Relationship with Standard Life	14
– Share Repurchase Authority	14
– Reporting Schedule and Dividends	15
– Taxation	15
– The Placing and Initial Expenses	15
PART II – The Transfer Portfolio	16
PART III – Risk Factors	20
PART IV – General Information	21

## ISSUE STATISTICS

Placing Price per Ordinary Share	100p
Maximum number of Ordinary Shares to be issued pursuant to the Placing	79,254,282
Number of Ordinary Shares to be issued to Standard Life as consideration for the Transfer Portfolio	80,745,468
Estimated initial net asset value per Ordinary Share	98.6p
Number of Founder Shares in issue	35,000,000

## EXPECTED TIMETABLE

Dealings commence in Ordinary Shares	8.00 a.m. on 29 May 2001
Ordinary Shares in uncertificated form credited to the stock accounts in CREST	29 May 2001
Definitive certificates for Ordinary Shares in certificated form despatched	by 7 June 2001

## KEY FEATURES

The following information is derived from, and should be read in conjunction with, the full text of this document. The attention of potential investors is also drawn to the “Risk Factors” set out in Part III of this document.

- Standard Life European Private Equity Trust PLC will be a UK investment trust listed and traded on the London Stock Exchange. The Company will have an indefinite life.
- The investment objective of the Company will be to achieve long term capital gains from investing in a diversified portfolio of private equity funds investing predominantly in Europe. The Company’s assets are not expected to produce significant levels of income.
- The investment manager of the Company will be Standard Life Investments (Private Equity) Limited which has a team of 7 private equity investment professionals with a total of 70 years of private equity experience. This team manages in excess of £700 million of private equity investments on behalf of 40 clients worldwide, including Standard Life.
- The board and the Manager believe that the economic climate in Europe and the prospects for growth in the European private equity market will not only provide attractive opportunities for new investments but also enable the Company to achieve satisfactory returns from the portfolio of private equity fund interests to be acquired by the Company on Admission.
- As an investment trust with the capacity to borrow, the Company will be able to follow an over-commitment strategy by making commitments to private equity funds which exceed the Company’s uninvested capital.
- The Company’s portfolio initially will be 19 European private equity fund interests currently owned by Standard Life. These interests will be transferred to the Company on Admission at the valuation of £80.7 million set out in Part II of this document, to be satisfied by the allotment to Standard Life of Ordinary Shares.
- As a result Standard Life will own over 50 per cent. of the issued ordinary share capital of the Company on Admission. The board of the Company will be comprised entirely of independent directors.
- The balance of the ordinary share capital will be held by other investors on completion of the Placing. The proceeds of the Placing (net of the expenses of the Issue) will be used by the Company to make further private equity fund investments in accordance with its investment policy.
- The board of the Company will have the authority to repurchase Ordinary Shares, which will be used at the discretion of the board having regard primarily to the market rating of the Ordinary Shares. In addition, Standard Life reserves the right to buy and sell Ordinary Shares in the market.
- The Manager will be entitled to an investment management fee at the rate of 0.8 per cent. per annum of the value of the net assets of the Company. The directors anticipate that the total expense ratio for the Company in the first year following Admission (including any irrecoverable VAT) will be approximately 1.0 per cent. of initial net assets (on the assumption that the Placing is fully subscribed and excluding the expenses of the Issue).
- The directors intend to charge 90 per cent. of the investment management fee to the Company’s capital account and 10 per cent. to the Company’s revenue account. The finance costs of future borrowings will be treated in the same way.
- Standard Life Investments Limited and the Management Team have been allotted Founder Shares which, subject to the performance of the Company measured over two performance periods from 2001 to 2006 and from 2006 to 2011, are convertible into a maximum of 10 per cent. of the ordinary share capital of the Company, as enlarged by conversion. The performance condition for each five year performance period is that the total return on the Company’s net asset value per Ordinary Share (including all distributions (other than share buy backs)) exceeds a compound rate of 10 per cent. per annum. The extent to which the Founder Shares are convertible will depend on the total return achieved in excess of the 10 per cent. hurdle, with full conversion operating at a compound annual return of 15 per cent. The Founder Shares are held equally as between Standard Life Investments Limited and the Management Team.
- The initial net assets of the Company are expected to be £157.8 million (on the assumption that the Placing is fully subscribed) or 98.6p per Ordinary Share.

## **DIRECTORS, MANAGERS AND ADVISERS**

### **Directors**

Scott Jamieson Dobbie, CBE (Chairman)

Hamish Noble Buchan

Simon William Edwards

George Kershaw

Mark Robert John Tyndall

all of 1 George Street

Edinburgh EH2 2LL

### **Registered Office**

1 George Street

Edinburgh EH2 2LL

### **Investment Manager**

Standard Life Investments (Private Equity) Limited

1 George Street

Edinburgh EH2 2LL

### **Sponsor and Financial Adviser**

UBS Warburg Ltd.

1 Finsbury Avenue

London EC2M 2PP

### **Solicitors**

Dickson Minto W.S.

11 Walker Street

Edinburgh EH3 7NE

### **Auditors**

PricewaterhouseCoopers

PO Box 90

Erskine House

68-73 Queen Street

Edinburgh EH2 4NH

### **Tax Advisers**

Ernst & Young

Ten George Street

Edinburgh EH2 2DZ

### **Bankers**

The Chase Manhattan Bank

125 London Wall

London EC2Y 5AJ

### **Registrars and Transfer Office**

Lloyds TSB Registrars

The Causeway

Worthing

West Sussex BN99 6DA

## DEFINITIONS

The following definitions apply throughout this document unless the context requires otherwise.

<b>“Acquisition Agreement”</b>	the conditional acquisition agreement between the Company and Standard Life details of which are set out in paragraph 7.1 of Part IV of this document
<b>“the Act”</b>	the Companies Act 1985
<b>“Admission”</b>	the admission of the Ordinary Shares issued and to be issued to the Official List of the UKLA and to trading on the main market of the London Stock Exchange and such admissions becoming effective by the decision of the UKLA to admit such Ordinary Shares to listing being announced in accordance with paragraph 7.1 of the listing rules of the UKLA and by the announcement of the decision of the London Stock Exchange to admit such Ordinary Shares to trading in accordance with the LSE Admission Standards
<b>“the Company”</b>	Standard Life European Private Equity Trust PLC
<b>“CREST”</b>	the system for the paperless settlement of trades in listed securities, of which CrestCo Limited is the operator
<b>“directors” or “board”</b>	the board of directors of the Company whose names appear under “Directors, Managers and Advisers” on page 4 of this document
<b>“document”</b>	this prospectus relating to the Company dated 16 May 2001
<b>“Europe”</b>	the members and associate members of the European Union (including certain central European countries) and other western European nations
<b>“ESP”</b>	the limited partnership funds managed by the Manager known as “European Strategic Partners” which invest in European private equity funds and direct investments
<b>“Founder Shares”</b>	Founder A Shares and Founder B Shares
<b>“Founder A Shares”</b>	founder A shares of 0.2p each in the capital of the Company
<b>“Founder B Shares”</b>	founder B shares of 0.2p each in the capital of the Company
<b>“general partner”</b>	the general partner of a limited partnership fund and, where the context requires, an investment manager to whom the general partner has delegated some or all of its powers
<b>“Investment Management Agreement”</b>	the discretionary investment management agreement between the Company and the Manager details of which are set out in paragraph 5 of Part IV of this document
<b>“IRR”</b>	internal rate of return
<b>“the Issue”</b>	the Placing and the allotment of Ordinary Shares pursuant to the Acquisition Agreement
<b>“London Stock Exchange”</b>	London Stock Exchange plc
<b>“LSE Admission Standards”</b>	the rules issued by the London Stock Exchange in relation to admission to trading on the London Stock Exchange of, and continuing requirements for, securities admitted to trading
<b>“Management Team”</b>	the employees of the Manager who will be responsible for the management of the Company’s assets being those individuals named in the section “Investment Management” in Part I of this document
<b>“the Manager”</b>	Standard Life Investments (Private Equity) Limited

<b>“Ordinary Shares”</b>	ordinary shares of 0.2p each in the capital of the Company
<b>“Placing”</b>	the placing by UBS Warburg of up to 79,254,282 Ordinary Shares as described in this document
<b>“Placing Agreement”</b>	the conditional placing agreement between the Company and UBS Warburg details of which are set out in paragraph 7.2 of Part IV of this document
<b>“Placing Price”</b>	100p per Ordinary Share
<b>“Relationship Agreement”</b>	the letter agreement between the Company and Standard Life details of which are set out in paragraph 6 of Part IV of this document
<b>“Shareholders”</b>	holders of Ordinary Shares
<b>“Standard Life”</b>	The Standard Life Assurance Company
<b>“Statutes”</b>	the Act and every other Act (including any orders, regulations or other subordinate legislation made under any such Act) for the time being in force concerning companies and affecting the Company
<b>“Transfer Portfolio”</b>	the portfolio of private equity fund interests to be acquired by the Company from Standard Life as described herein
<b>“UBS Warburg”</b>	UBS Warburg Ltd.
<b>“UKLA”</b>	UK Listing Authority, being the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part IV of the Financial Services Act 1986

## PART I

### Introduction

Standard Life European Private Equity Trust PLC is a newly established company whose business will be conducted so as to enable it to apply for approval as an investment trust. It will be listed in the UK and traded on the London Stock Exchange. The Company will be managed by Standard Life Investments (Private Equity) Limited. On the assumption that the Placing is fully subscribed, the initial net assets of the Company will be £157.8 million (net of the expenses of the Issue). The Company will have an indefinite life.

### Investment Objective

The objective of the Company will be to achieve long term capital gains through investment in a diversified portfolio of private equity funds investing predominantly in Europe. The Company will focus on investing in private equity funds which invest in buyouts, typically having an enterprise value of between €100 million and €400 million, and expansion capital. These are segments of the private equity market in which the Manager has concentrated in the past and which the Manager believes will offer attractive returns over the longer term.

### The European Private Equity Market

Private equity investment activity in the USA and Europe expanded rapidly during the five years ended 1999. The US private equity market is the single largest private equity market in the world and expanded from approximately €6.2 billion invested in 1995 to approximately €65 billion invested in 1999. The European private equity market expanded from €5.4 billion invested in 1995 to €23.9 billion invested in 1999. The table below shows the aggregate amounts invested in Europe by European private equity managers in the period from 1995 to 1999:

<i>Amounts invested in Europe</i>				
		(€ billion)		
1995	1996	1997	1998	1999
5.4	6.5	9.4	13.5	23.9

Source: EVCA 2000 Yearbook

The increased amount of money available for European private equity has allowed the market to expand into more and larger transactions. This is demonstrated by the increased number of buyouts with enterprise values of over €100 million. The Manager believes that the companies involved in these larger transactions often have a stronger and more defensible market position and better quality management than is the case in smaller transactions.

The UK is the largest and most developed private equity market in Europe representing approximately 38 per cent. of aggregate investment activity in 1999 by country of destination. Amounts invested in Europe in 1999 by European private equity managers are shown in the table below:

<i>Private equity investment by country of destination in 1999</i>		
	(€ billion)	(% of total)
UK	9.0	38
France	2.7	11
Germany	2.6	11
Italy	1.9	8
Netherlands	1.6	7
Sweden	1.2	5
Others	4.7	20

Source: EVCA 2000 Yearbook

The Manager believes conditions for further expansion of the European private equity market are favourable because:

- there has been in recent years an increase in the percentage of assets allocated to equities by European institutional investors;
- the gross domestic products and the populations of Europe and the USA are broadly comparable but the European private equity market is approximately one third as large as that of the USA, illustrating the potential for growth;
- the focus by major corporations on shareholder value is leading to the disposal of non-core businesses; and
- monetary and legal harmonisation in Europe is continuing.

European private equity investment activity embraces buyouts, expansion capital, venture capital and replacement capital. The table below shows the amounts invested by each category and demonstrates that the majority of the investment activity is in buyouts and expansion capital.

<i>Distribution of investment activity by stage – 5 year trend</i>					
	<i>(€ billion)</i>				
	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>
Buyout	2.6	3.2	4.8	7.4	13.3
Expansion capital	2.3	2.7	3.4	4.3	7.4
Venture capital (seed and start-up)	0.3	0.4	0.7	1.6	3.2
Replacement capital	0.4	0.5	0.7	1.1	1.2
Total investment	<u>5.6</u>	<u>6.8</u>	<u>9.6</u>	<u>14.4</u>	<u>25.1</u>

*Source: EVCA 2000 Yearbook (Note: This table represents global activity by European private equity managers rather than only European activity by European private equity managers and, therefore, the total figures are higher than the figures shown in the first table on the previous page.)*

The private equity industry in Europe comprises more than 400 fund management organisations that are affiliated to the main industry bodies, the European Private Equity & Venture Capital Association (“EVCA”) or the British Venture Capital Association (“BVCA”). These fund management organisations employ more than 3,000 investment executives.

In addition to the growth in the amount raised for new private equity funds, a secondary market has developed in participations in existing private equity funds thereby creating a degree of liquidity for investors in such funds. Secondary market investment in private equity funds can be attractive when the purchaser buys an interest in a fund with a relatively mature portfolio which is near to distributing cash and gains, and where the acquisition price may reflect written off or written down assets in the fund and the fund’s initial set-up costs and management fees.

The Manager intends to make selective secondary market purchases of private equity fund interests which satisfy the Company’s investment criteria. Secondary market purchases will be one of the strategies used to minimise the Company’s unutilised cash.

### **Investment Outlook**

The board and the Manager believe that the economic climate in Europe and the prospects for growth in the European private equity market will not only provide attractive opportunities for new investments but also enable the Company to achieve satisfactory returns from the Transfer Portfolio.

### **Investment Policy**

The Company will invest in private equity funds which themselves invest principally in countries in Europe, which the Manager defines as EU Member States, EU Associate Member States and other western European countries. However, the Manager will have the flexibility to invest up to 20 per cent. of the Company’s gross assets at the time of purchase in funds which invest outside Europe.

The Company’s non-sterling currency exposure will be principally to the euro. The Manager normally will not seek to hedge this exposure into sterling, although borrowings in euros and other currencies in which the Company is invested may have such a hedging effect.



The Manager will aim to build a broadly diversified portfolio by country, industry sector, stage and size of investment, comprising in the order of 35 fund investments or more, including the 19 fund investments in the Transfer Portfolio. The Company will invest only in funds, but occasionally may hold direct private equity investments or quoted securities as a result of distributions *in specie* from its portfolio of fund investments. The Manager's policy will normally be to dispose of such assets where they are held on an unrestricted basis.

Subject to the prior approval of the board, the Company may invest up to 20 per cent. of its gross assets at the time of purchase in other private equity funds managed by the Manager. In this event, the Manager will waive the annual management fee in respect of these assets which would otherwise be payable by the Company under the terms of the Investment Management Agreement. The Manager has no present intention of making such investments. There are no investments in funds managed by the Manager in the Transfer Portfolio.

The Manager expects that it can invest or commit substantially all of the net cash proceeds of the Placing to private equity investments within 18 months of Admission. Cash held pending investment will be invested in short dated government bonds, money market instruments and bank deposits. Some such investments may be in currencies other than sterling.

In order to comply with one of the conditions for approval as an investment trust, the Manager will monitor the underlying direct investments in the private equity funds in the Company's portfolio to ensure that when the interests attributable to the Company of all of the funds in which the Company has invested are aggregated, no direct investment will represent, at the time of purchase, more than 15 per cent. by value of the Company's investments.

The directors have considered whether or not to adopt a defined benchmark for the purposes of determining the investment objective of the Company. After careful consideration of the issues, and in particular the potential geographic diversification and nature of the investments made and to be made by the Company, the directors have concluded that there is no appropriate benchmark at the present time. However, the directors have resolved that they will review at least annually the issue of a benchmark for the Company. For the purposes of the incentive arrangements referred to in "Investment Management Arrangements" below, the performance of the Company will be measured by reference to an absolute return on the Company's net asset value per Ordinary Share.

The principal investment policies of the Company set out above will be adhered to, in the absence of unforeseen circumstances, for at least three years following Admission and any material change in the policies within that period may only be made with the approval of Shareholders.

### **Gearing and Over-Commitment Strategy**

The standard vehicle for private equity funds is the limited partnership. This structure is preferred because it is tax transparent, self liquidating and may be arranged to draw down and repay capital over the life of the fund thereby avoiding holding substantial cash balances. Private equity limited partnerships generally have a fixed life of ten years with the period for making new investments usually limited to five years. Once capital has been drawn down by the fund the commitment is extinguished other than in certain limited circumstances. Because cash is paid in as required and repaid on realisation of an investment it is often the case that capital is being repaid before the final undrawn commitment is called.

When a series of commitments to private equity funds is made over time, the return flow of cash from the funds generally results in the net cash invested at any one time being less than total commitments. This allows investors with a portfolio of fund investments to follow an over-commitment strategy whereby commitments to funds may exceed significantly the expected cash investment. The Manager believes that an investment trust structure, with the capacity to borrow, will allow it to follow an over-commitment strategy by making commitments which exceed the Company's uninvested capital. In planning the Company's commitments, the Manager will take into account expected cashflows to and from the portfolio of fund interests and, from time to time, may use borrowings to meet drawdowns. The Company has received indications that it will be able to secure a revolving credit debt facility which, assuming the Placing is fully subscribed, would have a sterling value of up to £40 million, but the Company has not committed to such a facility at this stage. As explained below under "Investment Management Arrangements" the investment management fee payable by the Company is based on net assets and as a result investments funded by borrowings will not give rise to any investment management fee. The directors intend to charge the finance costs of any future borrowings 90 per cent. to the Company's capital account and 10 per cent. to the Company's revenue account.

## **The Transfer Portfolio**

On Admission the assets of the Company will comprise cash raised through the Placing and a portfolio of 19 European private equity fund interests, the Transfer Portfolio, built up by the Manager over the past 12 years. The Transfer Portfolio comprises all of the European private equity fund interests beneficially owned by Standard Life with a valuation in excess of £750,000 with the exception of ESP, where Standard Life has a €430 million commitment, and one fund where the general partner has indicated that the transfer of the fund interest to the Company would not be approved unconditionally.

The Transfer Portfolio will be transferred to the Company by Standard Life on Admission in exchange for Ordinary Shares with a value at the Placing Price equal to the valuation of the portfolio as disclosed in Part II of this document. The Company will assume liability for the undrawn commitments of the Transfer Portfolio amounting to £18.4 million.

The earliest fund in the Transfer Portfolio was established in 1989 and the average life of the funds across the portfolio since launch is 6 years. Standard Life has made commitments totalling £131.7 million in respect of the fund interests in the portfolio, of which £113.4 million has been drawn down. Distributions totalling £96.3 million have been received to date from the portfolio, representing gains of £56.8 million, or 2.4 times cost. The Transfer Portfolio has a current cost of £73.9 million and is being transferred at a valuation of £80.7 million.

The board believes that the acquisition of the Transfer Portfolio will enable investors in the Company to obtain immediate exposure to a diversified and mature portfolio which should produce distributions at an early stage. Such distributions will provide the Company with cash flow to make and meet commitments to new private equity funds and to purchase fund interests in the secondary market.

The Manager regards the flotation of an investment trust under its management as desirable because the flotation of the Company will increase the Manager's funds under management and expand its potential universe of investors to those who currently have limited access to private equity fund of funds investments.

Details of the Transfer Portfolio and the basis of valuation are set out in Part II of this document. Details of the Acquisition Agreement are set out in paragraph 7.1 of Part IV of this document.

## **The Board of Directors**

The directors of the Company, all of whom are independent of Standard Life, are the following:

**Scott Dobbie CBE** (61), Chairman, started his career with Unilever, then joined Wood Mackenzie & Co in 1972, where he was appointed a partner in 1975, becoming managing partner in 1982. He remained with the company through acquisitions by National Westminster Bank and Bankers Trust and finally Deutsche Bank. Following his retirement in 1999, he has remained an adviser to Deutsche Bank. He is chairman of the Securities Institute and CRESTCo Ltd and senior independent director of the Edinburgh Investment Trust plc.

**Hamish Buchan** (56), started with Wood Mackenzie & Co in 1969 where he was appointed a partner in 1979. Throughout his career he specialised in investment trust analysis. Following his retirement in 1999 he has worked as a consultant in the investment trust industry and is a member of the Association of Investment Trust Companies Statistics and Representative Committees. He is also a non-executive director of Aberforth Split Level Trust plc and The Fleming American Investment Trust plc.

**Simon Edwards** (38), is chief investment manager with Merseyside Pension Fund, responsible for a portfolio of more than £3 billion. His earlier experience included 3 years with CSFB in London, 3 years as an equity investment manager for National Provident Fund in New Zealand and 3 years with AMP Society, also in New Zealand. He is a non-executive director of London Scottish Bank PLC and Latin American Capital Partners Limited.

**George Kershaw** (48), started his career in stockbroking and joined de Zoete & Bevan in 1977, becoming a partner in 1984. He became head of global equity sales at BZW and following its acquisition by CSFB became head of the investment trust team from 1996 to 2000. He is now an independent adviser in the investment trust sector and is a non executive director of Royal London Growth & Income Trust PLC.

**Mark Tyndall** (43), is chief executive of Artemis Investment Management Limited with overall responsibility for investment strategy. Prior to founding Artemis in 1997 he spent 12 years at Ivory & Sime plc where he was the main board director responsible for Ivory & Sime Development Capital and, from 1993, head of UK equities.

All of the directors are non-executive. Management of the Company has been delegated to the Manager under the Investment Management Agreement described below. In accordance with the Combined Code the board has established an Audit Committee, a Management Engagement Committee and a Nominations Committee. All of the directors have been appointed to each of these committees.

### Investment Management

The directors will be responsible for the determination of the Company's investment policy and have overall responsibility for the Company's activities. The Company has, however, entered into the Investment Management Agreement with the Manager in terms of which the Manager will be responsible for managing the assets of the Company on a discretionary basis, subject to the overall supervision of the board.

The Company will benefit from the expertise of the Management Team of 7 investment professionals who have a total of 70 years' private equity experience. This team manages in excess of £700 million of private equity investments on behalf of 40 clients worldwide, including Standard Life. These investments comprise interests in 53 European private equity funds, including the Transfer Portfolio, and 23 direct private equity investments.

The Management Team comprises the following investment professionals:

**Jonny Maxwell** (38), began his career in private equity at Stewart Ivory & Co in 1984. He left Stewart Ivory in 1988 and spent one year in corporate finance at Castleforth Fund Managers before joining Standard Life in 1989 with full time responsibility for private equity investments. He has a degree in law from Strathclyde University and an MBA from Edinburgh University.

**David Currie** (50), started his career in the oil industry and became involved in private equity in 1979 with 3i, where he worked for 9 years. He was responsible for the private equity investment portfolio of the Abu Dhabi Investment Authority for 7 years prior to joining Standard Life in 1998. He has a degree in mechanical engineering from Heriot Watt University and an MBA from the Strathclyde Business School.

**Peter McKellar** (35), started his career in investment banking at JP Morgan and worked in corporate finance before moving into industry in 1995 as corporate development director and then group finance director of Clydeport plc. He joined Standard Life in 1999. He has a degree in law from Edinburgh University.

**Peter Bole** (31), is a member of the Institute of Chartered Accountants in Scotland. He spent 5 years working for the corporate finance team of Deloitte & Touche in Edinburgh before joining Standard Life in 1999. He has a degree in accountancy from Aberdeen University.

**Graham Paterson** (30), is a member of the Institute of Chartered Accountants in Scotland. He worked in the corporate finance team of Coopers & Lybrand before joining Standard Life in 1997. He has a degree in economics and management from St. Andrews University.

**Graeme Gunn** (34), is a member of the Institute of Chartered Accountants in Scotland. He worked for the corporate finance team of Price Waterhouse in Edinburgh and then spent 2 years with Dunedin Capital Partners before joining Standard Life in 1999. He has a degree in mechanical engineering from Edinburgh University.

**Graeme Faulds** (27), worked for Morgan Stanley before joining Standard Life in 1997. He has a degree in political economy and management studies from Glasgow University.

Jonny Maxwell became head of private equity at Standard Life in 1993. Investments made by Jonny Maxwell and his team since that time have achieved the returns shown in the table below (as at 8 May 2001). This excludes investments made through ESP, an €868 million fund which had its final closing in October 2000, and which is still in its investment phase:

	<i>No.</i>	<i>Commitment</i>	<i>Drawdowns</i>	<i>Total IRR</i>
		<i>£m</i>	<i>£m</i>	<i>%</i>
All investments	22	133.9	119.9	42.4
Investments in funds	16	114.6	93.9	28.9

Note: The IRR is based on realised and unrealised investments, the latter being taken at current valuation.

## **Investment Process**

The Manager follows a systematic, disciplined investment process in which it will originate, analyse, execute, monitor and exit investments.

The investment process involves screening against multiple criteria under the guidance of the Investment Committee. The Investment Committee comprises Jonny Maxwell, David Currie and Peter McKellar. Only those deals which obtain unanimous approval from the Investment Committee at each stage of review are taken to conclusion.

The Manager has an established presence in the European private equity market and the directors believe that the Manager's relationships with private equity fund managers will enable the Company to enjoy a highly attractive deal flow. The Manager is proactive in searching out emerging private equity fund managers and is supportive of new teams being formed by experienced executives who have decided to spin out of other organisations. Through its network of contacts built up over several years the Manager continuously updates its knowledge of fund managers, their markets and performance.

The Manager's due diligence process has been developed over the course of its extensive private equity experience. The qualitative aspects of each opportunity, including judgements regarding the general partner's skill set and ability to implement the stated investment strategy, are as important as the quantitative analysis required to make an investment decision. The Manager's European contacts also allow it to conduct comprehensive due diligence on any proposed investment.

The Manager is experienced in the negotiation of agreements governing investments and has proven its ability to secure improved terms and conditions. The Manager expects to take a governance role and seeks advisory board appointments, where appropriate, to funds to ensure alignment of interests between the general and limited partners. In addition, the Manager seeks to ensure that general partners adhere to previously stated investment strategies and guidelines and that appropriate valuation policies and principles are adopted and applied.

## **Investment Management Arrangements**

Under the terms of the Investment Management Agreement, the Manager will be entitled to receive an investment management fee, payable quarterly in arrears, at the rate of 0.8 per cent. per annum of the value of the net assets of the Company as at the end of each quarter to 31 March, 30 June, 30 September and 31 December (plus VAT if applicable). No fee will be charged in respect of uninvested cash raised in the Placing until the quarter beginning 1 July 2002. The directors intend to charge 90 per cent. of the management fee to the Company's capital account and 10 per cent. to the Company's revenue account. The Investment Management Agreement may be terminated by either party on 12 months' notice, subject to a minimum initial period of 3 years.

In addition, Standard Life Investments Limited and the Management Team have been allotted 35 million Founder Shares which in certain circumstances are convertible into a maximum of 10 per cent. of the ordinary share capital of the Company, as enlarged by conversion. The Founder Shares, which are held equally as between Standard Life Investments Limited and the Management Team, will not be listed, have restrictions on their transferability and do not carry voting rights at general meetings.

The Founder Shares have been allotted in two tranches which, in the normal course, are convertible from 2006 and 2011 respectively, based on performance in the five year periods 2001 to 2006 and 2006 to 2011. The performance condition for each five year performance period is that the total return on the Company's net asset value per Ordinary Share (including all distributions (other than share buy backs)) exceeds a compound rate of 10 per cent. per annum. In each case the extent to which the Founder Shares are convertible will depend on the total return achieved in excess of the 10 per cent. hurdle, with the full 5 per cent. in each tranche being convertible at a compound annual return of 15 per cent. Convertibility runs on a straight line basis between returns of 10 and 15 per cent.

For the purpose of calculating the total return achieved in the period from 2006 to 2011, the net asset value per Ordinary Share will be rebased on 1 October 2006 using the higher of the fully diluted net asset value per Ordinary Share at that time and 98.6p, being the expected initial net asset value per Ordinary Share.

Although the Issue is limited to 160 million Ordinary Shares and therefore a maximum of 17.3 million Founder Shares may become convertible, it is possible that the share capital of the Company may be increased in the future by further issues. In that event further tranches of Founder Shares may become

convertible so that the management incentive will apply to such further issues. The additional conversion rights will be pro rated according to the unexpired parts of the performance measurement periods measured from the date of such further issue.

The price payable on conversion of a Founder Share is 100p per share less the amount already paid up on that share, subject to adjustment in certain circumstances. Where additional Founder Shares become convertible following a further issue of Ordinary Shares, the conversion price in respect of the additional Founder Shares shall be the issue price applicable to such further issue of Ordinary Shares less the amount already paid up on the Founder Shares.

If a member of the Management Team ceases to be an employee of the Standard Life group then the Founder Shares allotted to him which at that point have not already become convertible are required to be offered for transfer in whole or in part to other Founder Shareholders at their paid up nominal value. The extent to which such shares must be offered for transfer depends upon the date and circumstances of the termination of employment.

Founder Shares representing 10 per cent. of the enlarged ordinary share capital shall become convertible on a takeover offer for the Company becoming unconditional in all respects and in such circumstances no performance condition applies. If, however, the takeover offer is made by any member of the Standard Life group then the performance condition shall apply but shall be measured from the launch of the Company to the date on which the offer becomes unconditional and using the consideration per Ordinary Share payable under the offer rather than the net asset value per share. Where the Investment Management Agreement is terminated by the Company for Cause (as defined therein) the conversion rights attached to all of the Founder Shares which at that point have not already become convertible shall lapse. If the Investment Management Agreement is terminated by the Company other than for Cause (as defined therein) then, if such termination takes place prior to 1 October 2006, no performance condition shall apply but the number of Founder Shares which are convertible shall be pro rated according to the expired part of the 10 year performance period. Where such termination takes place on or after 1 October 2006 then, in addition to pro ration for time, the performance condition shall apply but shall be measured from the launch of the Company to the date of the termination. If the Manager terminates the Investment Management Agreement then all Founder Shares held by any member of the Standard Life group shall cease to be capable of conversion and those held by the Management Team shall be capable of conversion based on actual performance and pro rated for time.

The Management Team have agreed with the board that, following the conversion of any Founder Shares held by any of them, any sales of Ordinary Shares arising on conversion will require the approval of the board (not to be unreasonably withheld), for so long as such member of the Management Team remains employed by the Standard Life group.

It is the board's intention that proposals will be put to Shareholders in 2011 about the provision of a renewed incentive for the Manager and its investment executives.

Further details of the Investment Management Agreement are set out in paragraph 5 of Part IV of this document.

Further details of the Founder Shares are set out in the summary of the Articles of Association in paragraph 3 of Part IV of this document.

#### **Administration**

The Company has entered into an agreement with Edinburgh Fund Managers plc for the provision of company secretarial and administrative services which is terminable by either party on 6 months' notice, subject to a minimum initial period of 2 years. Under the terms of this Agreement, the Company shall pay Edinburgh Fund Managers plc an annual fee of £65,000 (index linked) plus a fee equal to 0.035 per cent. per annum of the Company's net assets in excess of £100 million (in each case exclusive of VAT). Further details of this agreement are set out in sub-paragraph (v) of paragraph 8 of Part IV of this document.

#### **Annual Expenses**

The directors anticipate that the total expense ratio for the Company (excluding the expenses of the Issue) in the first year following Admission (including irrecoverable VAT) will be approximately 1.0 per cent. of initial net assets (on the assumption that the Placing is fully subscribed).

### **Relationship with Standard Life**

On Admission Standard Life will own in excess of 50 per cent. of the issued ordinary share capital of the Company. Under the terms of the Founder Shares, described in “Investment Management Arrangements” above, Standard Life Investments Limited will be entitled to half of the Founder Shares which in total will be convertible, based on performance, into up to 10 per cent. of the ordinary share capital of the Company, as enlarged by conversion. In addition, Standard Life reserves the right to buy and sell Ordinary Shares in the market, but it does not intend to reduce its shareholding below 50.01 per cent. In dealing in the market Standard Life may have regard to the market rating of the Ordinary Shares.

Standard Life and the Company have entered into the Relationship Agreement which provides, *inter alia*, that, for so long as Standard Life and its associates exercise, or control the exercise of, 30 per cent. or more of the voting rights of the Company, Standard Life will not seek to nominate to the board directors who are not independent of Standard Life, and will not take, in its capacity as a beneficial holder of any Ordinary Shares, any action which would be detrimental to the general body of Shareholders. For this purpose, any action which has the support or recommendation of a majority of the directors shall be deemed not to be detrimental. Full details of the Relationship Agreement, including the circumstances in which the above undertakings cease to apply, are set out in paragraph 6 of Part IV of this document.

Standard Life undertakes a wide range of investment, banking and advisory activities. Standard Life is an investor in and the Manager is the investment manager of ESP, the investment policy of which includes investment in European private equity funds. There may therefore be situations in which executives of the Manager, as employees of Standard Life, have a duty or an interest which potentially conflicts with the Manager’s duty to, or the interest of, the Company. The Manager will ensure that all opportunities for investment in private equity funds which have been identified by it and which fit with the investment policy and criteria of more than one client will be allocated amongst those clients *pro rata* to their respective commitment capacities, subject to appropriate diversification criteria being met. In determining the commitment capacities of its clients the Manager will take into account the aggregate commitments of individual clients, the expected cashflows to and from those clients and the capacity of those clients to borrow funds or raise further capital.

The board of the Company will be comprised entirely of independent directors who will have overall responsibility for the Company’s activities. The board will, *inter alia*:

- (a) supervise the relationship between the Company and the Standard Life group in its capacities as the Manager and as the major shareholder in the Company;
- (b) monitor the investments of the Company in the context of the policy on potential conflicts of interest described above; and
- (c) ensure that the Manager adheres to the Company’s investment policy.

The directors are of the opinion that the Company will be at all times capable of carrying on its business independently of Standard Life and that all transactions and relationships between the Company and Standard Life are, and will be, at arm’s length and on a normal commercial basis.

### **Share Repurchase Authority**

The Company proposes (subject to Court approval) to cancel part of its share premium account, thereby creating a special reserve which may be treated as distributable profits for all purposes (other than the payment of dividends), including making purchases of Ordinary Shares.

Special resolutions, expressed to take effect on Admission, have been passed authorising the reduction of part of the share premium account of the Company and granting the Company authority to make market purchases of up to 14.99 per cent. of the Ordinary Shares in issue immediately following Admission. The directors intend to seek a renewal of the authority to make purchases of Ordinary Shares at each annual general meeting of the Company. No purchases of Ordinary Shares can be made by the Company until the cancellation of the relevant portion of the share premium account has been approved by the Court (and the terms of any undertaking regarding creditors required by the Court has been complied with). The directors have been advised that Court approval of the reduction of capital is unlikely to be obtained any earlier than October 2001.

The share repurchase authority will be used at the discretion of the board having regard primarily to the market rating of the Ordinary Shares. The timing of any purchases will be decided by the board and purchases will be made only through the market for cash at prices which will result in an increase in the net

asset value of the remaining Ordinary Shares. Such purchases will be made only in accordance with the rules of the UKLA, which currently provide that the price to be paid must be not more than 5.0 per cent. above the average of the market values of the Ordinary Shares for the five business days before the purchase is made.

### **Reporting Schedule and Dividends**

The private equity funds in which the Company will invest normally report their valuations on either a quarterly or a six monthly basis with their year-ends being predominantly in December.

The Company's financial year end will be 30 September and it intends to announce its half yearly and annual results, including the net asset value per Ordinary Share, in May and December respectively. Its first accounting period will end on 30 September 2001.

The Company's assets are not expected to produce significant levels of income and the Company is unlikely to pay dividends once the net proceeds of the Placing have been substantially invested. Any surplus income that does arise will be distributed in accordance with the requirements for investment trust status. As explained under "Investment Management Arrangements" above, the directors intend to charge 90 per cent. of the management fee to the Company's capital account and 10 per cent. to the Company's revenue account. The finance costs of future borrowings will be treated in the same way.

### **Taxation**

The taxation bases for the Company and for Shareholders are described in paragraph 9 of Part IV of this document.

### **The Placing and Initial Expenses**

UBS Warburg has entered into the Placing Agreement under which it has agreed to use its reasonable endeavours to place up to 79,254,282 Ordinary Shares at the Placing Price of 100p per Ordinary Share payable in full on application. The Placing is not underwritten, but the Placing Agreement provides that the minimum amount to be raised under the Placing is £60 million although this condition may be waived by agreement between the parties to the Placing Agreement.

The initial net asset value of the Company, after deducting the expenses of the Issue from the proceeds of the Placing, is expected to be approximately 98.6p per Ordinary Share.

It is expected that Admission to the Official List of the UKLA, and to trading on the London Stock Exchange, will become effective and that dealings in the Ordinary Shares will commence on 29 May 2001.

The Ordinary Shares will be issued in both uncertificated form into the CREST system or in certificated form. Shares issued in certificated form may subsequently be deposited into CREST in accordance with normal CREST procedures.

Temporary documents of title will not be issued pending the despatch by post of definitive certificates which is expected to take place by 7 June 2001. Pending the despatch of such certificates, transfers will be certificated against the register.

Where Ordinary Shares have been requested to be issued in uncertificated form, the appropriate stock accounts in CREST of the applicants concerned will be credited with their respective entitlements to Ordinary Shares on 29 May 2001 (or as soon as possible thereafter).

## PART II

### THE TRANSFER PORTFOLIO

#### 1. Description of the Portfolio

The Transfer Portfolio comprises all of the European private equity fund interests beneficially owned by Standard Life with a valuation in excess of £750,000 with the exception of ESP, where Standard Life has an investment of €430 million, and one fund, the general partner of which has indicated that the transfer of the fund interest to the Company would not be approved unconditionally.

The Transfer Portfolio, which was valued as at 8 May 2001 (being the latest practicable date prior to the publication of this document) consists of interests in the 19 private equity funds listed below:

Year	Fund Name	Maturity Year	Type	Number of Investments	Valuation Date	Outstanding Commitment £ million	Cost £ million	Valuation £ million	% of Valuation
1999	Apax Europe IV-B, L.P.	2009	Balanced	65	31/03/01	5.1	11.5	11.2	14
1999	The Phildrew Ventures Fifth Fund L.P.	2007	Buyout	16	31/03/01	3.4	10.1	9.7	12
1998	CVC European Equity Partners II (Jersey) L.P.	2008	Buyout	33	31/12/00	3.2	7.9	9.7	12
1997	Apax UK VI-D, L.P.	2007	Balanced	26	31/03/01	0.0	6.8	6.4	8
1997	Charterhouse Capital Partners VI LP No 1.1	2007	Buyout	5	31/12/00	4.1	5.3	6.3	8
1998	Candover 1997 UK No 2 Limited Partnership	2006	Buyout	13	31/12/00	0.6	6.0	6.2	8
1997	HEV III UK L.P.	2006	Buyout	7	31/12/00	0.0	3.0	5.3	7
1995	Morgan Grenfell Equity Partners IV	2005	Buyout	12	31/12/00	0.1	3.7	4.5	6
1989	Apax European Buy-In Fund	2003	Buy-in	6	31/03/01	0.0	4.7	4.2	5
1996	The Primary Capital No. 1 Fund	2005	Buyout	6	31/12/00	0.7	2.8	2.6	3
1995	Apax UK V-B	2005	Balanced	18	31/03/01	0.0	2.2	2.5	3
1995	Granville Private Equity Fund V	2005	Buyout	9	31/12/00	0.9	1.7	2.2	3
1994	Charterhouse Capital Partners V LP No 3	2004	Buyout	5	31/12/00	0.2	1.5	1.9	2
1989	Korda Seed Capital Fund	2003	Venture Capital	2	31/03/01	0.0	0.5	1.8	2
1995	Phildrew Ventures Fourth Fund Limited Partnership "D"	2003	Buyout	10	31/03/01	0.0	2.9	1.7	2
1990	Apax CR III	2002	Balanced	11	31/03/01	0.0	0.9	1.6	2
1997	The Global Rights Development Fund	2004	Development Capital	5	30/09/00	0.0	0.7	1.2	1
1996	Scottish Equity Partnership	2006	Venture Capital	32	31/03/01	0.1	0.7	0.9	1
1992	Midland Montagu Investissement FCPR	2001	Buyout	5	31/03/01	0.0	1.0	0.8	1
				<u>286</u>		<u>18.4</u>	<u>73.9</u>	<u>80.7</u>	<u>100%</u>

These funds are constituted under a variety of corporate structures and regimes as follows:

Corporate structure	Number in Portfolio	Total Valuation (£m)
UK Limited Partnerships	15	59.0
Channel Islands Limited Partnerships	2	19.4
French Companies ( <i>fonds comuns de placements à risque</i> )	2	2.3
	<u>19</u>	<u>80.7</u>

These funds can be broadly categorised as follows:

Type of fund	Number in Portfolio	Total Valuation (£m)
Buyout and development capital	13	56.2
Balanced funds	4	21.7
Venture capital	2	2.8
	<u>19</u>	<u>80.7</u>



As at 8 May 2001 the funds in the Transfer Portfolio were invested in an aggregate of 284 companies (two of which are investees of two separate funds), distributed as shown below:

Geographic exposure (% of cost):

UK	64%
Germany	9%
France	11%
Italy	1%
Scandinavia	2%
Benelux	5%
Others	8%

Sector exposure (% of cost):

Industrial	38%
Financial	4%
Technology	19%
Services	28%
Leisure	11%

Maturity exposure (% of cost):

Less than 1 year	17%
Between 1 and 3 years	53%
Between 3 and 5 years	17%
Greater than 5 years	13%

Standard Life has made commitments totalling £131.7 million in respect of the 19 fund interests in the Transfer Portfolio, of which £113.4 million has been drawn down. Distributions totalling £96.3 million have been received to date from the portfolio, representing gains of £56.8 million, or 2.4 times cost. The Transfer Portfolio has a current cost of £73.9 million and is being transferred at a valuation of £80.7 million.

## 2. Largest Investments

On Admission, the Company's assets will consist of the Transfer Portfolio and cash. On the basis of the current valuation of the Transfer Portfolio, the largest ten investments of the Company on Admission will be as follows. These investments represent approximately 82 per cent. by valuation of the Transfer Portfolio and approximately 93 per cent. of the outstanding commitments as at 8 May 2001:

### **Apax Europe IV-B, L.P. ("Apax Europe IV")**

The Company will be a limited partner in an English limited partnership which invests in unquoted companies, mainly in Western Europe. The fund is advised by Apax Partners & Co Ventures Ltd, one of the leading and most experienced private equity managers in Europe, part of the Apax Partners international organisation. The fund's strategy spans early-stage, expansion capital, special situations, buy-ins and buy-outs across Apax Partners' six specialist sectors – IT, telecoms, media, biotechnology/healthcare, financial services and speciality retailing – whilst investing opportunistically in other sectors. The cost of the investment is £11.5 million and the current valuation is £11.2 million. The Company will be liable for undrawn commitments of up to €8.3 million.

### **The Phildrew Ventures Fifth Fund L.P. ("Phildrew Fifth")**

The Company will be a limited partner in a Jersey limited partnership which invests in established unquoted companies, mainly in the UK. The adviser is Phildrew Ventures, the UK team of UBS Capital, the private equity business of UBS. The fund invests in UK based management buy-outs and buy-ins and expansion capital opportunities. Investments to date are in a diversified portfolio across various industries and sectors. The cost of the investment is £10.1 million and the current valuation is £9.7 million. The Company will be liable for undrawn commitments of up to £3.4 million.

### **CVC European Equity Partners II (Jersey) L.P. ("CVC Europe II")**

The Company will be a limited partner in a Jersey limited partnership which invests in unquoted companies, mainly in Europe. The manager is CVC European Equity II Limited, a subsidiary of CVC Capital Partners Group Limited, which has approximately 20 years' experience in executing their investment strategy – investing in European management buy-outs, buy-ins, acquisitions and recapitalisations. The fund is

approaching full investment and has made investments in a broad range of industries and sectors across Europe. The cost of the investment is £7.9 million and the current valuation is £9.7 million. The Company will be liable for undrawn commitments of up to \$4.7 million.

#### **Apax UK VI-D, L.P. (“Apax UK VI”)**

The Company will be a limited partner in an English limited partnership which invests in unquoted companies, mainly in the UK. The fund is advised by Apax Partners & Co Ventures Ltd, one of the leading and most experienced private equity managers in Europe, part of the Apax Partners international organisation. The fund’s strategy spans early-stage, expansion capital, special situations and buy-outs, with an emphasis on certain sectors – IT, electronics, telecoms, media, biotechnology/healthcare, consumer products and speciality retailing – whilst investing opportunistically in other sectors. The cost of the investment is £6.8 million and the current valuation is £6.4 million. There are no undrawn commitments.

#### **Charterhouse Capital Partners VI (“Charterhouse VI”)**

The Company will be a limited partner in the £800 million Charterhouse VI Fund which invests in unquoted companies located in Western Europe, with an emphasis on companies headquartered in the UK. The fund is managed by Charterhouse Development Capital which has a long history of successful management buy-outs and development capital transactions in Europe. Charterhouse VI has no pre-determined industrial or sector bias. The cost of the Company’s investment is £5.3 million and the current valuation is £6.3 million. The Company will be liable for undrawn commitments of up to £4.1 million.

#### **Candover 1997 UK No 2 Limited Partnership (“Candover 1997 Fund”)**

The Company will be a limited partner in an English limited partnership which invests in unquoted companies, mainly in the UK but the fund has made investments in Western Europe. The general partner and manager is Candover Partners Limited, a subsidiary of Candover Investments plc. The strategy of this fund, which is almost fully invested, is to invest in management buy-outs in the UK and Western Europe. The portfolio currently comprises investments in a broad range of industry sectors. The cost of the investment is £6.0 million and the current valuation is £6.2 million. The Company will be liable for undrawn commitments of up to £0.6 million.

#### **HEV III UK L.P. (“HEV III”)**

The Company will be a limited partner in an English limited partnership which invests in unquoted companies in Europe. The adviser is Duke Street Capital which grew out of what was originally Hambro European Ventures (HEV), a wholly owned subsidiary of Hambros Plc, a merchant banking group. The fund is fully invested in middle market UK and Western European management buy-outs, buy-ins and expansion capital opportunities. The cost of the investment is £3.0 million and the current valuation is £5.3 million. There are no undrawn commitments.

#### **Morgan Grenfell Equity Partners IV**

The Company will be a limited partner in an English limited partnership which holds a portfolio of unquoted investments located principally in the UK and also elsewhere in Western Europe. The manager of the fund is Morgan Grenfell Private Equity Limited. The fund is fully invested and the portfolio of investments is relatively mature. The cost of the investment is £3.7 million and the current valuation is £4.5 million. The Company will be liable for undrawn commitments of up to £0.1 million.

#### **Apax European Buy-In Fund**

The Company will be a limited partner in an English limited partnership which holds a portfolio of unquoted investments located in the UK and France. The fund is advised by Apax Partners & Co Ventures Ltd, one of the leading and most experienced private equity managers in Europe, part of the Apax Partners international organisation. The portfolio currently comprises investments in industrial and retail companies. The cost of the investment is £4.7 million and the current valuation is £4.2 million. There are no undrawn commitments.

#### **The Primary Capital No 1 Fund**

The Company will be a limited partner in an English limited partnership which invests in unquoted companies, mainly in the UK. The fund is advised by Primary Capital Limited. The fund is approaching full investment and has made investments in the food, security and engineering sectors. The cost of the investment is £2.8 million and the current valuation is £2.6 million. The Company will be liable for undrawn commitments of up to £0.7 million.

### 3. Valuation Principles

The transfer of the Transfer Portfolio to the Company is a transaction between the Company as a willing buyer and Standard Life as a willing seller. The Transfer Portfolio was valued at £80.7 million as at 8 May 2001. The valuation represents the sum of Standard Life's share of the general partners' latest valuations of the respective underlying funds adjusted as follows:

- the addition of the amount of drawdowns paid by Standard Life since the relevant fund's valuation date;
- in respect of distributions received by Standard Life since the relevant fund's valuation date, the deduction of the cash amount (to the extent that such cash was held at the relevant fund's valuation date) or, where the distribution relates to the disposal of an investment or part of an investment which was valued at the relevant fund's valuation date, by the deduction of the value of that investment or part investment at the relevant fund's valuation date; and
- in addition, quoted investments have been marked to market as at 8 May 2001, subject to the relevant general partner's discount, to reflect changes in their value since the relevant fund's valuation date.

The value attributable to each fund investment and the adjustments noted above are translated into sterling (if necessary) at the closing exchange rate on 8 May 2001.

All valuations of fund interests include a provision for carried interest, where appropriate, payable to the relevant general partner.

While the Manager's normal policy will be to adopt the general partners' valuations and to reflect in the valuation of the Company's assets any adjustment to the valuation of their respective funds made by general partners, on occasions it may depart from this policy in the following circumstances:

- the Manager may decide not to adopt an upwards adjustment if in its opinion the adjustment made or proposed by the relevant general partner is not prudent; and
- the Manager may decide to make a downward adjustment to the valuation of a fund interest in the Company's portfolio which has not been made or proposed by the general partner if it receives relevant information which has not been notified to it by the general partner or if it forms a different and more cautious view than that held by the general partner.

The above policies will, in addition to providing the basis for the valuation of the Transfer Portfolio, constitute the on-going valuation accounting policy for the Company; in future, however, the Company may not be in a position to value all quoted investments on a mark to market basis to reflect changes in their value since the relevant fund's valuation date.

The funds in the Transfer Portfolio have adopted valuation policies which include adherence to the guidelines for unquoted company valuations issued by the BVCA or the EVCA. These provide for investments to be held at cost for the first 12 months after investment, subject to downwards only adjustments for any material changes, with the option subsequently of valuing on the basis of applying market ratios such as price/earnings to the profits of the investee company, and applying a discount. The level of the discount, and the selection of the peer group on which to base the price earnings ratio, for example, are at the discretion of the general partners. In the event that there is a subsequent third party investment in the relevant underlying company the general partner has the discretion to adjust the valuation accordingly. Quoted investments are held by the funds at mid-market valuation less a discount as appropriate.

Practice varies amongst the general partners of the funds in the Transfer Portfolio with regard to the provision of information. All general partners produce an up to date valuation at least every 6 months apart from one general partner who produces annual valuations the most recent of which was as at 31 March 2001. General partners also notify limited partners of material events which could have an impact on their respective valuations, and may or may not choose to update the last relevant valuation at that point.

## **PART III**

### **RISK FACTORS**

The investment portfolio of the Company will comprise unquoted interests in private equity funds which are not publicly traded or freely marketable and may therefore be difficult to realise. An investment in the Company's Ordinary Shares should be regarded as long-term in nature.

There can be no guarantee that the funds comprised in the Transfer Portfolio will produce distributions in excess of the valuations ascribed to them in this document.

The funds in which the Company will invest are collective investment schemes which are not regulated in the UK by the Financial Services Authority.

When publishing information concerning its net asset value, the Company will be relying to a very significant extent on the accuracy of valuations and other information provided to the Manager by the general partners of the private equity funds.

Changes in economic and market conditions may have an adverse effect on the opportunities which private equity funds have to realise their investments on a timely and profitable basis.

The market prices of shares in investment trusts fluctuate independently of their net asset value and can be at a discount or a premium to net asset value at different times, depending on supply and demand, market conditions, general sentiment and other factors.

In considering the past performance information contained in this document, investors should bear in mind that past performance is not necessarily indicative of future results and there can be no assurance that the Company will achieve comparable results.

The use of gearing will enhance the growth in the net asset value of the Company provided the investments funded by debt produce a return which more than covers the repayment and servicing cost of the debt. If such returns are not made then the use of gearing will result in a reduction in the net asset value of the Company.

The Company's investments and those of the underlying private equity funds will be denominated in various currencies and the movement of exchange rates may have a separate effect, which could be unfavourable or favourable, on the gains and losses otherwise experienced on such investments.

The levels and bases of, and reliefs from, taxation may change.

The Manager is substantially dependent on the services of certain key individuals for the implementation of the Company's investment policy. Whilst Standard Life Investments Limited has entered into contractual arrangements with such key individuals with the aim of securing their services, the retention of their services is not guaranteed. The loss of key personnel could have an adverse effect on the Company's performance. However, this risk is expected to be minimised by incentivising the Management Team through their holdings of Founder Shares in the Company and through other incentives provided by Standard Life Investments Limited and ESP.

The Ordinary Shares owned by Standard Life on Admission will carry more than 50 per cent. of the voting rights in the Company. Under the terms of the City Code on Takeovers and Mergers, Standard Life would be permitted to increase its shareholding in the Company without making a general offer for the Ordinary Shares which it does not own.

## PART IV

### GENERAL INFORMATION

#### 1. History and Legal Status

- 1.1 The Company was incorporated and registered in Scotland on 9 March 2001 as a public company limited by shares under the Act with registered number 216638 and the name DMWS 480 PLC. The name of the Company was changed to Standard Life European Private Equity Trust PLC on 25 April 2001. The Company operates under the Act and regulations made under the Act.
- 1.2 The memorandum of association of the Company provides that the Company's principal object is to carry on the business of an investment trust company. The objects of the Company are set out in clause IV of its memorandum of association, a copy of which is available for inspection at the address set out in paragraph 11 below.
- 1.3 Since its incorporation the Company has not traded and no accounts of the Company have been made up. On 3 May 2001, the Company was granted a certificate of entitlement to do business and to borrow under section 117 of the Act. There has been no significant change in the financial or trading position of the Company since its incorporation.
- 1.4 The Company is not, and has not since its incorporation been, engaged in any legal or arbitration proceedings, nor are any such proceedings pending or threatened by or against the Company of which the Company is aware.
- 1.5 It is the intention of the directors to conduct the affairs of the Company to enable it to seek approval as an investment trust under section 842 of the Income and Corporation Taxes Act 1988 for its first accounting period and, accordingly, the Company intends that its income will consist wholly or mainly of eligible investment income (as defined in that section). In addition, the directors intend to conduct the affairs of the Company so as to satisfy the requirements for qualification as an investment company under section 266 of the Act and the Company has given notice to the Registrar of Companies of its intention to carry on business as an investment company pursuant to that section.

#### 2. Share Capital

- 2.1 The authorised share capital of the Company on its incorporation was £50,000 divided into 200,000 ordinary shares of 25p each, of which two ordinary shares of 25p each were issued fully paid to the subscribers to the Company's memorandum of association.
- 2.2 Pursuant to a special resolution passed at an extraordinary general meeting of the Company held on 2 May 2001:
  - (i) each of the issued and unissued ordinary shares of 25p each was subdivided into 125 Ordinary Shares;
  - (ii) the authorised share capital of the Company was increased from £50,000 to £120,000 by the creation of 17,500,000 Founder A Shares and 17,500,000 Founder B Shares;
  - (iii) in substitution for any existing power under section 80 of the Act the directors were generally and unconditionally authorised, pursuant to section 80 of Act, to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal amount of £119,999.50, such authority to expire on 2 May 2006, unless previously revoked, varied or extended by the Company in general meeting, save that the Company may, at any time prior to the expiry of such authority, make an offer or enter into an agreement which would or might require relevant securities to be allotted after the expiry of such authority and the directors may allot relevant securities in pursuance of such an offer or agreement as if such authority had not expired; and
  - (iv) new articles of association of the Company were adopted.
- 2.3 On 2 May 2001, 14,835,625 Founder A Shares and 14,835,625 Founder B Shares were allotted in each case partly paid up at 0.1p per share and 2,664,375 Founder A Shares and 2,664,375 Founder B Shares were allotted in each case partly paid up at 0.107p per share. Of the total Founder Shares issued 8,750,000 Founder A Shares and 8,750,000 Founder B Shares were issued to Standard Life Investments Limited and 8,750,000 Founder A Shares and 8,750,000 Founder B Shares were issued to

the Management Team. The 250 Ordinary Shares in issue arising from the subdivision of the two ordinary shares of 25p each taken by the subscribers to the Company's memorandum of association have been transferred and, as at the date of this document, 249 of these Ordinary Shares are held by Stanlife Nominees Limited and the remaining Ordinary Share is held by Malcolm Wood as a nominee of Stanlife Nominees Limited.

2.4 Pursuant to a special resolution passed at an extraordinary general meeting of the Company held on 15 May 2001 it was resolved that:

- (i) the authorised share capital of the Company be increased from £120,000 to £390,000 by the creation of an additional 135,000,000 Ordinary Shares;
- (ii) in substitution for any existing power under section 80 of the Act the directors be generally and unconditionally authorised, pursuant to section 80 of Act, to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal amount of £319,999.50, such authority to expire on 14 May 2006, unless previously revoked, varied or extended by the Company in general meeting, save that the Company may, at any time prior to the expiry of such authority, make an offer or enter into an agreement which would or might require relevant securities to be allotted after the expiry of such authority and the directors may allot relevant securities in pursuance of such an offer or agreement as if such authority had not expired;
- (iii) the directors be empowered, pursuant to section 95(1) of the Act, to allot equity securities (as defined in section 94(2) of the Act) for cash, pursuant to the above authority, as if section 89(1) of the Act did not apply to any such allotment, up to an aggregate nominal amount of £158,508.564, such power to expire on 14 May 2006, unless previously revoked, varied or extended by the Company in general meeting, such power being limited to the allotment of up to 79,254,282 Ordinary Shares in connection with the Placing;
- (iv) subject to the sanction of the Court, 50 per cent. of the amount standing to the credit of the share premium account of the Company following Admission (being the amount standing to the credit of the share premium account of the Company immediately following Admission less that part of the amount applied in writing off the Company's preliminary expenses and the expenses of the Issue) be cancelled and the credit arising in the Company's books of account thereby be applied in crediting a distributable reserve to be established in the Company's books of account which shall be able to be applied in any manner in which the Company's profits available for distribution (as determined in accordance with section 263(3) of the Act) are able to be applied except by way of dividend; and
- (v) the Company be generally and unconditionally authorised in accordance with section 166 of the Act to make market purchases of up to 14.99 per cent. of the Ordinary Shares in issue immediately following Admission such authority to expire at the conclusion of the Company's first annual general meeting or, if earlier, 14 November 2002.

2.5 On the assumption that the Placing is fully subscribed:

- (i) the Company shall have no authorised but unissued share capital; and
- (ii) the Company's issued share capital will be £390,000 divided into 160,000,000 fully paid up Ordinary Shares, 14,835,625 Founder A Shares partly paid up as to 0.1p per share, 2,664,375 Founder A Shares partly paid up as to 0.107p per share, 14,835,625 Founder B Shares partly paid up as to 0.1p per share and 2,664,375 Founder B Shares partly paid up as to 0.107p per share.

2.6 The subscription price under the Placing of 100p per Ordinary Share, which is payable in cash, represents a premium of 99.8p to the nominal value of an Ordinary Share. The Ordinary Shares to be issued to Standard Life pursuant to the Acquisition Agreement will also be allotted at a premium to their nominal value. The extent of this premium will be calculated by the directors having regard to the value of the Transfer Portfolio at Admission. The directors expect that this value will be the value set out in Part II of this document.

2.7 The Ordinary Shares allotted pursuant to the Issue will be credited as fully paid and in registered form and may be held in either certificated or uncertificated form. CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by certificates and transferred otherwise than by written instruments. The articles of association of the Company will permit the holding of

Ordinary Shares under the CREST system. The directors have applied for the Ordinary Shares to be admitted to CREST. CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so.

2.8 Save as disclosed in this paragraph 2 and in paragraph 7 below:

- (i) since the date of the Company's incorporation, no share or loan capital of the Company has been issued or agreed to be issued, or is now proposed to be issued, for cash or any other consideration, and no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any such capital; and
- (ii) no share or loan capital of the Company is under option or has been agreed, conditionally or unconditionally, to be put under option.

2.9 The provisions of section 89(1) of the Act (which, to the extent not disapplied by section 95 of the Act, confer on holders of relevant shares (as defined in section 94(5) of the Act) rights of pre-emption in respect of the allotment of equity securities (as defined in section 94(2) of the Act) in the Company which are, or are to be, paid up in cash) shall apply to the authorised but unissued share capital of the Company. Section 89(1) has been disapplied to the extent specified in sub-paragraph (iii) of paragraph 2.4 above to facilitate the Placing.

### 3. Articles of Association

The articles of association of the Company (the "Articles") contain, *inter alia*, provisions to the effect set out in this paragraph 3 and in this paragraph the following definitions apply unless the context requires otherwise:

"A Conversion Period" the period during which the Founder A Shares are capable of conversion, commencing upon the expiry of the Performance Period in respect of the Founder A Shares and expiring on 31 December 2013;

"B Conversion Period" the period during which the Founder B Shares are capable of conversion, commencing upon the expiry of the Performance Period in respect of the Founder B Shares and expiring on 30 September 2016;

"Bad Leaver" means a Leaver where the cessation of employment is as a result of the relevant Founder Shareholder:

- (a) resigning (other than in a Permitted Circumstance); or
- (b) being dismissed in circumstances where his employer is not liable to pay him compensation for the cessation of his employment or consultancy;

for the avoidance of doubt a Leaver is not a Bad Leaver:

- (i) if he ceases to be employed as a result of his death; or
- (ii) if he is dismissed by reason of his being absent from work due to permanent or long term ill health (save for ill health which arises as a result of an abuse of drink or drugs); or
- (iii) if he retires once he has reached the age of 60 or at an earlier retirement age agreed with his employer; or
- (iv) where the relevant employer has given notice to terminate the Leaver's employment other than in the circumstances described in (b) above; or
- (v) where the relevant employer dismisses the Leaver in breach of the Leaver's contract of employment;

"Cash Flow" means (a) 98.6p per Ordinary Share in the case of the A Performance Period and the higher of Fully Diluted NAV as at the commencement of the B Performance Period and

98.6p in the case of the B Performance Period (b) dividends declared or paid on each Ordinary Share during the relevant Performance Period (c) capital repayments on each Ordinary Share during the relevant Performance Period (d) any other distribution on each Ordinary Share during the relevant Performance Period which is not within (b) or (c) (provided that repurchases of Ordinary Shares by the Company shall be ignored and not treated as a Cash Flow item) and (e) the Undiluted NAV on the last day of the A Performance Period in the case of the A Performance Period and the Fully Diluted NAV on the last day of the B Performance Period in the case of the B Performance Period or in the case of a Takeover or a Standard Life Takeover the value of the consideration per Ordinary Share under the offer; where (a) will be treated as negative and (b) to (e) will be treated as positive and where each item within Cash Flow shall be deemed to arise in the month in which its date of payment or receipt occurs save that (a) shall be deemed to occur in the month in which the relevant Performance Period commences and (e) shall be deemed to occur in the month in which the relevant Performance Period ends;

“Compound Annual Growth Rate”	the annualised discount rate in respect of a Performance Period, which when applied to a series of cash flows on a monthly basis produces an aggregate net present value of the Cash Flow as at the commencement of the relevant Performance Period equal to zero;
“conversion”	means the conversion of Founder Shares into Ordinary Shares in accordance with paragraph 3.5 (ignoring for this purpose the matters referred to in paragraphs 3.5.1.2(a)(i) and (ii) and 3.5.2.2(a)(i) and (ii)) and the expression “capable of conversion” and the adjectives “converted” and “unconverted” shall be construed accordingly;
“Conversion Date”	means the last business day in each calendar month during the A Conversion Period or the B Conversion Period;
“Conversion Price”	means the amount per Founder Share determined in accordance with paragraphs 3.5.1.4 or 3.5.2.4 as the case may be;
“Deferred Shares”	means deferred ordinary shares of 0.2 pence each in the capital of the Company;
“Deferred Shareholder”	means a holder of Deferred Shares;
“Family Trust”	in relation to a Founder Shareholder means a trust under which no immediate beneficial interest in the shares in question is for the time being vested in any person other than the holder or his Privileged Relations and no power of control over the voting powers conferred by such shares is for the time being exercisable by or subject to the consent of any person other than the trustees of such holder or his Privileged Relations;
“Founder Shareholder”	means a holder of Founder Shares;
“Founder A Shareholder”	means a holder of Founder A Shares;
“Founder B Shareholder”	means a holder of Founder B Shares;
“Fully Diluted NAV”	the net asset value of an Ordinary Share (including, unless otherwise stated, current period revenue items and, for so long as any Founder A Shares are capable of conversion but



remain unconverted and the net asset value exceeds the Conversion Price, treating such Founder A Shares as converted and the Conversion Price in respect thereof as paid);

- “Further Issue” means an issue of Ordinary Shares by the Company during a Performance Period;
- “Further Issue Price” means the consideration per Ordinary Share payable by an allottee in respect of a Further Issue (valuing any non-cash element of such consideration at the sum which is certified by the Auditors as being in their opinion the market value of the non-cash element) and where no consideration is payable (for example on a bonus issue of fully paid Ordinary Shares) the Further Issue Price shall be nil;
- “Good Leaver” means a Leaver who is not a Bad Leaver;
- “Investment Manager” means the manager from time to time of the Company’s investments;
- “Leaver” means any holder of Founder Shares (or deemed holder under paragraph 3.11.1) who is employed by or is a director of any company within the Standard Life Group and who dies or who ceases to be an employee or director of any such company and does not continue (or is not immediately re-employed) as an employee or director of any other such company;
- “Liquidation” means the making of a winding up order by the court or the passing of a resolution by the Company’s shareholders that the Company be wound up;
- “Manager Resignation” means the termination of the appointment of the Manager as Investment Manager of the Company by reason of the Manager giving notice of termination to the Company provided that such termination shall be deemed to take place upon the expiry of the required period of notice, whether or not such period of notice has been served;
- “Manager Termination for Cause” means the termination of the appointment of the Manager as Investment Manager of the Company for Cause (as Cause is defined in the Investment Management Agreement dated 15 May 2001);
- “Manager Termination other than for Cause” means the termination by the Company of the appointment of the Manager as Investment Manager of the Company other than for Cause (as Cause is defined in the Investment Management Agreement dated 15 May 2001) provided that where such termination requires notice to be served by either party it shall be deemed to take place upon the expiry of the required period of notice, whether or not such period of notice has been served;
- “Ordinary Shareholder” means a holder of Ordinary Shares;
- “Outperformance” means the percentage points (expressed to three decimal places of a percentage point) by which the Compound Annual Growth Rate in respect of a Performance Period (or such other period as may be specified in paragraph 3.5) exceeds 10 per cent. provided that in the event that the Outperformance is greater than 5.000 per cent. it shall be deemed to be 5.000 per cent;

“A Performance Period”	means the period from the date of Admission until 30 September 2006 or such earlier date determined in accordance with paragraph 3.5.1.5 (both commencement and expiry dates inclusive);
“B Performance Period”	the period from 1 October 2006 until 30 September 2011 or such earlier date determined in accordance with paragraph 3.5.2.5 (both commencement and expiry dates inclusive) provided that in the event that the Performance Period for the Founder A Shares expires in accordance with paragraph 3.5.1.5(c), there shall be no Performance Period for the Founder B Shares;
“Performance Period”	means the A Performance Period or the B Performance Period, as the case may be;
“Permitted Circumstances”	means: <ul style="list-style-type: none"> <li>(a) permanent or long term ill health of the Founder Shareholder (save where such ill health arises as a result of an abuse of drink or drugs); or</li> <li>(b) permanent or long term ill health of the spouse or long term co-habitee of the Founder Shareholder (save where the Founder Shareholder’s employer has offered or is willing to offer the Founder Shareholder leave of absence); or</li> <li>(c) resignation where the Founder Shareholder has been constructively dismissed by his employer; or</li> <li>(d) resignation within 12 months following a change in control (as control is defined for the purposes of section 840 of the Income and Corporation Taxes Act 1988) of the Manager or any holding company of the Manager;</li> </ul>
“Privileged Relation”	in relation to a Founder Shareholder means the spouse or long term co-habitee of such shareholder and the children and grandchildren (including step and adopted children and grandchildren) of such shareholder;
“Relevant Percentage”	means, in respect of the occurrence of an event, the percentage determined by the following formula: $\text{relevant percentage} = \frac{m-n}{m} \times \frac{100}{1}$ <p>where m is 64 in the case of the A Performance Period and 60 in the case of the B Performance Period; and</p> <p>n is the whole number of calendar months of the Performance Period in which the event occurs which have expired prior to its occurrence;</p>
“Section 429 Period”	means, following a Takeover or a Standard Life Takeover, the period, if any, during which the offeror shall be entitled or bound to acquire the shares of Ordinary Shareholders under the terms of sections 428-430F of the Act;
“Settlor”	means the trustee or settlor in relation to a Family Trust and shall include a trustee <i>inter vivos</i> or testator or an intestate;
“Standard Life Group”	means Standard Life and its subsidiaries from time to time;
“SLI”	means Standard Life Investments Limited;

“Standard Life Takeover”	means an offer by a member of the Standard Life Group, or any person acting in concert with any member of the Standard Life Group, to acquire Ordinary Shares becoming unconditional in all respects;
“Takeover”	means an offer, other than by any member of the Standard Life Group or any person acting in concert with a member of the Standard Life Group, to acquire not less than 50 per cent. of the Ordinary Shares in issue becoming unconditional in all respects;
“Transfer Percentage”	means, in respect of a Founder Shareholder becoming a Good Leaver, the percentage determined by the following formula: transfer percentage = $\frac{m-n}{m} \times \frac{100}{1}$ where m is 64 in the case of the Founder A Shares and 124 in the case of the Founder B Shares; and n is the whole number of calendar months in the period from Admission to the date upon which the Founder Shareholder becomes a Good Leaver;
“Undiluted NAV”	means the net asset value of an Ordinary Share (including, unless otherwise stated, current period revenue items) but taking no account of the conversion rights attached to any unconverted Founder Shares.

### 3.1 Dividends

- 3.1.1 Subject to the provisions of the Act and of every other statute for the time being in force concerning companies and affecting the Company (the “Statutes”), the Company may by ordinary resolution declare dividends but no such dividend shall exceed the amount recommended by the directors. Subject to the provisions of the Statutes, the directors may pay interim dividends if, in their opinion, such dividends are justified by the financial position of the Company and may also pay any dividend payable at a fixed rate at intervals settled by the directors whenever the financial position of the Company in the opinion of the board justifies its payment.
- 3.1.2 Any dividend unclaimed after a period of 12 years from the date on which such dividend became due for payment shall be forfeited and shall revert to the Company.
- 3.1.3 Subject to the dividend entitlement of the Founder Shares, the holders of Ordinary Shares shall be entitled to receive, in that capacity, any dividend in respect of any financial year of the Company which is declared in accordance with paragraph 3.1.1 above.
- 3.1.4 The Founder Shares shall entitle the holders thereof to a fixed non-cumulative dividend of 0.05 per cent. per annum of the nominal amount paid up thereon, to accrue daily and to be payable annually in arrears on 30 September in each year with the first such dividend being payable on 30 September 2002. Notwithstanding such right to dividend, the Company shall not be required to issue or pay any dividend entitlement to any holder of Founder Shares if this is less than £3.00. The Founder Shares shall not confer any other right of participation in the profits of the Company.
- 3.1.5 The Deferred Shares (to the extent that they are in issue) shall entitle the holders thereof to a fixed non-cumulative dividend of 1 per cent. of the nominal amount thereof on the date 6 months after the Deferred Shares arise by virtue of conversion of Founder Shares, but shall confer no other right to the holders thereof to share in the profits of the Company. The dividend on the Deferred Shares shall not accrue or become payable in any way until the date due for payment.

### 3.2 Voting

Subject to disenfranchisement in the event of non-compliance with any restriction notice in the circumstances referred to in paragraph 3.9 below or to any special terms as to voting upon which any shares may be issued or may for the time being be held and to any other provisions of the Articles, on a

show of hands every member present in person shall have one vote and on a poll every member present in person or by proxy shall have one vote for every share held by him. Save as referred to in paragraph 3.3 below, the Founder Shares shall not carry any right to attend or vote at any general meeting of the Company.

### **3.3 Variation of rights**

Subject to the provisions of the Statutes all or any of the rights attached to any class of shares may be varied either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of that class and may be so varied either whilst the Company is a going concern or during or in contemplation of a winding up. All of the provisions of the Statutes and of the Articles relating to general meetings of the Company and the proceedings at such meetings shall, so far as applicable, apply to any such separate general meeting, except that:

- (i) the necessary quorum at such meeting shall be two persons holding or representing by proxy at least one-third in nominal value of the issued shares of that class (and at an adjourned meeting shall be one person holding shares of that class or his proxy); and
- (ii) any holder of shares of that class present in person or by proxy may demand a poll and every such holder shall on a poll have one vote for every share of that class held by him.

Without prejudice to the generality of the foregoing, for so long as any Founder Shares remain unconverted, the consent of each of (i) the holders of the Founder Shares as a single class and (ii) the holders of the Ordinary Shares as a single class shall be required for any variation to the rights or conditions attaching to the Founder Shares or the Deferred Shares.

### **3.4 Winding up**

If the Company shall be wound up (whether the liquidation is voluntary, under supervision or by the court), the liquidator may, with the authority of an extraordinary resolution and any other sanction required by the Statutes, divide among the members in kind the whole, or any part of, the assets of the Company (whether they shall consist of property of the same kind or not) and may for such purpose set such value as he deems fair upon any property to be divided among the members and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of contributories as the liquidator shall think fit but so that no member shall be compelled to accept any shares or other property in respect of which there is a liability.

### **3.5 Conversion**

#### **3.5.1 Founder A Shares**

3.5.1.1 The board shall procure that within 60 days of the commencement of the A Conversion Period:

- (a) the Investment Manager shall calculate (i) the Compound Annual Growth Rate (to three decimal places of a percentage point) as at the end of the A Performance Period and (ii) the total number of Founder A Shares capable of conversion (determined in accordance with paragraph 3.5.1.3);
- (b) the Auditors shall certify that such calculations:
  - (i) have been performed in accordance with the Articles; and
  - (ii) are arithmetically accurate;

whereupon such calculations shall become final and binding on the Company, all Ordinary Shareholders and Founder Shareholders; and

- (c) a notice is sent to each Founder Shareholder at his registered address specifying the number of such Founder Shareholder's Founder A Shares which are capable of conversion and the Conversion Price(s) in respect of such shares.

3.5.1.2 (a) A Founder A Shareholder shall be entitled at any time during the A Conversion Period, by serving a conversion notice on the Company, to request conversion at the next Conversion Date of such of his Founder A Shares capable of conversion as is specified in the conversion notice (unless the next Conversion Date is less than six business days following the service of the conversion notice in which case conversion shall take place at

the next again following Conversion Date) and upon such Conversion Date such number of Founder A Shares shall automatically convert, on a one for one basis, into fully paid Ordinary Shares conditional upon:

- (i) the Company having received from the Founder A Shareholder the Conversion Price for each Founder A Share to be converted; and
  - (ii) the admission to the Official List of the UKLA and to trading on the London Stock Exchange of the Ordinary Shares arising upon such conversion.
- (b) The Ordinary Shares arising on conversion of the Founder A Shares shall not rank for any dividends or other distributions for which the record date is a date prior to the relevant Conversion Date but subject thereto shall rank in full for all dividends and other distributions declared, made or paid after the Conversion Date and in all other respects *pari passu* with the Ordinary Shares in issue at that date.
  - (c) The Company will apply to the UKLA for the new Ordinary Shares which will arise upon conversion to be admitted to the Official List of the UKLA and to the London Stock Exchange for such shares to be admitted to trading and the Company will use its best endeavours to obtain such admissions not later than five business days following the relevant Conversion Date.
  - (d) A conversion notice, once served, shall be irrevocable.
  - (e) Each Founder A Share which is capable of conversion but which remains unconverted as at the end of the A Conversion Period shall with effect from that date automatically cease to be capable of conversion.

3.5.1.3 Save as provided in paragraph 3.5.1.5 the total number of Founder A Shares which, as a class, shall be capable of conversion is the aggregate of:

- (a) such number of Founder A Shares (ignoring fractions) equal to the number of Ordinary Shares which is the product of the following formula

$$\frac{C}{1-D} \times D$$

where C is the total number of Ordinary Shares in issue as at the commencement of the A Performance Period; and

D is the Outperformance for the A Performance Period expressed as a decimal (e.g. 4.123 per cent. expressed as 0.04123); and

- (b) for each Further Issue which has taken place during the A Performance Period such number of Founder A Shares (ignoring fractions) equal to the number of Ordinary Shares which is the product of the following formula

$$\frac{E}{1-D} \times D \times RP$$

where D is as defined in paragraph 3.5.1.3(a) above;

E is the number of Ordinary Shares comprised in such Further Issue; and

RP is the Relevant Percentage in respect of such Further Issue expressed as a decimal (e.g. 6.125 per cent. expressed as 0.06125).

3.5.1.4 (a) Subject to paragraph 3.6 the Conversion Price for each Founder A Share which is capable of conversion by virtue of paragraph 3.5.1.3(a) shall be 100p less the amount paid up on such share.

- (b) Subject to paragraph 3.6 the Conversion Price for each Founder A Share which is capable of conversion by virtue of paragraph 3.5.1.3(b) in respect of a particular Further Issue shall be the Further Issue Price less the amount paid up on such share.

- (c) The Company shall apply the Conversion Price received from a Founder Shareholder in respect of each Founder A Share to be converted as follows:
  - (i) first, in paying up the unpaid nominal capital, if any, on the Founder A Share to be converted; and
  - (ii) secondly, in crediting to the Company's share premium account any balance remaining.

3.5.1.5 (a) Upon a Manager Termination other than for Cause taking place during the A Performance Period the A Performance Period shall immediately cease (and the A Conversion Period duly commence) and for the purposes of paragraph 3.5.1.3 the Outperformance shall be deemed to be 5.000 per cent. adjusted by being multiplied by the following fraction:

$$\frac{n}{m}$$

where m, for the purposes of paragraph 3.5.1.3(a), is 64 and, for the purposes of a Further Issue as referred to in paragraph 3.5.1.3(b), is 64 multiplied by the Relevant Percentage in respect of such Further Issue (rounded to the nearest whole number); and

n, for the purposes of paragraph 3.5.1.3(a), is the whole number of calendar months of the A Performance Period prior to the occurrence of the Manager Termination other than for Cause and, for the purposes of a Further Issue as referred to in paragraph 3.5.1.3(b) is the whole number of calendar months which have expired since the Further Issue prior to the occurrence of the Manager Termination other than for Cause.

- (b) Upon a Manager Resignation taking place during the A Performance Period all Founder A Shares held by any member of the Standard Life Group (and any held by any permitted transferee of any such holder) shall thereupon automatically be reclassified as Deferred Shares on a one for one basis and in respect of all remaining Founder A Shares the A Performance Period shall immediately cease (and the A Conversion Period duly commence) and for the purposes of paragraph 3.5.1.3 the Outperformance shall be adjusted by being multiplied by the following fraction:

$$\frac{n}{m}$$

where both m and n are as defined in paragraph 3.5.1.5(a) above.

- (c) Upon a Manager Termination for Cause taking place during the A Performance Period the A Performance Period shall immediately cease and no Founder A Shares shall be capable of conversion.

3.5.1.6 Subject to paragraph 3.5.1.7 the number of Founder A Shares held by each Founder Shareholder which shall be capable of conversion at a particular Conversion Price shall be the proportion of the total number of Founder A Shares capable of conversion at such Conversion Price equal to the proportion which such Founder Shareholder's holding of Founder A Shares bears to the total number of Founder A Shares as at the expiry of the A Performance Period.

3.5.1.7 In the event of any Founder A Shares becoming capable of conversion pursuant to paragraph 3.5.1.5(b) the total number of Founder A Shares capable of conversion for the purposes of paragraph 3.5.1.6 only shall be such number of Founder A Shares which would be capable of conversion ignoring the reclassification of Founder A Shares pursuant to paragraph 3.5.1.5(b).

### 3.5.2 Founder B Shares

3.5.2.1 The board shall procure that within 60 days of the commencement of the B Conversion Period:

- (a) the Investment Manager shall calculate (i) the Compound Annual Growth Rate (to three decimal places of a percentage point) as at the end of the B Performance Period and (ii) the total number of Founder B Shares capable of conversion (determined in accordance with paragraph 3.5.2.3);
- (b) the Auditors shall certify that such calculations:
  - (i) have been performed in accordance with the Articles; and
  - (ii) are arithmetically accurate;

whereupon such calculations shall become final and binding on the Company, all Ordinary Shareholders and Founder Shareholders; and

- (c) a notice is sent to each Founder Shareholder at his registered address specifying the number of such Founder Shareholder's Founder B Shares which are capable of conversion and the Conversion Price(s) in respect of such shares.

3.5.2.2 (a) A Founder B Shareholder shall be entitled at any time during the B Conversion Period, by serving a conversion notice on the Company, to request conversion at the next Conversion Date of such of his Founder B Shares capable of conversion as is specified in the conversion notice (unless the next Conversion Date is less than six business days following the service of the conversion notice in which case conversion shall take place at the next again following Conversion Date) and upon such Conversion Date such number of Founder B Shares shall automatically convert, on a one for one basis, into fully paid Ordinary Shares conditional upon:

- (i) the Company having received from the Founder B Shareholder the Conversion Price for each Founder B Share to be converted; and
- (ii) the admission to the Official List of the UKLA and to trading on the London Stock Exchange of the Ordinary Shares arising upon such conversion.

- (b) The Ordinary Shares arising on conversion of the Founder B Shares shall not rank for any dividends or other distributions for which the record date is a date prior to the relevant Conversion Date but subject thereto shall rank in full for all dividends and other distributions declared, made or paid after the Conversion Date and in all other respects *pari passu* with the Ordinary Shares in issue at that date.

- (c) The Company will apply to the UKLA for the new Ordinary Shares which will arise upon conversion to be admitted to the Official List of the UKLA and to the London Stock Exchange for such shares to be admitted to trading and the Company will use its best endeavours to obtain such admissions not later than five business days following the relevant Conversion Date.

- (d) A conversion notice, once served, shall be irrevocable.

- (e) Each Founder B Share which is capable of conversion but which remains unconverted as at the end of the B Conversion Period shall with effect from that date automatically be reclassified as a Deferred Share.

3.5.2.3 Save as provided in paragraph 3.5.2.5 the total number of Founder B Shares which, as a class, shall be capable of conversion is the aggregate of:

- (a) such number of Founder B Shares (ignoring fractions) equal to the number of Ordinary Shares which is the product of the following formula

$$\frac{F}{1-G} \times G$$

where F is the total number of Ordinary Shares in issue as at the commencement of the A Performance Period plus the total number of Founder A Shares capable of conversion pursuant to paragraph 3.5.1.3(a); and

G is the Outperformance for the B Performance Period expressed as a decimal (e.g. 4.123 per cent. expressed as 0.04123);

- (b) for each Further Issue which has taken place during the A Performance Period such number of Founder B Shares (ignoring fractions) equal to the number of Ordinary Shares which is the product of the following formula

$$\frac{H}{1-G} \times G$$

where G is as defined in paragraph 3.5.2.3(a); and

H is the number of Ordinary Shares comprised in such Further Issue plus the total number of Founder A Shares capable of conversion in respect of such Further Issue pursuant to paragraph 3.5.1.3(b);

- (c) for each Further Issue which has taken place during the B Performance Period such number of Founder B Shares (ignoring fractions) equal to the number of Ordinary Shares which is the product of the following formula

$$\frac{K}{1-G} \times G \times RP$$

where K is the number of Ordinary Shares comprised in such Further Issue;

G is as defined in paragraph 3.5.2.3(a) above; and

RP is the Relevant Percentage in respect of such Further Issue expressed as a decimal (e.g. 6.125 per cent. expressed as 0.06125).

- 3.5.2.4 (a) Subject to paragraph 3.6 the Conversion Price for each Founder B Share which is capable of conversion by virtue of paragraph 3.5.2.3(a) shall be 100p less the amount paid up on such share.
- (b) Subject to paragraph 3.6 the Conversion Price for each Founder B Share which is capable of conversion by virtue of paragraph 3.5.2.3(b) in respect of a particular Further Issue in the A Performance Period shall be the Further Issue Price less the amount paid up on such share.
- (c) Subject to paragraph 3.6 the Conversion Price for each Founder B Share which is capable of conversion by virtue of paragraph 3.5.2.3(c) in respect of a particular Further Issue in the B Performance Period shall be the Further Issue Price less the amount paid up on such share.
- (d) The Company shall apply the Conversion Price received from a Founder Shareholder in respect of each Founder B Share to be converted as follows:
- (i) first, in paying up the unpaid nominal capital, if any, on the Founder B Share to be converted; and
- (ii) secondly, in crediting to the Company's share premium account any balance remaining.

- 3.5.2.5 (a) Upon a Manager Termination other than for Cause taking place during the A Performance Period the B Performance Period shall be deemed to have commenced and shall immediately cease (and the B Conversion Period duly commence) and for the purposes of paragraph 3.5.2.3 the Outperformance shall be deemed to be 5.000 per cent. adjusted by being multiplied by the following fraction

$$\frac{n}{m}$$

where m, for the purposes of paragraph 3.5.2.3(a) is 124 and, for the purposes of a Further Issue as referred to in paragraph 3.5.2.3(b) is the aggregate (rounded to the nearest whole number) of (i) 60 and (ii) 64 multiplied by the Relevant Percentage in respect of such Further Issue; and

n, for the purposes of paragraph 3.5.2.3(a), is the whole number of calendar months since the commencement of the A Performance Period prior to the occurrence of the Manager Termination other than for Cause and, for the



purposes of a Further Issue as referred to in paragraph 3.5.2.3(b) is the whole number of calendar months which have expired since the Further Issue prior to the occurrence of the Manager Termination other than for Cause.

- (b) Upon a Manager Termination other than for Cause taking place during the B Performance Period the B Performance Period shall immediately cease (and the B Conversion Period duly commence) and for the purposes of paragraph 3.5.2.3 the Outperformance shall be calculated in respect of the whole period from Admission to the date of the Manager Termination other than for Cause and shall also be multiplied by the following fraction

$$\frac{n}{m}$$

where m, for the purposes of paragraphs 3.5.2.3(a) and (b) above, is as defined in paragraph 3.5.2.5(a) above and, for the purposes of a Further Issue as referred to in paragraph 3.5.2.3(c) above, is 60 multiplied by the Relevant Percentage in respect of such Further Issue (rounded to the nearest whole number); and

n, for the purposes of paragraphs 3.5.2.3(a) and (b) above, is as defined in paragraph 3.5.2.5(a) above and, for the purposes of a Further Issue as referred to in paragraph 3.5.2.3(c) above, is the whole number of calendar months which have expired since the Further Issue prior to the occurrence of the Manager Termination other than for Cause.

- (c) Upon a Manager Resignation taking place during the A Performance Period all Founder B Shares held by any member of the Standard Life Group (and any held by any permitted transferee of any such holder) shall thereupon automatically be reclassified as Deferred Shares on a one for one basis and in respect of all remaining Founder B Shares the B Performance Period shall be deemed to commence and immediately cease (and the B Conversion Period duly commence) and for the purposes of paragraph 3.5.2.3 the Outperformance shall be calculated in respect of the whole period from Admission to the date of the Manager Resignation and shall also be multiplied by the following fraction

$$\frac{n}{m}$$

where m and n are as defined in paragraph 3.5.2.5(a) above (substituting references to the Manager Termination other than for Cause with references to the Manager Resignation).

- (d) Upon a Manager Resignation taking place during the B Performance Period all Founder B Shares held by any member of the Standard Life Group (and any held by any permitted transferee of any such holder) shall thereupon automatically be reclassified as Deferred Shares on a one for one basis and in respect of all remaining Founder B Shares the B Performance Period shall immediately cease (and the B Conversion Period duly commence) and for the purposes of paragraph 3.5.2.3 the Outperformance shall be calculated in respect of the whole period from Admission to the date of the Manager Resignation and shall also be adjusted by being multiplied by the following fraction

$$\frac{n}{m}$$

where m and n are as defined in paragraph 3.5.2.5(b) above (substituting references to the Manager Termination other than for Cause with references to the Manager Resignation).

- (e) Upon a Manager Termination for Cause taking place during the A Performance Period or the B Performance Period, the B Performance Period shall immediately cease and no Founder B Shares shall be capable of conversion.

- 3.5.2.6 Subject to paragraph 3.5.2.7 below the number of Founder B Shares held by each Founder Shareholder which shall be capable of conversion at a particular Conversion Price shall be the proportion of the total number of Founder B Shares capable of conversion at such Conversion Price equal to the proportion which such Founder Shareholder's holding of Founder B Shares bears to the total number of Founder B Shares as at the expiry of the B Performance Period and each other Founder B Share held by such Founder Shareholder which is not capable of conversion and all Founder A Shares which are not capable of conversion or which remain unconverted shall upon and with effect from the date which is six months following the expiry of the B Performance Period automatically be reclassified as a Deferred Share.
- 3.5.2.7 In the event of any Founder B Shares becoming capable of conversion pursuant to paragraphs 3.5.2.5(c) or (d) the total number of Founder B Shares capable of conversion for the purposes of paragraph 3.5.2.6 only shall be such number of Founder B Shares which would be capable of conversion ignoring the reclassification of Founder B Shares pursuant to paragraphs 3.5.2.5(c) or (d).
- 3.5.3 (a) In the event of a Takeover taking place during the A Performance Period, the A Performance Period shall immediately cease and each of the A Conversion Period and the B Conversion Period shall commence concurrent with each other and for the purpose of each of paragraphs 3.5.1.3 and 3.5.2.3 the Outperformance shall be deemed to be 5.000 per cent.
- (b) In the event of a Takeover taking place during the B Performance Period, the B Performance Period shall immediately cease and the B Conversion Period shall duly commence and for the purpose of paragraph 3.5.2.3 the Outperformance shall be deemed to be 5.000 per cent.
- (c) In the event of a Standard Life Takeover taking place during the A Performance Period, the A Performance Period shall immediately cease and each of the A Conversion Period and the B Conversion Period shall commence concurrent with each other and for the purpose of paragraphs 3.5.1.3 and 3.5.2.3 the Outperformance shall be calculated from the date of Admission.
- (d) In the event of a Standard Life Takeover taking place during the B Performance Period the B Performance Period shall immediately cease and the B Conversion Period shall duly commence and for the purpose of paragraph 3.5.2.3 the Outperformance shall be calculated from Admission. In addition, the A Conversion Period shall be deemed to have re-commenced upon the occurrence of a Standard Life Takeover taking place and for the purposes of paragraph 3.5.1.3 the Outperformance shall be calculated for the period from Admission to the date of such Standard Life Takeover and in the event that the Outperformance as so calculated is greater than the Outperformance which was previously calculated in respect of the A Performance Period, such additional number of Founder A Shares which would have become capable of conversion under paragraph 3.5.1.3 in respect of the excess (had such greater Outperformance been the actual Outperformance for the A Performance Period) shall become capable of conversion pursuant to paragraph 3.5.1.3.
- (e) In the event of a Takeover or a Standard Life Takeover each Founder Share which is capable of conversion and has not been converted prior to the expiry of the Section 429 Period shall upon the expiry of the Section 429 Period cease to be capable of conversion and shall thereupon be reclassified as a Deferred Share.
- 3.5.4 (a) In the event of a Liquidation taking place during the A Performance Period, the A Performance Period shall immediately cease and notwithstanding any other provision of these Articles each Founder Shareholder shall be treated as if, immediately before such Liquidation taking effect, such number of his Founder A Shares and Founder B Shares which would become capable of conversion pursuant to paragraphs 3.5.1.3 and 3.5.2.3 respectively if the Outperformance was 5.000 per cent. shall have automatically become capable of conversion and were so converted and the Founder Shareholder shall be entitled to receive out of the assets available in the Liquidation *pari passu* with the holders of Ordinary Shares such a sum as he would have received had the conversion been effected in full and he had become the holder of the Ordinary

Shares to which he would have become entitled upon such conversion after deducting a sum for each Ordinary Share equal to the Conversion Price in respect of the Founder Share from which such Ordinary Share arose.

- (b) In the event of a Liquidation taking place during the B Performance Period, the B Performance Period shall immediately cease and notwithstanding any other provision of these Articles each Founder Shareholder shall be treated as if, immediately before such Liquidation taking effect, such number of his Founder B Shares which would become capable of conversion pursuant to paragraph 3.5.2.3 if the Outperformance was 5.000 per cent. shall have automatically become capable of conversion and, together with any of his Founder A Shares remaining capable of conversion, were so converted and the Founder Shareholder shall be entitled to receive out of the assets available in the Liquidation *pari passu* with the holders of Ordinary Shares such a sum as he would have received had the conversion been effected in full and he had become the holder of the Ordinary Shares to which he would have become entitled upon such conversion after deducting a sum for each Ordinary Share equal to the Conversion Price in respect of the Founder Share from which such Ordinary Share arose.

- 3.6 In the event of any consolidation, consolidation and subdivision, reduction of the Ordinary Share capital of the Company or distribution (other than a distribution of revenue reserves or repurchases of shares) the number of Founder Shares capable of conversion in the A Conversion Period or the B Conversion Period and/or the Conversion Price will be adjusted by the board in such manner as the Auditors have confirmed to the board in writing to be, in their opinion, fair and reasonable.

### **3.7 Borrowing powers**

3.7.1 The directors may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of its undertaking, property and assets (present and future) and uncalled capital and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

3.7.2 The directors shall restrict the borrowings (as defined in the Articles) by the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiary undertakings (if any), so as to secure (so far as regards subsidiary undertakings, only by such exercise of the rights or powers the directors can secure) that the aggregate principal amount outstanding in respect of all borrowings by the Company and all of its subsidiary undertakings (if any) (the "Group") (other than intra-Group borrowings) shall not, without the previous sanction of an ordinary resolution of the Company, exceed an amount equal to the Adjusted Capital and Reserves (provided that, prior to the publication of the first audited balance sheet of the Company, the aggregate principal amount of such borrowings shall not exceed £40 million). For this purpose, "Adjusted Capital and Reserves" means the aggregate of:

- (i) the amount paid up on the issued share capital of the Company; and
- (ii) the amount standing to the credit of the reserves of the Group (including any share premium account, capital redemption reserve, any reserve arising on the reduction or cancellation of the share premium account and any credit balance on the revenue account);

all based on the the latest audited consolidated balance sheet but subject to the deductions and adjustments set out in the Articles.

### **3.8 Alteration of capital**

The Company may by ordinary resolution:

- (i) increase its share capital by such sum, to be divided into shares of such amount, as the resolution shall prescribe;
- (ii) consolidate or consolidate and then divide all or any of its share capital into shares of larger amount than its existing shares;

- (iii) sub-divide its shares, or any of them, into shares of smaller amount and the resolution may determine that as between the shares resulting from the sub-division any of them may be given any preferred, deferred or other rights or be subject to any restrictions as the Company has power to attach to unissued or new shares as compared with the others; and
- (iv) cancel any shares which, at the date of the passing of the resolution, have not been taken, or agreed to be taken, by any person and diminish the amount of its share capital by the amount of the shares so cancelled.

The Company may, subject to the provisions of the Statutes and any rights attached to any shares, by special resolution reduce its share capital or any capital redemption reserve, share premium account or other undistributable reserve in any manner.

### **3.9 Transfer of shares**

- 3.9.1 Shares in uncertificated form may be transferred otherwise than by a written instrument in accordance with and subject to the Statutes and in the manner provided in the rules of the relevant system. The transfer of an uncertificated share shall not require the effecting of a transfer by an instrument in writing or the production of a certificate for the share to be transferred.
- 3.9.2 Transfers of shares in certificated form may be effected by an instrument of transfer in any usual form or in any other form approved by the directors. The instrument of transfer shall be executed by, or on behalf of, the transferor and (except in the case of fully paid shares) by, or on behalf of, the transferee and the transferor shall be deemed to remain the holder of the share concerned until the name of the transferee is entered in the register in respect of it. All instruments of transfer when registered may be retained by the Company. The directors may refuse to register a transfer of any share held in certificated form unless the relevant instrument of transfer is:
  - (i) lodged at the transfer office or at such other place as the directors may from time to time determine, accompanied by the relevant share certificate(s) and such other evidence (if any) as the directors may reasonably require to show the right of the transferor to make the transfer;
  - (ii) (if stamp duty is generally chargeable on transfers of shares in certificated form) duly stamped or adjudged or certified as not chargeable to stamp duty;
  - (iii) in respect of only one class of share; and
  - (iv) not in favour of more than four persons jointly.
- 3.9.3 The directors may refuse to register a transfer of any share in favour of more than four transferees jointly. Save in certain circumstances, the directors may also refuse to register a transfer of any share in the event of non-compliance with any restriction notice in the circumstances referred to in paragraph 3.12 below relating to such share. None of the restrictions on transfer will be implemented in a manner which renders the Company ineligible for listing.
- 3.9.4 Save as provided in paragraph 3.10.6 the directors may in their absolute discretion and without giving any reason for so doing decline to register any transfer of any share which is not a fully paid share provided that where such share is admitted to the Official List of the UKLA such discretion may not be exercised in such a way as to prevent dealings in shares of that class from taking place on an open and proper basis.
- 3.9.5 The directors may only decline to register a transfer of an uncertificated share in the circumstances set out in the Statutes and where in the case of a transfer to joint holders the number of joint holders to whom the uncertificated share is to be transferred exceeds four persons.
- 3.9.6 Subject to the Statutes and the requirements of the UKLA, registration of transfers may be suspended and the register of members closed by the directors, provided that the register of members shall not be closed for more than 30 days in any year.

### **3.10 Restrictions on transfer of Founder Shares**

- 3.10.1 Notwithstanding any other provisions of the Articles regarding the transfer of shares, save for a transfer approved by the board pursuant to paragraph 3.10.7, Founder Shareholders may only transfer Founder Shares in accordance with paragraphs 3.10 and 3.11 and for these purposes any direction (by way of renunciation, nomination or otherwise) by a member entitled to an allotment of Founder Shares to the effect that such shares or any of them be allotted or issued to or registered in the name of some person other than himself shall for the purpose of these paragraphs be deemed to be a transfer of shares.
- 3.10.2 A Founder Shareholder being a body corporate may at any time transfer all or any of its Founder Shares to a member of the same group. For the purposes of this paragraph, the expression “a member of the same group” means in relation to the transferor company, a company which is for the time being a holding company (as defined in section 736 of the Act) of the transferor company or a subsidiary (as defined in that section) of the transferor company or of any such holding company provided that, unless prior consent in writing to the contrary shall have been given by the board, if and when such corporate relationship shall cease to apply to the transferor and transferee then such Founder Shares shall be transferred to the transferor or to another member of the same group as the transferor and in default of such transfer taking place within two months of the cessation of such corporate relationship such Founder Shares shall be deemed to be offered for transfer pursuant to paragraph 3.11.4.
- 3.10.3 Any Founder Shareholder being an individual may at any time transfer all or any Founder Shares held by him:
- (a) to a Privileged Relation; or
  - (b) to trustees to be held upon a Family Trust.
- 3.10.4 Where Founder Shares are held by trustees upon a Family Trust:
- (a) such shares may on any change of trustees be transferred to the new trustees;
  - (b) such shares may at any time be transferred to any person to whom under paragraph 3.10.3 they could have been transferred by the Settlor if he had remained the holder thereof;
  - (c) such shares may be transferred to the Settlor of the Family Trust; and
  - (d) if and whenever any such shares cease to be held upon a Family Trust (otherwise than in consequence of a transfer authorised by paragraphs 3.10.4(b) or (c)) the trustees shall forthwith be obliged to offer the Founder Shares for transfer pursuant to paragraph 3.11.4 and such shares may not otherwise be transferred.
- 3.10.5 Founder Shares may be transferred by a Founder Shareholder without restriction to a person to hold such shares as a nominee or bare or simple trustee but any transfers by such nominee or bare or simple trustee shall be subject to the same restrictions as though they were by the Founder Shareholder himself (as if he had not ceased to be the holder). Founder Shares may be transferred without restriction by a nominee or bare or simple trustee to the beneficial owner thereof. If at any time when Founder Shares are registered other than in the name of the beneficial owner and an event occurs to the beneficial owner which, had he been the registered holder, would have obliged him to offer such Founder Shares (or any of them) for transfer pursuant to paragraph 3.11.4, paragraph 3.11.4 shall apply to such Founder Shares then held by the nominee or bare or simple trustee as if the shares were held by the beneficial owner.
- 3.10.6 The board shall register a transfer in accordance with the foregoing provisions of this paragraph 3.10.
- 3.10.7 Except in the case of a transfer of shares expressly authorised by this paragraph 3.10 or pursuant to paragraph 3.11, any transfer of Founder Shares in the Company shall be subject to the prior approval of the board in its absolute discretion.

### 3.11 Compulsory transfer of Founder Shares

- 3.11.1 Any Founder Shareholder who transfers any Founder Shares in accordance with paragraph 3.10 shall, for the purposes of this paragraph 3.11, be deemed to continue to hold such Founder Shares and to be a Founder Shareholder.
- 3.11.2 (a) Any Bad Leaver shall, on the date of cessation of employment or directorship, be obliged to offer for transfer pursuant to paragraph 3.11.4 all of the Founder Shares then held by him or deemed to be held by him which are not, at the time of such cessation, capable of conversion provided that the board shall be entitled but not required at any time in the one month following such cessation to specify a smaller percentage of Founder Shares to be offered for transfer.
- (b) In the event of a Founder Shareholder (being a body corporate, partnership or an individual) becoming insolvent, going into liquidation (other than for the purposes of reconstruction or amalgamation), receivership, administration, company voluntary arrangement, sequestration or other form of insolvency or bankruptcy, such Founder Shareholder shall on the date of such event occurring, be obliged to offer for transfer pursuant to paragraph 3.11.4 all of the Founder Shares then held by him or deemed to be held by him which are not, at such time, capable of conversion.
- (c) The holder of any Founder Shares which, under paragraphs 3.11.2(a) or (b) are not obliged to be offered for transfer pursuant to paragraph 3.11.4 because they are capable of conversion shall be obliged to serve a conversion notice in respect of such Founder Shares within 30 days of becoming obliged to transfer any shares pursuant to paragraph 3.11.4 and in default of serving such conversion notice all of such Founder Shares capable of conversion shall automatically cease to be capable of conversion for the purposes of paragraphs 3.5.1.6 and 3.5.2.6.
- 3.11.3 Any Good Leaver, or if he becomes a Leaver on his death his personal representative, shall be obliged to offer for transfer pursuant to paragraph 3.11.4 the Transfer Percentage of the Founder A Shares and Founder B Shares respectively then held by him or deemed to be held by him which are not, at the time of such cessation, capable of conversion provided that the board shall be entitled but not required at any time in the one month following such cessation to specify a smaller percentage of Founder Shares to be offered for transfer.
- 3.11.4 In respect of any Founder Shares required to be offered, or deemed to be offered for transfer pursuant to this paragraph 3.11.4, the board shall be deemed to be the agent of the Founder Shareholder concerned and each of his transferees in accordance with paragraph 3.10 and shall forthwith give written notice to the other Founder Shareholders of the number and description of the Founder Shares required to be transferred (the “Sale Shares”) inviting each of such holders and other persons to state by notice in writing to the Company within 60 days whether he is willing to purchase any and, if so, what maximum number of the Sale Shares he is willing to purchase, and shall also propose to give a copy of such notice to the proposing transferor. A person who expresses a willingness to purchase Sale Shares by notice to the Company within such period of 60 days is referred to below as a “Purchaser”.
- 3.11.5 Within 10 days of the expiry of such period of 60 days the board shall allocate the Sale Shares to or amongst the Purchasers and such allocation shall be made so far as practicable as follows:
- (a) first, amongst the Founder Shareholders who are employees or directors of any company within the Standard Life Group;
- (b) secondly, if any Sale Shares remain unallocated, to all Founder Shareholders not falling within (a) above; and
- (c) thirdly, the Company, treating the Company as if it were a Founder Shareholder.
- 3.11.6 Each allocation of Sale Shares among the Founder Shareholders shall, in the case of competition, be made *pro rata* to the number of Founder Shares held by them but individual allocations of Sale Shares shall not exceed the maximum number of Sale Shares which the relevant Purchaser shall have expressed a willingness to purchase.

- 3.11.7 Forthwith upon such allocation being made, the Purchasers to or amongst whom such allocation has been made shall be bound to pay to the Company (as agent for the proposing transferor) the price per Sale Share (being in all cases the nominal value paid up on such share) for, and to accept a transfer of, the Sale Shares so allocated to them respectively and the proposing transferor shall be bound forthwith upon payment of the price as aforesaid to deliver to the Company (as agent for the Purchasers) such documents as are required to transfer such Sale Shares to the respective Purchasers.
- 3.11.8 If in any case the proposing transferor, after having become bound to transfer Sale Shares as aforesaid, makes default in so doing the Company may receive the price therefor and the board may appoint some person to execute instruments of transfer of such Sale Shares in favour of the Purchasers and shall thereupon, subject to such transfers being properly stamped, cause the name of each of the Purchasers to be entered in the Register as the holder of those Sale Shares so allocated to him and shall hold the price therefor in trust for the proposing transferor. The receipt of the Company therefor shall be a good discharge to the Purchasers and after their names shall have been entered in the Register in exercise of the power conferred by the Articles the validity of the transactions shall not be questioned by any person.
- 3.11.9 If, at the expiry of the period of 10 days referred to in paragraph 3.11.5 above, any of the Sale Shares have not been allocated in accordance with the provisions of this paragraph 3.11, the proposing transferor shall be entitled to retain such Sale Shares.

### ***3.12 Non-disclosure of interests in shares and restrictions on shares***

The directors may by notice (a “restriction notice”) to a holder of shares in the Company direct that from the date of service of the restriction notice the shares held by such holder will be subject to some or all of the relevant restrictions (as defined below) if that holder, or any other person appearing to be interested in shares in the relevant share capital of the Company held by that holder, has been served with and fails to comply with any statutory notice (as defined in the Articles) in respect of those shares within 14 days after the date of such service. The relevant restrictions mean in the case where the shares in respect of which the restriction notice is given represent 0.25 per cent., or more in number or nominal value of the issued shares or any class of shares in issue then if the relevant restriction notice so directs:

- (i) the shares shall not confer on the holder any rights to attend or vote either personally or by proxy at any general meeting of the Company or at any separate general meeting of the holders of any class of shares in the Company or to exercise any other right conferred by membership in relation to general meetings;
  - (ii) any dividends payable in respect of such shares may be withheld by the Company; and
  - (iii) no transfers of such shares shall be registered, save in certain circumstances;
- and in any other case mean only the restriction specified in sub-paragraph (i) above.

### ***3.13 Directors***

- 3.13.1 Unless otherwise determined by the Company by ordinary resolution, the number of directors shall not be less than two nor more than eight.
- 3.13.2 The provisions of section 293 of the Act (which regulate the appointment and continuation in office as directors of persons who have attained the age of 70 or more) shall apply to the Company.
- 3.13.3 A director is not required to hold any shares in the Company by way of qualification for office. A director who is not a member of the Company shall, nevertheless, be entitled to attend and speak at, general meetings.
- 3.13.4 At the first annual general meeting of the Company, all of the directors shall retire from office. At each annual general meeting thereafter, one-third of the directors who are subject to retirement by rotation (or, if their number is not three or an integral multiple of three, the number nearest to, but not greater than, one-third) shall retire from office by rotation. A director who is not required to retire by rotation at any annual general meeting which is the third annual general meeting after the later of:
- (i) his appointment by the Company in general meeting; and

- (ii) the last occasion on which he was re-elected as a director of the Company in general meeting;

shall nevertheless be required to retire at such annual general meeting. Any director who retires in accordance with this paragraph 3.13.4 may, subject to the other provisions of the Articles, offer himself for re-election.

- 3.13.5 The fees paid to, and benefits in kind received by, the directors for their services in the office of director shall not exceed in aggregate £125,000 per annum or such higher amount as may be determined by ordinary resolution of the Company. Subject thereto, each such director shall be paid a fee (which shall be deemed to accrue from day to day) at such rate, and shall receive such benefits in kind, as may from time to time be determined by the directors. Any such fee shall be distinct from any salary, remuneration or other amounts payable to the director pursuant to any other provision of the Articles or any contract or arrangement between the Company and the relevant director. The Company may also pay or repay to any director all costs and expenses properly and reasonably incurred by him in the conduct of the Company's business or in the discharge of his duties as a director. Any director who is appointed to any executive office or who otherwise performs services which in the opinion of the directors are outside the scope of the ordinary duties of a director, may be paid such extra remuneration by way of salary, commission, participation in profits or otherwise as the directors may determine.
- 3.13.6 Subject to the provisions of the Statutes and provided that he has disclosed to the directors the nature and extent of his interest, no director or proposed or intending director shall be disqualified by his office from contracting with the Company either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatever, nor shall any contract in which any director is in any way interested be liable to be avoided nor shall any director who is so interested be liable to account to the Company or the members for any remuneration, profit or other benefit realised by the contract. Subject to any agreement to the contrary between the Company and the director, a director:
  - (i) may be or become a director or other officer of, or otherwise interested in, any undertaking promoted by the Company or in which the Company may be interested; and
  - (ii) may, unless otherwise agreed, retain any remuneration, profit or other benefit received by him as a director or officer of, or from his interest in, such other undertaking.
- 3.13.7 A director shall not vote on, or be counted in the quorum in relation to, any resolution of the directors concerning his own appointment, or the settlement or variation of the terms or the termination of his appointment (including, without limitation, any remuneration payable) to any office or place of profit with the Company or any other company in which the Company is interested but, where proposals are under consideration concerning the appointment, or other settlement or variation of the terms or the termination of the appointment, of two or more directors to offices or places of profit with the Company or any other company in which the Company is interested, a separate resolution may be put in relation to each director and in that case each of the directors concerned shall be entitled to vote and be counted in the quorum in respect of each resolution unless it concerns his own appointment, or the settlement or variation of the terms or the termination of his own appointment.
- 3.13.8 Save as provided in the Articles, a director shall not vote on or be counted in the quorum in relation to any resolution of the board concerning any contract in which he has an interest which (together with any interest of any person connected with him) is, to his knowledge, a material interest unless the material interest arises only from one or more of the following:
  - (i) the giving to him of any security, guarantee or indemnity in respect of money lent or obligations incurred by him or by any other person at the request of, or for the benefit of, the Company or any of its subsidiary undertakings;
  - (ii) the giving to a third party of any security, guarantee or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of a security;



- (iii) any contract, arrangement or other proposal concerning an offer of securities of or by the Company or any of its subsidiary undertakings in which offer he is, or may be, interested as a holder of securities or as a participant in the underwriting or sub-underwriting thereof;
- (iv) any contract concerning any other company in which he is interested directly or indirectly but in which he does not, to his knowledge, hold an interest in shares (as that term is used in Part VI of the Act) representing one per cent. or more of either any class of the equity share capital of, or the voting rights in, such company;
- (v) any contract for the benefit of any employees of the Company or any of its subsidiary undertakings which does not award to him any privilege or benefit not awarded to the employees to whom such arrangement relates; or
- (vi) any contract for the purchase of insurance which the Company proposes to maintain or purchase for the benefit of any directors or for the benefit of persons who include directors.

A director shall not be counted in the quorum present at a meeting in relation to a resolution on which he is not entitled to vote.

### **3.14 Reserves**

- 3.14.1 The directors may, before recommending any dividend from time to time set aside out of the profits of the Company and carry to reserves such sums as they think proper which shall, at the discretion of the directors, be applicable for any purpose to which the profits of the Company may be properly applied and pending such application may, at the like discretion, either be employed in the business of the Company or be invested in such investments as the directors think fit.
- 3.14.2 All capital profits or appreciations arising on the sale, realisation, repayment or revaluation of any investment or other capital asset of the Company in excess of the book value thereof shall, at the discretion of the directors, either be carried to the credit of the capital reserve or be applied in providing for depreciation or contingencies. For the avoidance of doubt, accrued but unpaid interest or any sum received in respect of accrued but unpaid interest shall not be treated as capital profits or appreciations arising on the sale, realisation, repayment or revaluation of any investment or other capital asset. Any losses realised on the sale, realisation, repayment or revaluation of any investment or other capital asset and any other expenses, loss or liability (or provision therefor) considered by the directors to be of a capital nature may be carried to the debit of the capital reserve. Any increase or diminution in the amount of any index linked stock or other index linked obligation of the Company may be carried to the debit or credit of the capital reserve except so far as the directors decide to make good the same out of or credit the same to other funds or reserves of the Company. Subject to the Statutes, the directors may also debit the capital reserve with the whole or such part of any management fees and any finance costs (including, without limitation, any interest payable by the Company in respect of its borrowings) incurred by the Company as may be deemed appropriate by the directors. All sums carried and standing to the credit of the capital reserve may be applied for any purpose to which sums standing to any reserve under the provisions of paragraph 3.14.1 are applicable, provided that no part of the capital reserve or any other moneys in the nature of accretion to capital shall in any event be available for distribution (within the meaning ascribed thereto by section 263(2) of the Act), otherwise than by way of the redemption or purchase of any of the Company's own shares in accordance with section 160 or 162 of the Act, or be applied in paying dividends on any shares in the Company's capital.

### **3.15 Standard Life Name**

- 3.15.1 If at any time any agreement between the Company and the Manager or any member of the Standard Life Group for the management of the Company's investments is terminated, or if any offer is made to all the holders of the Ordinary Shares to acquire the whole or any part of the Ordinary Shares and the right to cast more than 50 per cent. of the votes which may ordinarily be cast at a General Meeting of the Company has or will become vested in the offeror and/or any company controlled by the offeror and/or any person associated, or acting in concert, with the offeror then, in either such event, Standard Life shall be entitled by

notice in writing to the Company to require that the name of the Company is changed to a name which does not contain the words “Standard Life” or any letters or words colourably or confusingly similar thereto.

- 3.15.2 If within three months after the giving of such notice the name of the Company has not been so changed, Standard Life shall be entitled to convene an Extraordinary General Meeting of the Company for the purpose of passing a special resolution (the “Name Change Resolution”) adopting as the name of the Company a name selected by Standard Life and any member present in person or by proxy (or being a corporation by representative) and entitled to vote shall (in respect of the votes attached to his shares) vote in favour of the Name Change Resolution and any vote which is not cast or is cast against such Name Change Resolution shall be deemed to have been cast in favour of the Name Change Resolution.

#### 4. Directors’ And Others’ Interests

- 4.1 As at the date of this document none of the directors had any interests in the share capital of the Company which were required to be notified to the Company pursuant to sections 324 or 328 of the Act or which were required to be entered in the register maintained under section 325 of the Act and nor did (so far as was known to, or could with reasonable diligence be ascertained by, the directors) any person connected with the directors (within the meaning of section 346 of the Act) have any interest in the share capital of the Company.
- 4.2 The directors (and persons connected with them) intend to acquire Ordinary Shares in the Placing as detailed below:

	<i>Number of Ordinary Shares</i>	<i>Percentage of Issued Ordinary Shares*</i>
Mr Dobbie	150,000	0.094
Mr Buchan	25,000	0.016
Mr Edwards	10,000	0.006
Mr Kershaw	20,000	0.012
Mr Tyndall	5,000	0.003

\*On the assumptions that the Acquisition Agreement becomes unconditional and the Placing is fully subscribed.

In each case these shares will be acquired fully paid for cash at the Placing Price.

- 4.3 On the assumptions that the Placing is fully subscribed and the Acquisition Agreement becomes unconditional, Standard Life would be interested (within the meaning of Part VI of the Act) in 50.5 per cent. of the issued Ordinary Shares immediately following the Issue. Save as disclosed in this paragraph 4.3, as at the date of this document the Company is not aware of any person who may be directly or indirectly interested in three per cent. or more of the Ordinary Shares, or who directly or indirectly, jointly or severally, exercise or could exercise control over the Company. Standard Life is a controlling shareholder of the Company.
- 4.4 There are no service contracts in existence between the Company and any of the directors nor are there any such contracts proposed. However, each of Mr Dobbie, Mr Buchan, Mr Edwards, Mr Kershaw and Mr Tyndall has entered into a letter of appointment with the Company dated 27 April 2001. The letters of appointment provide for an initial period of service expiring on 31 March 2004 subject to renewal at that time. The Company has the right to terminate each appointment without compensation if the relevant director is required to vacate office in accordance with the Company’s articles of association and, subject thereto, the letters of appointment do not contain any contractual provisions regarding the compensation which would be payable upon early termination by the Company. The initial fees payable are £25,000 per annum to the Chairman and £15,000 per annum to each of the other directors. There are no arrangements under which any director has waived or agreed to waive future emoluments.
- 4.5 It is estimated that the aggregate remuneration to be paid and benefits in kind to be granted to the directors for the financial period ending on 30 September 2001 will be approximately £42,500. The total emoluments of the directors will not be varied as a consequence of the acquisition by the Company of the Transfer Portfolio.

4.6 There are no outstanding loans granted by the Company to any director nor any guarantees provided by the Company for the benefit of any director. None of the directors has any interest in any transactions whenever effected by the Company which are or were unusual in their nature or conditions or significant to the business of the Company.

4.7 Details of those companies and partnerships of which the directors have been directors or partners at any time since 15 May 1996 are as follows:

- |                  |   |   |
|------------------|---|---|
| (i) Mr Dobbie    | Present directorships and partnerships: | Securities Institute<br>Securities Institute (Services) Limited<br>Financial Services National Training Organisation<br>Premier Oil plc<br>Murray VCT4 PLC<br>Deutsche (Scotland) Ltd<br>Jersey Financial Services Commission<br>BT Pension Fund Trustees Ltd<br>The Edinburgh Investment Trust plc<br>CRESTCo Ltd<br>Wood Mackenzie & Co Ltd<br>Institute of Wealth Management   |
|                  | Past directorships and partnerships:    | Securities & Futures Authority Limited<br>Bankers Trust International PLC<br>NatWest Securities Limited<br>CNWSI Limited<br>NatWest Global Securities Limited<br>CNW Group Limited<br>CNW Securities Japan (Holdings) Ltd<br>The Royal Bank of Scotland Services Japan Ltd<br>NatWest Securities Japan Ltd<br>NWSSI Limited<br>NatWest Securities Corp. Inc.<br>NCB Group Limited (Ireland)<br>NatWest Financial Products PLC |
| (ii) Mr Buchan   | Present directorships and partnerships: | Aberforth Split Level Trust plc<br>The Fleming American Investment Trust plc<br>Scottish Council of Independent Schools<br>Collective Assets Trust plc  |
|                  | Past directorships and partnerships:    | Wood Mackenzie & Co Limited<br>Scottish Financial Enterprise  |
| (iii) Mr Edwards | Present directorships and partnerships: | Cheltenham Securities Limited<br>Dawn Til Dusk Holdings PLC<br>London Scottish Bank PLC<br>Latin American Capital Partners Limited  |
|                  | Past directorships and partnerships:    | Dawn Til Dusk PLC (liquidation)<br>Ornamental Plants Limited<br>Rocking Horse Promotions Limited  |
| (iv) Mr Kershaw  | Present directorships and partnerships: | Royal London Growth & Income Trust PLC<br>Middlemarch Partners Limited  |

Past directorships and partnerships:	None
(v) Mr Tyndall	
Present directorships and partnerships:	Artemis Investment Management Limited Micadant PLC
Past directorships and partnerships:	I&S UK Securities Limited The Nile Dealing Company Limited The Columbus Dealing Company Limited Ivory & Sime Investment Management PLC Ionica PLC (Administration) Filofax Group Limited AFIM Limited

4.8 At the date of this document none of the directors:

- (i) has any unspent convictions in relation to indictable offences; or
- (ii) has been bankrupt or entered into an individual voluntary arrangement; or
- (iii) was a director with an executive function of any company at the time of or within 12 months preceding any receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with that company's creditors generally or with any class of its creditors; or
- (iv) has been a partner in a partnership at the time of or within 12 months preceding any compulsory liquidation, administration or partnership voluntary arrangement of such partnership; or
- (v) has had his assets the subject of any receivership or has been the partner of a partnership at the time of or within 12 months preceding any assets thereof being the subject of a receivership;
- (vi) has been subject to any public criticism by any statutory or regulatory authority (including any recognised professional body) or has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

## 5. Investment Management Agreement

The Company and the Manager entered into an investment management agreement dated 15 May 2001 in terms of which the Manager has agreed to manage the investments and other assets of the Company on a discretionary basis.

The Company will pay to the Manager a quarterly fee (exclusive of any VAT), payable in arrears, equal to 0.8 per cent. per annum of the Company's net assets at the end of the relevant quarter. Undrawn commitments to limited partnerships and other funds shall be treated as neither assets nor liabilities in calculating the net asset value. The Investment Management Agreement also provides that no fee is payable on uninvested cash raised in the Placing until the quarter beginning 1 July 2002 or on any investments in any investment trust, collective investment scheme or any other company or fund managed, operated or advised by the Manager or any other subsidiary of Standard Life.

The appointment of the Manager as investment manager is subject to termination by either party giving to the other not less than 12 months' written notice terminating such appointment which notice may not expire until the third anniversary of Admission. The Manager's appointment may be terminated by a lesser period of notice although (save in the exceptional circumstances referred to below) there shall be payable to the Manager by the Company compensation in lieu of notice. The Manager's appointment under the Investment Management Agreement may be terminated for Cause at any time without compensation. For these purposes "Cause" is defined as, *inter alia*, the Manager being unable to pay its debts or going into liquidation, receivership or administration or being guilty of any gross misconduct, wilful default, negligence or fraud in the performance of its duties under the Investment Management Agreement. The Company may also terminate the Investment Management Agreement for Cause without compensation at any time if less than two key executives remain employees of the Manager or its holding company and are members of the Manager's

investment committee. The key executives are Jonny Maxwell, David Currie, Peter McKellar and any other employee of the Manager or its holding company who is a member of the Manager's investment committee and has been proposed by the Manager to the Company as a key executive and accepted as such by the board. However, for so long as Jonny Maxwell remains an employee of the Manager or its holding company and a member of the Manager's investment committee no right to terminate summarily shall arise notwithstanding the departure of any other key executive or key executives. A change of control of the Manager or any holding company of the Manager is not "Cause" for the purposes of the Investment Management Agreement but shall nonetheless allow the Company to terminate the Investment Management Agreement without compensation.

The Investment Management Agreement contains provisions indemnifying the Manager against any liability not due to its wilful default, negligence or fraud.

## **6. Relationship with Standard Life**

By a letter dated 15 May 2001, Standard Life has irrevocably undertaken to the Company that, at any time or times when Standard Life together with its Associates (meaning any company which is a member of the Standard Life group), are entitled to exercise, or to control the exercise of, 30 per cent. or more of the rights to vote at general meetings of the Company, it will not, and will exercise such rights as it may have to procure that none of its Associates will:

- (i) seek to nominate directors to the board of the Company who are not independent of Standard Life; or
- (ii) take, in Standard Life's capacity as a beneficial holder of any Ordinary Shares, any action which would be detrimental to the general body of Shareholders and, for this purpose, any action which has the support or recommendation of a majority of the directors of the Company shall be deemed not to be detrimental.

These undertakings do not apply where:

- (i) an offer is made for the Company, or a reconstruction or winding up of the Company is proposed or to be proposed other than by Standard Life, or any hostile corporate action has been initiated in relation to the Company; or
- (ii) the Manager has been removed or is proposed to be removed as the discretionary investment manager of the Company, or material changes have been made or are proposed to be made to the Investment Management Agreement, or the investment policy set out in this document is altered or proposed to be altered (with or without shareholder approval) in any material way; or
- (iii) there has been any failure of generally accepted corporate governance principles, or an increase in the remuneration limit for the directors is proposed without Standard Life's previous written approval.

In addition, these undertakings shall not apply at any time when the Company is a subsidiary of Standard Life in relation to any action taken or proposed to be taken by Standard Life to ensure that the auditors of the Company are the same firm or company as the auditors to Standard Life.

## **7. Arrangements Relating to the Issue**

- 7.1 The Company and Standard Life entered into an acquisition agreement dated 15 May 2001 in terms of which, subject to certain conditions having been fulfilled prior to 31 August 2001, Standard Life has agreed to sell and the Company has agreed to purchase the Transfer Portfolio. The consideration for the transfer will be the allotment to Standard Life of 80,745,468 Ordinary Shares credited as fully paid. In addition, certain cash adjustments will be made on completion of the transfer to take account of any additional investment made or distribution received by Standard Life in or from the funds comprised in the Transfer Portfolio during the period from the date on which the Transfer Portfolio was valued to the date of completion of the transfer.

Completion of the transfer of the Transfer Portfolio is conditional upon the following matters: (i) Admission, (ii) all necessary consents to the transfers of the underlying interests in the Transfer Portfolio having been obtained by Standard Life, (iii) there being no matter which, if existing at Admission, would constitute a breach of any of the warranties contained in the Agreement, (iv) there being no breach by Standard Life of any of its obligations to the Company under the Agreement, and

(v) a report on the valuation of the Transfer Portfolio required pursuant to section 103 of the Act having been obtained by the Company. In the event that conditions (i) to (iv) have not been fulfilled or waived to the Company's satisfaction on or prior to 31 August 2001 the Company may terminate the Agreement by notice in writing to Standard Life.

In terms of the Agreement, Standard Life has given certain warranties to the Company as at 8 May 2001, which are repeated at the date of completion of the transfer of the Transfer Portfolio, regarding its title to the Transfer Portfolio and the information which it has provided in relation to the Transfer Portfolio. Standard Life's liability under these warranties is limited to an amount equal to the aggregate Placing Price of the Ordinary Shares allotted in consideration for the Transfer Portfolio.

- 7.2 The Company, the Manager and UBS Warburg entered into a placing agreement dated 16 May 2001 in terms of which UBS Warburg has conditionally agreed to use its reasonable endeavours to procure subscribers for up to 79,254,282 Ordinary Shares at the Placing Price. The obligations of UBS Warburg under the Placing Agreement are conditional upon, *inter alia*, Admission and the minimum proceeds of the Placing being £60 million provided that this minimum placing level can be waived by agreement between the parties to the Placing Agreement. Subject to the Placing Agreement becoming unconditional, the Company shall pay UBS Warburg a fee equal to 1.91 per cent. of the initial gross assets of the Company on Admission excluding for this purpose the value at the Placing Price of the Ordinary Shares allotted to Standard Life pursuant to the Acquisition Agreement. UBS Warburg is also entitled to be paid its legal and other expenses incurred in connection with the Placing.

The Placing Agreement contains warranties from the Company and the Manager in favour of UBS Warburg and an indemnity by the Company in favour of UBS Warburg. The Placing Agreement may be terminated by UBS Warburg in certain circumstances prior to Admission, including in the event of a material breach of any of the warranties or the occurrence of a *force majeure* event.

- 7.3 On the assumption that the Placing is fully subscribed:

- (i) the gross proceeds of the Placing will be £79.3 million;
- (ii) the total expenses payable by the Company in connection with the Issue (including the fees referred to in paragraph 7.2 above) are estimated to amount to approximately £2.3 million (inclusive of irrecoverable VAT);
- (iii) the net proceeds of the Placing will therefore be approximately £77 million and will be used by the Company to make further private equity fund investments in accordance with its investment policy.

- 7.4 Save for the fees payable to UBS Warburg as described in paragraph 7.2 above, no remuneration is payable to financial intermediaries in connection with the Issue.

## 8. Material Contracts

The following contracts, not being contracts in the ordinary course of business, have been entered into by the Company within the two years immediately preceding the publication of this document, or will be entered into by the Company following Admission, and are, or may be, material or contain provisions under which the Company has any obligation or entitlement which is material to the Company as at the date of this document:

- (i) the Acquisition Agreement;
- (ii) the Placing Agreement;
- (iii) the Investment Management Agreement;
- (iv) the Relationship Agreement; and
- (v) the Company and Edinburgh Fund Managers plc (the "Secretary") entered into a secretarial and administrative agreement (the "Secretarial Agreement") dated 15 May 2001 in terms of which the Secretary has agreed to provide secretarial and administrative services to the Company. The Company will pay to the Secretary a quarterly fee, payable in arrears, at the rate of £65,000 per annum (amended annually in line with changes to the retail prices index) plus a fee equal to 0.035 per cent. per annum of the Company's net assets above £100 million at the beginning of each year (in each case exclusive of any VAT payable). Undrawn commitments to limited partnerships and other funds shall be treated as neither assets nor

liabilities in calculating the net asset value. The Secretary is also entitled to reimbursement of certain out-of-pocket expenses. The appointment of the Secretary is subject to termination by either party giving to the other not less than six months' written notice terminating such appointment, which notice may not expire until the second anniversary of Admission. The Secretary's appointment may be terminated by a lesser period of notice although (save in the exceptional circumstances referred to below) there shall be payable to the Secretary by the Company compensation in lieu of notice. The Secretary's appointment may be terminated without compensation at any time if the Secretary is, *inter alia*, unable to pay its debts or goes into liquidation, receivership or administration or is guilty of any serious misconduct, wilful default, negligence or fraud in the performance of its duties under the Secretarial Agreement or if there is a change of control of the Secretary or any holding company of the Secretary. The Secretarial Agreement contains provisions indemnifying the Secretary against any liability not due to its wilful default, negligence or fraud.

Other than those listed in this paragraph 8 there are no other contracts (not being contracts entered into in the ordinary course of business) entered into by the Company which contain any provisions under which the Company has any material obligation or entitlement at the date of this document.

## **9. Taxation**

The information contained in this document relating to taxation is a summary of the taxation matters which the directors consider should be brought to the attention of prospective investors. The following statements are intended as a general guide only, are based upon the United Kingdom law and Inland Revenue practice currently in force, and relate only to the position of Shareholders who are beneficial owners of their Ordinary Shares. They may not relate to certain categories of Shareholders, such as dealers in securities. Prospective investors should consult their own professional advisers on the potential tax consequences of acquiring, holding or selling Ordinary Shares.

### **9.1 The Company**

It is the intention of the directors to conduct the affairs of the Company so as to satisfy the conditions for approval as an investment trust under section 842 of the Income and Corporation Taxes Act 1988 and to apply annually to the Inland Revenue for such approval which is granted retrospectively. In order to maintain its investment trust status for an accounting period, the Company must, *inter alia*, not be a close company at any time in that accounting period. The directors do not anticipate that the Company will be a close company. In respect of each accounting period for which approval is granted, the Company will be exempt from United Kingdom taxation on its capital gains.

The Company will, however, be liable to UK corporation tax on its income in the normal way, with dividends from UK resident companies being exempt from corporation tax. Income arising from overseas investments may be subject to foreign withholding taxes at varying rates, but double taxation relief may be available.

Each of the private equity fund interests which comprise the Transfer Portfolio is an interest in an entity which is transparent for UK (and, where relevant, local) tax purposes with the result that no charges to tax on income or capital gains arise to any of the funds.

### **9.2 Shareholders**

#### **9.2.1 *Taxation of capital gains***

Depending on their personal circumstances, UK resident Shareholders may be subject to capital gains tax (or, in the case of corporate Shareholders, corporation tax on capital gains) in respect of any gain arising on a transfer or disposal, including a disposal on a winding up of the Company, of their Ordinary Shares unless the Shareholder is taxed as a dealer in securities, in which case any gain will be treated as income and taxed as such. Non-UK resident Shareholders (other than dealers in securities) will not normally be liable to UK taxation of capital gains in respect of any such disposals.

For United Kingdom resident individual Shareholders taper relief may be available to reduce the amount of the gain chargeable to tax. The availability and rate of taper relief will depend on the period of ownership of the Ordinary Shares. As the Ordinary Shares will constitute non-

business assets, they will not qualify for taper relief if they are held for less than three years. Thereafter the gain is reduced by 5 per cent. for each complete year of ownership up to a maximum reduction of 40 per cent.

A gain on a disposal of Ordinary Shares, together with other gains less allowable losses in a fiscal year, is subject to tax at the individual's marginal tax rate to the extent that it exceeds the annual exempt amount which, for the fiscal year 2001 / 2002 is £7,500.

For corporate Shareholders, indexation allowance may be available to reduce the amount of the taxable gain.

### 9.2.2 **Taxation of dividends**

Under current legislation no withholding tax will be deducted from any dividends paid by the Company.

Notwithstanding the abolition of advance corporation tax in respect of dividends paid after 5 April 1999, Shareholders will receive a notional tax credit equal to 10 per cent. of the aggregate of the dividend and the tax credit itself (equivalent to one-ninth of the cash dividend).

Individual Shareholders who are resident in the United Kingdom who pay tax at the starting, lower or basic rate will have no further tax to pay. Individual Shareholders who pay tax at the higher rate will be subject to additional tax of 22.5 per cent. of the cash dividend plus tax credit. No repayment of the tax credit can be claimed by a UK resident shareholder.

A UK resident corporate Shareholder generally will not be liable to corporation tax on any dividend received unless it is a dealer in securities. The net dividend is taken into account in computing the taxable profits of a dealer in securities.

Shareholders who are not resident in the UK may be entitled to a payment from the Inland Revenue of a proportion of the tax credit relating to their dividends but such entitlement will depend, in general, on the provisions of any double taxation agreement or convention which exists between the UK and their country of residence. Non-UK resident Shareholders may be subject to local taxation on dividend income in their country of residence. Any person who is not resident in the UK should consult his own tax adviser on the question of the double taxation position applying between his country of residence and the UK.

## 9.3 **Stamp duty and stamp duty reserve tax**

Subject to the following, any transfer of Ordinary Shares will be liable to *ad valorem* stamp duty (currently at the rate of 0.5 per cent., with a rounding up to the nearest £5) or (if an agreement to transfer such Ordinary Shares is not completed before the seventh day of the calendar month following the month in which the agreement becomes unconditional) stamp duty reserve tax (currently at the rate of 0.5 per cent.) on the actual consideration paid.

Under the CREST system for paperless transfers, no stamp duty or stamp duty reserve tax will arise on the transfer of Ordinary Shares into the system unless such a transfer is made for a consideration in money or money's worth, in which case a liability to stamp duty reserve tax (usually at the rate of 0.5 per cent.) will arise. Paperless transfers of Ordinary Shares within CREST are liable to stamp duty reserve tax (usually at the rate of 0.5 per cent. of the actual consideration paid) rather than stamp duty and stamp duty reserve tax on relevant transactions settled within the CREST system, or reported through it for regulatory purposes, is collected by CREST.

In the ordinary course of events, liability to pay any stamp duty or stamp duty reserve tax is that of the purchaser or transferee.

Special rules apply to agreements made by market makers and broker-dealers in the ordinary course of their business.

No stamp duty or stamp duty reserve tax will be payable on the issue of definitive certificates unless they are issued to persons to whom the depository receipt or clearance service charges to stamp duty reserve tax apply (currently, at the rate of 1.5 per cent. of the issue price).

The Company will be liable to stamp duty, at the rate of 0.5 per cent., in respect of the receipt of the Transfer Portfolio. That liability will be restricted to the value of the equity elements of the private equity fund interests and will not apply to the loan capital elements of those interests.



#### 9.4 ISAs

The directors are currently taking advice as to whether the Ordinary Shares are eligible for inclusion in ISAs. If the Ordinary Shares are eligible to be held in an ISA it is possible that an ISA and savings linked products investing in the Ordinary Shares will be offered in the future.

#### 10. General

10.1 The Company has no employees.

10.2 The Company has no subsidiary undertakings and no associated companies. The Company is a subsidiary of Standard Life. Standard Life has entered into the Relationship Agreement with the Company details of which are set out in paragraph 6 above.

10.3 The Company neither owns nor occupies any premises. The Company's registered office and principal place of business is at 1 George Street, Edinburgh EH2 2LL.

10.4 There has not occurred any public takeover offer by a third party in respect of the Company's shares, or any public takeover by the Company in respect of another company's shares.

10.5 The Ordinary Shares have not been marketed and are not available to the public.

10.6 There are no arrangements in force under which future dividends are waived or agreed to be waived.

10.7 Standard Life and/or the Manager is or may be a promoter of the Company. Except as disclosed in paragraphs 2 and 7 above, no cash, securities or benefits have been paid, issued or given to Standard Life and/or the Manager in its capacity as promoter by the Company within the two years immediately preceding the date of publication of this document nor are proposed to be so paid, issued or given.

10.8 The Placing is not being underwritten.

#### 11. Documents available for Inspection

Copies of the following documents will be available for inspection at the offices of Dickson Minto W.S. at Royal London House, 22/25 Finsbury Square, London EC2A 1DX during normal business hours on any weekday (except Saturdays and public holidays) until 30 May 2001:

- (i) the memorandum and articles of association of the Company;
- (ii) the material contracts referred to in paragraph 8 above; and
- (iii) this document.

16 May 2001

