

## Prospectus

**The PFI Infrastructure Company plc**  
**Placing & Admission to AIM**

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**Nominated Adviser and Broker**  
**Collins Stewart Limited**



THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document you should consult your stockbroker, accountant or other independent financial adviser duly authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.

The Directors of the Company whose names are set out on page 3 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.

Application will be made for the whole of the issued and to be issued ordinary share capital of The PFI Infrastructure Company plc to be admitted to trading on the Alternative Investment Market ("AIM") of the London Stock Exchange plc (the "London Stock Exchange") AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the official list of the United Kingdom Listing Authority ("Official List").

A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The rules of AIM are less demanding than those of the Official List. Neither the London Stock Exchange nor the United Kingdom Listing Authority have examined or approved the contents of this document. The Ordinary Shares are not dealt in on any other recognised investment exchange.

It is expected that Admission will become effective and dealings in the Ordinary Shares will commence on AIM on 6 July 2004.

# The PFI Infrastructure Company plc



(a company incorporated in the Isle of Man and registered with number 110877C)

## Placing of 33,571,429 Ordinary Shares of 10p each at 140p per share and

## Admission to trading on the Alternative Investment Market

*Nominated Adviser and Broker*  
**Collins Stewart Limited**

### SHARE CAPITAL

<i>Authorised</i>			<i>Issued</i>	
<i>Amount</i>	<i>Number</i>	<i>Ordinary Shares of 10p each</i>	<i>Amount</i>	<i>Number</i>
£4,500,000	45,000,000	(immediately following the Placing)	£3,357,142.90	33,571,429

Collins Stewart is regulated in the United Kingdom by the Financial Services Authority and is acting exclusively for The PFI Infrastructure Company plc and no-one else in connection with the Placing and Admission. Collins Stewart will not regard any other person as its customer or be responsible to any other person for providing the protection afforded to customers of Collins Stewart nor for providing advices in relation to the transactions and arrangements detailed in this document. Collins Stewart is not making any representation or warranty, express or implied as to the contents of this document.

Collins Stewart has been appointed as nominated adviser and broker to the Company. In accordance with AIM Rules, Collins Stewart has confirmed to the London Stock Exchange that it has satisfied itself that the Directors have received advice and guidance as to the nature of their responsibilities and obligations to ensure compliance by the Company with the AIM Rules and that, in its opinion and to the best of its knowledge and belief, all relevant requirements of the AIM Rules have been complied with. No liability whatsoever is accepted by Collins Stewart for the accuracy of any information or opinions contained in this document or for the omissions of any material information, for which it is not responsible.

This document does not constitute an offer to sell or an invitation to subscribe for, or the solicitation of an offer to buy or to subscribe for, Placing Shares in any jurisdiction in which such an offer or solicitation is unlawful and is not for distribution in or into the Prohibited Territories. This document should not be copied or distributed by recipients and, in particular, should not be distributed by any means, including electronic transmission, to persons with addresses in any of the Prohibited Territories or to any citizens, residents or nationals thereof, or to any corporation, partnership or other entity created or organised under the laws thereof. Any such distribution could result in violation of the laws of such countries.

The Placing Shares have not been and are not expected to be registered under the US Securities Act, or under the securities laws of any other jurisdiction, and are not being offered or sold within the United States or to, or for the account or benefit of, any US person, unless such offer or sale would qualify for an exemption from registration under the US Securities Act and any other applicable securities laws. Accordingly, the Placing Shares are being offered and sold only to non-US persons in transactions outside the United States in reliance on Regulation S under the US Securities Act, and within the United States to a limited number of "qualified institutional buyers" as defined under Rule 144A under the US Securities Act. See paragraph 11, Part 8 Notice to US Investors in this document.

The Ordinary Shares may not be acquired by persons resident in the Isle of Man except for persons who are exempt from taxation therein.

The Placing is conditional, *inter alia*, on Admission taking place on or before 6 July 2004 (or such later date as the Company and Collins Stewart may agree). The Placing Shares will rank in full for dividends or other distributions hereafter declared, made or paid on the ordinary share capital of the Company and will rank *pari passu* in all respects with all other Ordinary Shares which will be in issue on Admission.

A copy of this document (which has been drawn up in accordance with the requirements of the POS Regulations, the Law and the AIM Rules and comprises an admission document for the purposes of the AIM Rules) has been delivered to the Registrar of Companies in England and Wales for registration. A copy of this document, having attached thereto copies of the material contracts, reports and consents referred to herein, has been delivered to the Companies Registry maintained by the Isle of Man Financial Supervision Commission for registration as a prospectus pursuant to Section 38 of the Isle of Man Companies Act 1931.

Copies of this document which is dated 1 July 2004 will be available free of charge to the public during normal business hours on any weekday (except Saturdays, Sundays and public holidays) from the registered office of the Company and from the offices of Collins Stewart, 9th Floor, 88 Wood Street, London EC2V 7QR from the date of Admission for not less than one month thereafter.

Attention is drawn to the risks associated with an investment in the Ordinary Shares, which are set out in Part 7 of this document.

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## DIRECTORS, SECRETARY AND ADVISERS

<b>Directors</b>	Richard Wilson Jewson David William Howitt Steeds Timothy Graham Walker Patrick Rupert Cottrell Jonathan David Clague  all of St James's Chambers Athol Street Douglas Isle of Man IM1 1JE
<b>Registered Office</b>	St James's Chambers Athol Street Douglas Isle of Man IM1 1JE
<b>Company Secretary</b>	Philip Peter Scales of Barings (Isle of Man) Limited
<b>Nominated adviser and broker</b>	Collins Stewart Limited 9th Floor 88 Wood Street London EC2V 7QR
<b>Auditors</b>	Ernst & Young LLP Rose House 51-59 Circular Road Douglas Isle of Man IM1 1AZ
<b>Reporting Accountants</b>	Ernst & Young LLP Ten George Street Edinburgh EH2 2DZ
<b>Valuer</b>	KPMG LLP 8 Salisbury Square London EC4Y 8BB
<b>Solicitors to the Company, nominated adviser and broker</b>	McDermott Will & Emery 7 Bishopsgate London EC2N 3AR
<b>Isle of Man Advocates to the Company</b>	Simcocks Advocates Limited Ridgeway House Ridgeway Street Douglas Isle of Man IM99 1PY

<b>Solicitors to the Company on the Acquisition</b>	Denton Wilde Sapte One Fleet Place London EC4M 7WS
<b>Solicitors to the Company on Scottish Partnerships</b>	McGrigors Princes Exchange 1 Earl Grey Street Edinburgh EH3 9AQ
<b>Investment Manager</b>	Quayle Munro Limited 8 Charlotte Square Edinburgh EH2 4DR
<b>Financial PR</b>	Redleaf Communications 9-13 St Andrew Street London EC4A 3AF
<b>Administrator and Registrar</b>	Barings (Isle of Man) Limited PO Box 174, St James's Chambers Athol Street Douglas Isle of Man IM99 1PP
<b>Technical Advisers</b>	Turner & Townsend Management Solutions 10 Bedford Street London WC2E 9HE
<b>Insurance Advisers</b>	Marsh Ltd Orchard Brae House 30 Queensferry Road Edinburgh EH4 2HS
<b>CREST Service Provider</b>	Computershare Investor Services (Channel Islands) Limited Ordnance House 31 Pier Road St Helier Jersey JE4 8PW

## DEFINITIONS

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

“Acquisition”	the acquisition of the Initial Portfolio by PFI Finance directly pursuant to the Acquisition Agreement and indirectly by becoming a limited partner in the First Fund pursuant to the Amendment and Restatement Agreement
“Acquisition Agreement”	the acquisition agreement dated 29 June 2004 between (1) HBOS (2) Uberior Infrastructure Investments Limited (3) QMH and (4) PFI Finance, a summary of which is set out in Part A of Part 3 of this document
“Administration Agreement”	the administration agreement dated 29 June 2004 between (1) the Company and (2) the Administrator, a summary of which is set out in paragraph 12 of Part 8 of this document
“Administrator” or “BIM”	Barings (Isle of Man) Limited
“Admission”	the admission of the existing Ordinary Shares and the Placing Shares to trading on AIM in accordance with the AIM Rules
“AIM”	the Alternative Investment Market of the London Stock Exchange
“AIM Rules”	the rules for AIM published by the London Stock Exchange from time to time
“Amended and Restated Partnership Agreement”	the limited partnership agreement in respect of the First Fund as amended and restated pursuant to the Amendment and Restatement Agreement
“Amendment and Restatement Agreement”	the agreement dated 29 June 2004 between (1) QMFM (2) PFI Finance (3) Uberior and (4) QMH, together with all documents ancillary thereto including the Deed of Warranty pursuant to which the limited partnership agreement in respect of the First Fund is to be amended and restated and to which PFI Finance will accede as a limited partner, a summary of which is set out in Part B of Part 3 of this document
“APP”	the accelerated participation payment payable to certain limited partners of the First Fund in accordance with the terms of the Amended and Restated Partnership Agreement
“Board” or “Directors”	the directors of the Company for the time being and which (where the context requires) comprises those persons as at the date of this document, whose names appear on page 3 of this document
“Collins Stewart”	Collins Stewart Limited, 9th Floor, 88 Wood Street, London EC2V 7QR
“Company”	The PFI Infrastructure Company plc, a closed ended investment company incorporated in the Isle of Man with registered number 110877C on 17 May 2004

“Completion”	completion of the Acquisition in accordance with the terms of the Acquisition Agreement
“CREST”	the relevant system (as defined in the Regulations) for the paperless settlement of share transfers and the holding of shares in uncertificated form in respect of which CRESTCo Limited is the Operator (as defined in the Regulations)
“Deed of Warranty”	a deed of warranty and indemnity dated 29 June 2004 between (1) HBOS, (2) QMH, (3) Uberior, (4) PFI Finance and (5) the First Fund
“English Act”	the Companies Act 1985 (as amended) of England and Wales
“Equity”	the equity share capital and subordinated debt contained within the SPCs
“EU”	the European Union
“Eurobonds”	the £28,106,000 11 per cent. bonds due 2034 to be issued by PFI Finance and listed on the Channel Islands Stock Exchange
“First Fund”	Quayle Munro PFI Fund Limited Partnership, a limited partnership registered in Scotland with limited partnership number 4122 of 8 Charlotte Square, Edinburgh EH2 4DR
“Group”	the Company, together with each subsidiary and holding company of the Company and each subsidiary of such holding company, in each case for the time being
“HBOS”	HBOS, the governor and company of the Bank of Scotland
“Initial Portfolio”	the initial portfolio of 14 investments in PFI projects an interest in which is being acquired directly pursuant to the Acquisition Agreement and indirectly by PFI Finance becoming a limited partner in the First Fund pursuant to the Amendment and Restatement Agreement
“Investment Committee”	the committee established by the Investment Manager and approved by the Board to consider and approve potential PFI investments and disposals as described in Part 5 of this document
“Investment Manager” or “QM”	Quayle Munro Limited, a company registered in Scotland with Company Number 81648 and with its registered address at 8 Charlotte Square, Edinburgh, EH2 4DR
“Investment Management Agreement”	the investment management agreement dated 29 June 2004 between (1) the Company, (2) PFI Finance and (3) the Investment Manager, a summary of which is set out in paragraph 12 of Part 8 of this document
“Law”	the Companies Act 1931-1993 (as amended) (Isle of Man)
“London Stock Exchange”	London Stock Exchange plc
“MOD”	Ministry of Defence
“Official List”	the official list of the UK Listing Authority

“Ordinary Shares”	ordinary shares of 10p each in the capital of the Company
“OECD”	Organisation of Economic Cooperation and Development
“PFI”	the UK Government’s Private Finance Initiative
“PFI Finance”	means PFI Infrastructure Finance Limited a company incorporated in England and Wales with registered number 5092397 on 2 April 2004 whose entire issued share capital is held by the Company
“Placing”	the conditional placing of the Placing Shares pursuant to the Placing Agreement
“Placing Agreement”	the agreement dated 1 July 2004 between (1) the Company, (2) the Directors and (3) Collins Stewart, a summary of which is set out in paragraph 9 of Part 8 of this document
“Placing Price”	140p per Ordinary Share
“Placing Shares”	33,571,429 new Ordinary Shares
“POS Regulations”	The Public Offers of Securities Regulations 1995
“PPP”	Public Private Partnership, a term covering partnering arrangements in the UK between the public and private sectors, of which PFI is a sub-set
“Primary PFI Investments” or “Primary”	investments in new SPCs at the outset of a PFI project
“Prohibited Territories”	Australia, Canada, Japan, the Republic of Ireland, the Republic of South Africa and their respective territories and possessions
“QMFM”	Quayle Munro Fund Managers Limited, a company registered in Scotland with company number 82136
“QMH”	Quayle Munro Holdings PLC, a company registered in Scotland with company number 72014 and owner of 100 per cent. of QM and QMFM, of 8 Charlotte Square, Edinburgh EH2 4DR
“Regulations”	The Transfer of Securities Regulations 1996 (Isle of Man)
“Secondary PFI Investments” or “Secondary”	investments in SPCs after contract completion and financial close and normally post services commencement
“Shareholders”	holders of shares in the capital of the Company
“SPC”	special purpose company, being a company formed to undertake a PFI project under contract with a public authority or similar body
“Tynwald”	the Isle of Man parliament
“Uberior”	Uberior Infrastructure Investments Limited, a subsidiary of HBOS of 2nd Floor, New Uberior House, 11 Earl Grey Street, Edinburgh EH3 9BN
“UK” or “United Kingdom”	United Kingdom of Great Britain and Northern Ireland
“US Securities Act”	the US Securities Act of 1933, as amended

## GLOSSARY OF PFI TERMS

“FM Contractor” or “FM Provider”	the provider of facilities management services, comprising Hard Services and/or Soft Services
“Hard Services”	building maintenance, including periodic refurbishment and replacement of building components
“Project Agreement”	the concession contract between a public or similar authority and an SPC under the PFI for the provision of a package of services usually of a constructed facility
“Soft Services”	cleaning, catering, security, grounds maintenance, car parking and associated services of a domestic nature

## PLACING STATISTICS

Placing Price	140p
Number of Placing Shares being placed	33,571,429
Number of Ordinary Shares in issue following the Placing and Admission	33,571,429
Market capitalisation at the Placing Price	£47 million

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Admission effective and dealings commence on AIM	6 July 2004
CREST accounts credited	6 July 2004
Despatch definitive share certificates	20 July 2004

## PART 1

### Information on the Company

#### 1. Introduction

The PFI Infrastructure Company plc was incorporated in the Isle of Man on 17 May 2004 and is the holding company of PFI Finance, a company registered in England and Wales which was formed for the purpose of investing in PFI opportunities in the UK. An investment in the Group will offer a rare opportunity to invest in a sector that offers a steady, relatively safe and long term income stream and the possibility of capital growth whilst retaining the ability to trade the Ordinary Shares of the Company. Generally, investments in PFI projects are illiquid given the contractual arrangements of the privately owned project vehicles.

#### 2. Overview of the Group and Investment Policy

As its first investment, PFI Finance has agreed, conditional upon Admission, to acquire the Initial Portfolio, a portfolio of Equity in 14 PFI projects, each structured as a single SPC. These PFI projects are primarily accommodation-based and focus on the provision of education and healthcare facilities, MOD housing and for one project, street lighting. The Initial Portfolio does not include any projects with significant demand or operational risk where income is substantially reliant on usage.

The Group's investment objective is to achieve a regular high level of dividend payment together with the opportunity for additional distributions or asset enhancements accruing from the possibility of re-financing to accelerate cashflows and, should the Directors consider it appropriate, the sale of portfolio projects from time to time. Should a refinancing be possible, it would typically occur post construction once a project has entered into its operational phase. Total Shareholder returns may also be enhanced in the future by the use of borrowing facilities to reduce the overall cost of the Group's capital.

It is the Group's intention to build its PFI portfolio by investing in a balanced range of Primary and Secondary PFI projects. Such investments generally take the form of a combination of ordinary shares and subordinated loan stock in SPCs. The majority of finance for PFI projects draws upon non-recourse senior bank debt. Currently, the mix of Equity and non-recourse senior debt on most PFI projects is typically 90:10 (senior debt/Equity).

Primary PFI Investments are committed at the start of a project and the investment may be made at financial close of a project or during the ensuing construction phase. Secondary PFI Investments tend to be made once the project is established and operational. This normally occurs after the end of the construction phase, once the provision of services has begun and payments from the public authority have commenced. At this point Primary PFI investors often seek to dispose of some or all of their Equity investments.

In the current market, the expected yield on a Primary PFI Investment with no demand risk is in the range of 12 to 14 per cent. Yields on Secondary PFI Investments are lower (9 to 11 per cent.) reflecting the greater maturity of the projects, the commencement of payment by the public sector and the fact that construction completion risk has been removed.

The Group is seeking to raise up to £47 million (before expenses), pursuant to the Placing, to make Equity investments in PFI projects. £20.04 million will be applied to acquire the Initial Portfolio resulting in an average yield on the Initial Portfolio of just over 10 per cent. It is the Directors' target that the balance of the Placing proceeds shall be substantially invested by the end of 2006 or earlier. Prior to this time the balance of Placing proceeds will be invested in short term cash instruments.

For the financial period ending 30 June 2005, the Directors will target a dividend yield of 4 per cent. and aim to have a progressive dividend policy such that the dividend yield will be 7 per cent. in 2006/7.

The Directors believe that the Group will have the appropriate scale to invest in the Equity of a wide range of PFI projects either as a sole equity investor or as a co-investor in larger PFI projects.

The intention of the Directors is to focus principally on accommodation and other local authority projects subject to low operational risks with the benefit of a good public sector covenant, such as schools, hospitals, street lighting and MOD housing. Currently, the Directors do not intend to invest in projects where the economic return is highly or totally dependent on demand or level of use.

The Directors intend to invest in a mix of Primary and Secondary PFI Investments. The mix of Primary and Secondary PFI Investments will be determined by the Directors from time to time in consultation with the Investment Manager.

PFI, as an investment approach, is extending in various forms beyond the UK and is developing in a number of European countries. The Directors therefore believe that a domicile in a neutral territory such as the Isle of Man with local investment vehicles, the first being PFI Finance in the UK, offers the Group maximum flexibility in its investment operations. Should the Directors decide to establish further local investment vehicles they will be structured to meet the local regulatory requirements and to enable the Group to offer a local presence to PFI procurers and investors.

It is the Directors' intention that the Group and the Investment Manager maintain effective and supportive long term relationships with the public authorities who are the clients of the Group's PFI projects with a view to assisting, where possible, in providing them with reliable services whilst maximising long term returns for Shareholders.

### **3. The Opportunity**

To date there is no opportunity for UK pension funds and other institutions to invest in a UK quoted company that is dedicated to investing in PFI projects.

The Directors believe that institutional investors would like to gain more exposure to this sector because of its growth characteristics and because the returns generated by SPCs have similarities to long dated high yielding bonds and could therefore be useful for matching against long term pension liabilities. The opportunities for institutional investment in PFI in the public market are restricted by the limited number of existing quoted companies in this sector, most of which are not pure PFI players in that they have other interests such as construction.

### **4. The Private Finance Initiative**

The Private Finance Initiative was launched in the UK in 1992, gaining momentum from 1995. Its purpose was to transfer risks from the public to the private sector, where the latter could manage these risks better. In so doing, it provided, under the right circumstances, better value for money to the public sector and forced it to consider the costs of maintaining infrastructure throughout its life. A side benefit was that the private sector became involved in funding infrastructure projects such as schools, hospitals and roads, which were previously procured and funded by local or central government.

Up to April 2004, PFI projects with a capital value of approximately £40 billion have been signed with the Equity component, normally based upon the 90/10 (senior debt/Equity) ratio described above, of approximately £4 billion. It is from this source (of over 600 PFI projects)

that the Group will seek its Secondary PFI Investments. At present the market for Secondary PFI is growing by £500 million (Equity value) per annum.

In addition, PFI projects with a capital value of approximately £9 billion (Equity value approximately £900 million) are being procured or planned for 2005-2006. This represents an opportunity for the Group to make Primary PFI Investments which together with the existing PFI market demonstrates the scale of the opportunity afforded to the Group.

## **5. Investment Process**

### *Deal Sourcing*

The Directors believe the Group will achieve sufficient profile within the PFI industry to generate new investment opportunities.

In addition, the Investment Manager has developed a pipeline of mainly Primary project opportunities from which the Group can benefit. These are consistent with the investment objectives of the Group and are principally accommodation focused within the education sector.

Paragraph 7 below and Part 5 of this document describe QM in more detail. In addition to their expertise within PFI, a key reason for their selection as Investment Manager was the extent of their contact base and the expectation that QM will be able to source both Primary and Secondary opportunities for the Group to invest in assisted by the Directors and Collins Stewart.

### *Due Diligence and Approval Process*

The Investment Manager has established an internal investment committee within QM to review the overall management of the Group's investments under the terms of the Investment Management Agreement.

Investments in PFI projects, both Primary and Secondary typically have reasonably long lead times prior to the requirement to commit to making an investment. The Directors have determined that every transaction undertaken, whether investment or divestment will require the specific approval of the Board.

The Directors will, in consultation with the Investment Manager, determine the extent of due diligence to be undertaken for each investment. It is anticipated that extensive technical and insurance due diligence will be undertaken to check the security of the income stream and the likely cost of liabilities remaining within the specific SPC, the subject of investment. The Directors will also determine whether to commission an external valuation of a specific SPC, as they consider appropriate, or to rely upon the guidance provided by the Investment Manager.

## **6. Dividend Policy and Total Shareholder Return**

As a result of the long term contractual nature of PFI and current yields over the life of a project in the range of 9 to 14 per cent., depending upon the stage of development, the Directors expect that the target dividend yield of the Group once the proceeds are fully invested will be in excess of that available today, either from UK gilts or quality corporate bonds, or other public companies exposed to some degree to PFI.

The Directors intend to pay dividends out of income received from the underlying investments in the SPCs and from the Group's assets including any interest received from cash held on deposit. The Directors are targeting an initial dividend yield of 4 per cent. rising to 7 per cent. in 2006/7. The first dividend shall be proposed in respect of the six months to 31 December 2004. This is expected to be one third of the 4 per cent. and will be payable in March 2005.

In addition the possibility of future refinancing opportunities within certain of the PFI projects in which the Group invests, particularly those Primary investments which it acquires, should enable debt in the project to be refinanced at a lower cost thereby accelerating cashflows and offering the possibility of special dividends or an enhancement of project value.

Furthermore the total return to Shareholders may be further enhanced by the selective realisation of investments, which with the increasing maturity of the PFI sector over time could result in lower yields and corresponding higher asset prices.

## **7. Investment Manager**

The Investment Manager for the Group is QM, an investment banking firm specialising in PFI and Debt Advisory.

QM brings to the Group:

- Excellent contacts in the PFI industry, including advisory relationships with both the public and private sectors
- Strong links with major contractors undertaking PFI projects
- Expertise in the PFI arena
- Proven track record at managing PFI investments

An investment committee will be established within QM to consider potential investment opportunities and realisations. The committee will be chaired by Ian Jones (part-time executive chairman of QM). The other committee members will be senior employees and directors of QM. Initially they will comprise Jo Elliot (chief executive of QM), and Alan Ritchie (director of QM with responsibility for the day-to-day management of the Group's investment portfolio).

In accordance with the Investment Management Agreement any investment or realisation within the Group's portfolio can only take place with the agreement of the Directors.

QM has agreed that it shall act exclusively for the Group and the First Fund in the PFI and PPP sectors to evaluate the opportunities for possible investment and disposal and communicate their advice to the Board giving the Group the first right of refusal on any opportunities for investment and/or disposal which it encounters, generates or which may be presented to it by any person.

Further details on QM and the Investment Management Agreement are set out in Part 5 of this document.

## **8. Investments in PFI projects**

PFI is a procurement process for the provision of infrastructure-based public services developed so that the whole life risks associated with such projects are transferred to the private sector when it is best equipped to manage such risks. The process allows the private sector to recoup its capital outlay under a 20-30 year operating contract for the assets.

Investments in PFI projects are attractive to equity investors who seek long term returns with relatively low risk given that the SPCs pass on most of the risks to their subcontractors. Part 2 of this document contains a brief overview of the PFI market for Equity investors.

## **9. The Acquisition**

PFI Finance has agreed, conditional *inter alia* on Admission, to acquire the Initial Portfolio directly pursuant to the Acquisition Agreement for a cash consideration of approximately £8.17 million and indirectly by PFI Finance becoming a limited partner in the First Fund

pursuant to the Amendment and Restatement Agreement, by making an initial cash investment of approximately £11.87 million. Both the cash consideration for the Acquisition and the cash investment in the First Fund are subject to adjustment as further described in Part A and Part B respectively, of Part 3 of this document. Further details of the Acquisition are contained in Part 3 of this document.

## 10. Independent Valuation

An independent valuation of the Equity interests in the Initial Portfolio to be acquired by PFI Finance, prepared by KPMG Corporate Finance, is set out in Part 4 of this document. The valuation report sets out the valuation basis and assumptions which have been taken into account in the preparation of the valuation.

## 11. The Placing

The Placing will raise approximately £47 million (before expenses of £3.78 million, before VAT) for the Group, £28.106 million of which will be used to subscribe for the Eurobonds in PFI Finance described in paragraph 12 below and £15.134 million of which will be used to subscribe for shares in PFI Finance. Details of the Placing Agreement are set out in Part 8 of this document. PFI Finance will use approximately £20.04 million of the proceeds of the Eurobond issue and the subscription for its shares to finance the Acquisition. The balance of funds in the Group at any time will be invested in short term cash instruments.

## 12. Eurobonds

Pursuant to the terms of a Subscription Agreement between the Company and PFI Finance dated 1 July 2004, the Company will conditional upon Admission subscribe for £28,106,000 11 per cent. Bonds due 2034 (“Bonds”). The Bonds, which are governed by English law, will be listed on the Channel Islands Stock Exchange. The Bonds will be issued on a partly paid basis. The subscription monies shall be paid in the instalments and on the dates set out below:

£14,053,000	6 July 2004
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£14,053,000	31 December 2004
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PFI Finance intends to use the net proceeds of the first instalment from the issue and sale of the Bonds to fund the Acquisition. The balance of the proceeds will be used to pursue the investment objectives of the Group.

The Bonds will be redeemed at their principal amount on 6 July 2034 but may be redeemed in whole at any time at their principal amount together with accrued interest in certain limited circumstances or in whole or in part at any time after 6 July 2024 at the option of PFI Finance. The Bonds will bear interest from and including 6 July 2004, and interest on the Bonds will be payable on 6 July, 6 October, 6 January and 6 April in each year.

The Bonds will rank at least equally with all other outstanding unsecured obligations of PFI Finance save for such obligations as may be preferred by mandatory provisions of applicable law.

The Bonds will be in bearer form in the denomination of £100,000 or an integral multiple thereof.

## 13. Financial Information

The Company and PFI Finance have only recently been formed. Consequently, the Group has not published any consolidated financial information. An Accountant’s report on the Company is set out in Part 6 of this document.

The Group's annual report and accounts will be prepared up to 30 June each year and it is expected that copies will be sent to Shareholders in the following September. The first annual report covering the period from incorporation to 30 June 2005 is expected to be despatched in September 2005. Shareholders will also receive an unaudited interim report covering the six month period to 31 December each year.

#### 14. Directors

The Board of the Company comprises Richard Jewson, David Steeds, Tim Walker, Rupert Cottrell and Jonathan Clague all of whom are non-executive directors and are independent of the Investment Manager.

Brief biographies of the Directors are set out below:

##### *Richard Jewson, (aged 59)*

Richard Jewson is the non-executive Chairman of the Company. Richard is a highly experienced plc director with considerable experience in PFI projects. His current directorships include Chairman of Savills plc and Octagon Healthcare Holdings Ltd, a £250 million PFI vehicle created to build and operate the Norfolk & Norwich General Hospital. His experience also comes from his roles as deputy chairman of AWG plc, as a director of Temple Bar Investment Trust, a £400 million UK investment trust, and as chairman of Meyer International. Prior to joining the Company, Richard was the chairman of Queens Moat Houses (2001-2003) and Ideal Hardware plc (1994-2002) and was also one of the founding directors of Delian Underwriting Trust plc which raised £50 million as a Lloyds Corporate Capital vehicle in 1993. Richard is a UK resident.

##### *David Steeds, (aged 55)*

David Steeds is a non-executive director of the Company and chairs its Audit Committee. David has worked at senior levels in both the public and private sectors and has an in-depth knowledge of the support services industry, PFI and private equity. David is one of the team that built up Serco Group plc as one of the UK's leading support services companies where he set up Serco's PFI activities and led its first PFI bids. He currently represents HBOS on the Board of ALIS, the French company building the A28 motorway in Normandy under a contract similar to those used in the PFI sector. He is the former Chief Executive of the Private Finance Panel, the Government Agency formerly responsible for PFI. He is the author of the Guideline to the PFI for the Institute of Chartered Accountants in England & Wales and qualified as a Chartered Accountant with Coopers & Lybrand (now PricewaterhouseCoopers) in 1974. David is a UK resident.

##### *Tim Walker, (aged 48)*

Tim Walker is a non-executive director of the Company. Tim currently runs his own specialist leisure consultancy business, Church Farm Consultants Ltd. Tim qualified as a chartered accountant with Touche Ross in 1981. He is a former Finance Director of Swallow Group plc, Strix Group (Isle of Man) and Burtonwood Brewery plc. He gained his PFI experience whilst finance director of Vaux Group plc where he helped negotiate the first hospital/hotel contract under the Government's private finance initiative. Tim is an Isle of Man resident.

##### *Rupert Cottrell, (aged 59)*

Rupert Cottrell is a non-executive director of the Company. Rupert is an experienced non-executive director. Prior to joining the Company, he was a director of Capital International Ltd, Henry Cooke Lumsden Plc and Hill Samuel Private Client Management Ltd. Rupert was a

founder and investment director of Buzzcott Investment Management Ltd. He also spent four years as a Council member of FIMBRA. Rupert is an Isle of Man resident.

*Jonathan Clague, (age 55)*

Jonathan Clague is a non-executive director of the Company. Jonathan is chairman of Isle of Man Breweries Ltd and of Palace Group. Prior to joining the Company, Jonathan was a National Trustee for the British Red Cross and is a former non executive director of a Sun Alliance subsidiary, and of Isle of Man Bank. Jonathan is an Isle of Man resident.

## **15. Current Trading and Prospects**

The PFI Market is set to expand rapidly as the UK Government utilises PFI to deliver its public service ambitions. PFI projects with a capital value of approximately £9 billion (Equity value approximately £900 million) are being procured or planned for 2005-2006. This represents a substantial market for Primary PFI Investment. Over £3.5 billion of Equity has already been committed to PFI projects creating the market for Secondary PFI Investments.

Over the next year, the Directors will work with QM to identify appropriate Primary and Secondary PFI Investments for the Group. QM is currently negotiating Primary PFI Investments of up to £7.5 million in one project where the consortium in question is sole bidder and up to £750,000 in a project where the consortium in question is at preferred bidder stage and thus relatively likely to proceed. In addition, support in principle has been given in respect of a further £10.7 million in 5 projects where the bidding consortia are in competition with others and where the likelihood of investment is therefore less. Of the 5 projects, one bid has already been submitted whilst the bidding consortia are at the short list stage for the remaining four. The estimated total capital value of these projects is around £500 million.

## **16. Repurchase of Ordinary Shares**

The Directors shall have authority to repurchase up to 14.99 per cent. of the Company's issued Ordinary Shares during the period until the Company's annual general meeting in 2005. Any repurchase of Ordinary Shares will be in accordance with the Companies Act 1992 (Isle of Man). The Directors will consider repurchasing Ordinary Shares if they believe it to be in Shareholders' interests generally but particularly to redress any imbalance between supply of and demand for the Ordinary Shares. Subject to Shareholder approval, the Directors expect to renew the authority to repurchase Ordinary Shares at the annual general meeting in 2005 and annually thereafter.

Subject to court confirmation, the share premium account arising on the issue of Ordinary Shares will be cancelled so as to create a distributable reserve, which will be available for distribution to Shareholders should the Directors consider this to be appropriate.

## **17. Corporate Governance**

The Group intends to be fully compliant with the principles and provisions of the Revised Combined Code. The Group has established an Audit Committee comprising the Directors, all of whom are non-executive, under the chairmanship of David Steeds. In view of the Group's business as an investor with no executive directors, there is currently no requirement for either a Remuneration or Nomination Committee.

## **18. Taxation**

General information relating to UK taxation with regard to Admission and the Placing is summarised in paragraph 10 of Part 8 of this document. A Shareholder who is in any doubt as to his or her position, or is subject to tax in a jurisdiction other than the UK, should consult his or her professional advisers.

Paragraph 11 of Part 8 of this document includes information with respect to US taxation. However prospective investors who may be subject to taxation in the United States or are a US person are urged to consult their tax advisers regarding the US federal, state, local and other tax consequences of owning and disposing of the Placing Shares.

#### **19. CREST**

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument. The Articles of Association of the Company permit the holding of Ordinary Shares under the CREST system. The Company will apply for the Ordinary Shares to be admitted to CREST on the date of Admission.

#### **20. Settlement and Dealings**

Application will be made for the Ordinary Shares to be admitted to trading on AIM and it is expected that Admission will become effective and dealings in the Ordinary Shares will commence on 6 July 2004.

It is expected that the relevant Ordinary Shares will be delivered to the relevant CREST accounts on 6 July 2004 and that share certificates for the Ordinary Shares to be held in certificated form will be despatched by 20 July 2004. No temporary documents of title will be issued.

#### **21. Risk Factors**

The attention of potential investors is drawn to the “Risk Factors” set out in Part 7 of this document.

## PART 2

### Investments in PFI Projects

#### Origins

The Private Finance Initiative was launched in 1992 as a procurement process for the provision of services to the public sector with an infrastructure requirement. The best known examples are services relating to roads, hospitals and schools.

#### Structure

Typically, an SPC is formed by a consortium of contractors and equity providers who bid to provide services to the public sector client. The project will involve the design, construction, financing and operation of a building or other infrastructure. Once the project is operational, the SPC is paid for the provision of the services over the remainder of the concession, generally between 20 and 30 years. Any excess after repayment of the project debts and payment of operational costs is available to the Equity investors in the project. The cost of capital in PFI projects is higher than the cost of general public sector borrowing because of the risks which are transferred. Nonetheless, PFI offers the public sector substantial advantages in passing construction and operational risks from it to private sector contractors and in focusing attention on the whole-life costs of the project. In particular, it successfully eliminates (from the public authority's standpoint) the risks of time and cost over-run, which have historically been major problems in public procurement.

The typical capital structure of an SPC formed to undertake a PFI project is as follows:

Senior debt	90 per cent.
Equity	10 per cent.

Equity comprises share capital of and subordinated debt issued by the SPC.

Banks or bond holders normally lend around 90 per cent. of the initial project costs. Risk to the senior lender is limited given a secure cash flow from a public authority client; most costs are predetermined at contracted levels and payment deductions are generally met by the subcontractors to whom the risk is passed.

The balance of the financing, some 10 per cent. of initial project costs, is represented by Equity. Equity in SPC's is usually structured as a nominal amount of share capital with the balance being deeply subordinated debt. Share capital and subordinated debt are normally transferred together. The subordinated debt instrument allows the Equity to yield income (the subordinated debt coupon) irrespective of distributable profits.

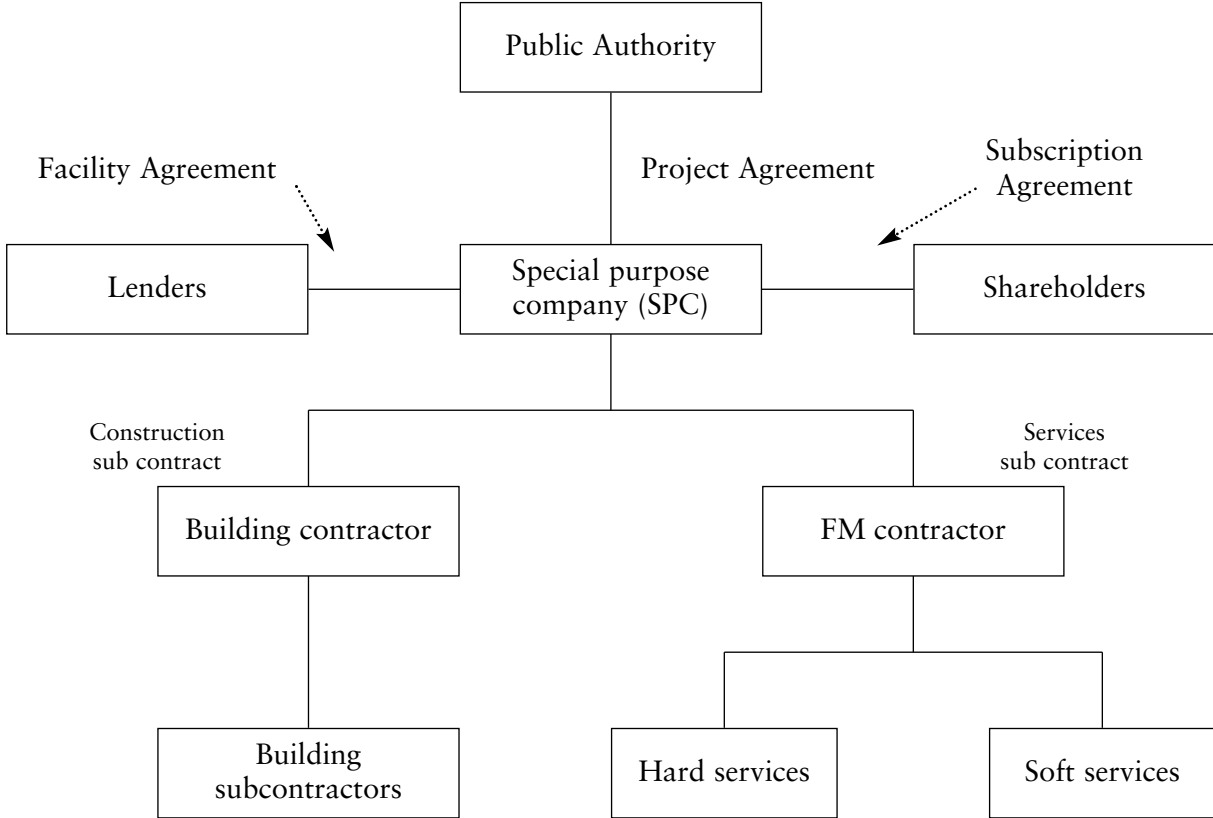
#### The Project Agreement

The foundation of the contractual matrix is the Project Agreement between the public authority and the SPC. This sets out the full obligations of the SPC, typically to provide services according to a given output specification to the public authority, over a contract term of 20–30 years. Provision of the services normally requires the construction of a building or other infrastructure, which must be maintained throughout the contract term together with the provision of funding for the capital expenditure.

Consequently the contract costs include life cycle maintenance and planned and reactive maintenance (Hard Services). They often also include Soft Services such as cleaning and janitorial services and may include other services such as catering and security. In return for the provision of these services, the public authority pays a unitary charge, which commences once the building is complete and the provision of services commences. Usually at the end of the term the building reverts to the public authority without further payment.

The SPC discharges these obligations by subcontracting substantially all of its contractual obligations to third parties. In the typical structure shown below, the principal contracts are the construction contract and the services contract. The construction contract provides for the design and construction of the facility, and includes contractual protection against defects and liquidated damages in the event of late completion. The services agreement covers all the services that the SPC is required to provide to the public authority once the building (or other infrastructure) is completed for use by the public authority. Depending on the scope of services, there may be specialist subcontracts, for instance covering catering.

A typical PFI contractual structure is outlined as follows, although considerable variations are possible:



PFI projects are major complex capital projects usually with significant maintenance requirements. The UK Government uses the private sector’s project management skills and risk management expertise to ensure the desired service standards are maintained over the life of the project.

The SPC is the main contractor with the relevant public authority and it typically takes all the risk of performance (both construction and operational) on the project. The risks are then passed on to subcontractors whose expertise in a particular area enables them to manage the relevant risks more effectively. For example the construction contractor, rather than the SPC, takes the initial risk of a construction delay.

However, areas in which costs and/or risks are retained within the SPC include:

- Insurance premia
- SPC administration and management costs
- The covenant of the contractor: in the event of failure of a subcontractor to the project, the SPC retains the risk that a new contractor can be found to perform the obligations provided and on similar financial terms as contracted

- Disputes with the public authority or a subcontractor over the terms of the contract
- Professional advisory costs for the SPC in dealing with disputes and matters such as tax
- In some cases it may not be possible to transfer all the life cycle costs to the FM Contractor at a sensible cost and these costs may also be retained by the SPC
- In general the liability of subcontractors is subject to caps

In view of the contractual risk allocation between the SPC and its subcontractors, its financial affairs can be forecasted relatively accurately. The unitary charge has behind it the covenant of the public or similar authority, (some or all of which is index linked so as to inflate in line with RPI) and providing a measure of protection against rising SPC operating costs to the extent of the rate of inflation. Similarly the subcontracts are generally entered into for the full contract term, often with regular benchmarking of some of the costs. The result is a net cash flow which remains subject to risks but still has a high degree of reliability and certainty.

### **Typical Terms of Investment in the SPC**

The Equity investors in the SPC are entitled to the financial surpluses of the company once all of the costs have been met, including operating costs, senior debt service and tax. The returns are projected using a financial model for the SPC.

The capital from an Equity investor must be committed irrevocably at the outset. Returns by way of subordinated debt interest start to flow from services commencement when income starts to flow from the public authority. Towards the end of the concession period dividends can be expected and cash flow to investors should be substantial in the final 2 to 3 years, by which time all senior debt has been repaid. Subordinated debt is typically repaid either in a single tranche towards the end of the project term or on a repayment schedule spread over a number of years.

### **Investment Returns in Primary PFI Projects**

A Primary PFI Investment is made on the basis of a financial model prepared for the new SPC, setting out detailed financial projections monthly during the construction phase and six monthly from services commencement until expiry of the project agreement, typically after 20 to 30 years. The model will illustrate the projected financial returns to Equity, being subordinated debt interest and dividends. In the current market, the yield over the project life shown on the initial investment is in the range of approximately 12-14 per cent.

### **Investment Returns in Secondary PFI Investments**

Equity returns available on Secondary PFI Investments depend on supply and demand in the market. The time of greatest risk in the life of a PFI project is perceived to be the construction and commissioning period. Once the project is running smoothly, after services commencement, completion of construction and start up risks are reduced, there is justification for valuing Equity cashflows to provide a lower yield over the project life than would be applicable to a Primary PFI project. Purchases of Secondary investments where there has been a reduction in risk may allow for refinancing which will result in tighter banking terms, through a reduction in senior debt interest rate margin and through a reduction in the required debt service cover ratio, after sharing the gains within the public sector. Secondary PFI Investments are currently priced to provide a yield over the project life of 9-11 per cent. The overall yield may be lower than for Primary Investments but it will generally start paying out immediately.

## PART 3

### The Acquisition and the Initial Portfolio

#### Part A – The Acquisition

Pursuant to the Acquisition Agreement entered into on 29 June 2004, PFI Finance has conditionally agreed to acquire the Equity interests held by HBOS, Uberior, and QMH (collectively the Vendors) in the capital of the following SPCs comprised within the Initial Portfolio:

- LH Project Limited – Larkfield Hospital
- CH Bolton (Holdings) Limited – Castle Hill Community Learning Centre
- KE Project Limited – James Watt College of Further Education
- Bannockburn Group Limited – Bannockburn MOD Housing

#### Consideration

The consideration for the Acquisition will be apportioned between the Vendors such that HBOS and Uberior receive the sum of £6,176,194 in aggregate and QMH receives the sum of £1,989,116 in aggregate.

The consideration is subject to adjustment for a material disclosure by the Vendors during the period between the date of the Acquisition Agreement and Completion. In this context material is defined as an amount in excess of £15,000. The consideration is also subject to adjustment (i) following completion of the model audits in respect of Larkfield Hospital, Castle Hill Community Learning Centre and James Watt College of Further Education and (ii) in respect of Bannockburn MOD Housing if sufficient payment is not made under the John Mowlem & Company PLC retention bond and/or the Customs & Excise determine that the unitary charge comprises (in whole or in part) consideration for an exempt supply for the purposes of VAT.

#### Conditions

Completion of the Acquisition is conditional on, *inter alia*, (i) the Placing Agreement, the Investment Management Agreement and the Amendment and Restatement Agreement having become unconditional and (ii) Admission.

In the event that the conditions have not been satisfied or waived (as the case may be) on or prior to the long stop date, being 15 July 2004 PFI Finance shall have the option at its sole discretion to terminate the Acquisition Agreement.

#### Warranties

The Vendors have severally given PFI Finance certain warranties relating to title to their loan stock and shares, their respective authority and capacity to enter into the Acquisition Agreement (and all ancillary documents) and certain additional warranties relating to the Initial Portfolio. These warranties will be deemed repeated at Completion. The warranties are qualified by reference to the information in the disclosure letter delivered at exchange and any supplemental disclosure letter given on or before Completion.

It has been agreed that save in respect of the warranties relating to title and capacity and in the event of fraud, the Vendors' liability for a warranty claim will be limited to the value of their respective percentage holdings in the SPCs the subject of the Acquisition Agreement and that the warranty period (other than in respect of taxation warranties) will expire for the Vendors on 31 March 2006. The warranty period for taxation claims will expire on the seventh anniversary of the date of Completion.

**Termination**

PFI Finance shall also be entitled to terminate the Acquisition Agreement following exchange and prior to Completion for any material disclosure in respect of which a price adjustment has not been agreed between the parties.

## Part B – The Amendment and Restatement Agreement

Pursuant to the Amendment and Restatement Agreement entered into on 29 June 2004, PFI Finance has, *inter alia*, conditionally agreed to become a limited partner in the First Fund. The First Fund holds Equity interests in the following project companies comprised within the Initial Portfolio:

- Robertson Education (Aberdeenshire) Holdings Limited – Aberdeenshire Schools
- LH Project Limited – Larkfield Hospital
- CH Bolton (Holdings) Limited – Castle Hill Community Learning Centre
- Robertson Education (Ingleby Barwick) (Holdings) Limited – Stockton Schools
- Robertson Health (Chester-le-Street) (Holdings) Limited – Chester-le-Street Community Hospital
- KE Project Limited – James Watt College of Further Education
- Bannockburn Group Limited – Bannockburn MOD Housing
- Falkirk Schools Partnership Limited – Falkirk Schools
- ESP (Holdings) Limited – Edinburgh Schools
- Tiverton Healthcare Facilities (Holdings) Limited – Tiverton Community Hospital
- Lighting for Staffordshire Holdings Limited – Staffordshire Street Lighting
- Lochgilphead Healthcare Services (Holdings) Limited – Lochgilphead Hospital
- Robertson Health (Forfar) Holdings Limited – Forfar & Kirriemair Community Resource Centre
- Salisbury Healthcare Facilities (Holdings) Limited – Salisbury Hospital

PFI Finance will become a limited partner in the First Fund by investing cash into the partnership through a nominal consideration of £100 and a partner loan of £11,871,880. PFI Finance will be obliged to make further loans to the partnership or receive a re-payment in respect of its loan to the partnership (as the case may be) in the event of any post-completion adjustments which are made to the value of certain of the projects within the Initial Portfolio, being Aberdeenshire Schools, Larkfield Hospital, Castle Hill Community Learning Centre, Stockton Schools, Chester-le-Street Community Hospital, James Watt College of Further Education, Bannockburn MOD Housing, Falkirk Schools and Edinburgh Schools.

### Conditions

Completion of the Amendment and Restatement Agreement is conditional upon, *inter alia*, completion of the Acquisition Agreement and completion of the transfer out of the First Fund of its interest and investment in the Calderdale Project.

### Deed of Warranty

Pursuant to the Deed of Warranty dated 29 June 2004, the existing limited partners, being QMH and Uberior (collectively the Warrantors), have severally given PFI Finance similar warranties to those given under the Acquisition Agreement together with certain other warranties in respect of the First Fund. These warranties will be deemed repeated upon completion of the Amendment and Restatement Agreement. The warranties are qualified by reference to the information in the disclosure letter delivered at exchange and any supplementary disclosure letter given on or before completion.

The limitations on the Warrantors' liability under the Deed of Warranty are in similar form to those which are described in respect of the Acquisition Agreement in Part A above.

HBOS is party to the Deed of Warranty as guarantor of the payment of all sums due, owing or outstanding from Uberior under the Deed of Warranty to PFI Finance or the First Fund.

### **Termination**

The Amendment and Restatement Agreement shall terminate in the event that the conditions to which it is subject are not satisfied or waived (as appropriate) on or before the long stop date, being the 15 July 2004. In certain circumstances, PFI Finance shall also be entitled to terminate the Amendment and Restatement Agreement following exchange and prior to completion for any material disclosure in respect of which a price adjustment has not been agreed between the parties.

The Deed of Warranty shall terminate in the event that completion does not occur on or before the above-mentioned long stop date or where the Amendment and Restatement Agreement is terminated in accordance with its terms.

### **Amended and Restated Partnership Agreement and APP**

On completion of the Amendment and Restatement Agreement, the existing partnership agreement in respect of the First Fund will be amended and restated pursuant to the Amended and Restated Partnership Agreement to reflect, inter alia, the introduction of PFI Finance as an additional limited partner. The Amended and Restated Partnership Agreement governs the relationship between the partners to the First Fund and their agreement as to how the First Fund shall be managed and operated.

In particular, the Amended and Restated Partnership Agreement will permit the payment of an APP from the First Fund to its existing limited partners, being QMH and Uberior. The APP will comprise a repayment of the relevant limited partners' outstanding loan contribution together with an amount representing an estimate of each such partners' future profits.

Following the payment of an APP to an existing limited partner, that limited partner will have reduced rights under the Amended and Restated Partnership Agreement and will become a 'Non-Participating Limited Partner'. A Non-Participating Limited Partner will retain:

- a nominal entitlement to future profits;
- the right to receive further additional APPs in the event that any positive completion adjustments are made to the value of certain projects in accordance with the terms of the Amended and Restated Partnership Agreement;
- a return of their nominal capital contribution in the event of a winding up of the partnership.

### **Investment Management Agreement and Operator Agreement**

Pursuant to the Amended and Restated Partnership Agreement the general partner, Quayle Munro Fund Managers Limited will be obliged to appoint QM (a regulated entity for the purposes of the First Fund) as investment manager to the First Fund for a nominal fee by entering into an investment management agreement (substantially on the same terms as the Investment Management Agreement) and as operator by entering into an operator agreement.

## **Part C – The Initial Portfolio**

Below is a brief summary of each project comprised in the Initial Portfolio.

### **Aberdeenshire Schools – Robertson Education (Aberdeenshire) Holdings Limited**

Aberdeenshire Council appointed the SPC in March 2001 to carry out the refurbishment, extension and new build work at Banff and Meldrum primary schools and Old Meldrum secondary school and the operation and maintenance of these facilities plus design and build works only at Banff Secondary School. The construction phases on the project were completed in 2002 and the Project Agreement expires in 2027. The FM Provider is Robertson Facilities Management Limited.

### **James Watt College of Further Education – KE Project Limited**

The Board and management of the James Watt College of Further and Higher Education appointed the SPC in March 1999 to design, construct and operate a new further education college (to be known as North Ayrshire College Campus of James Watt College of Further and Higher Education) at Howgate, Kilwinning, Ayrshire. The construction phase was completed in June 2000 when services commenced. The Project Agreement and the FM agreement expire in June 2025. The FM Provider is Dawn Construction Limited.

### **Larkfield Hospital – LH Project Limited**

The Argyll and Clyde Acute Hospital NHS Trust appointed the SPC in May 1999 to design, construct, operate and maintain a new hospital aimed at providing services for the elderly and young physically disabled in Inverclyde. The construction phase for this project was completed in October 2000 and services commenced in November 2000. The Project Agreement expires in 2025. The FM provider is Dawn Construction Limited.

### **Edinburgh Schools – ESP (Holdings) Limited**

The City of Edinburgh Council appointed the SPC in November 2001 to carry out the refurbishment of existing primary, secondary and special schools and the construction of new primary, secondary and special schools and the operation and maintenance of these schools (including preparation and services in relation to playing fields). All building and refurbishment work for Phase 1 was completed by the end of 2003 and Phase 1 of the project is now in its services phase; the Authority has instructed the SPC to commence Phase 2 (being additional schools). The construction contractor is Miller Construction (UK) Limited while further substantial works designated as Stage 2 are currently in the construction phase. The project agreement expires in August 2033. The FM Provider is Amey BPO Services Limited.

### **Castle Hill Community Learning Resources Centre – CH Bolton (Holdings) Limited**

The Borough Council of Bolton appointed the SPC in March 2002 to design, build, operate, finance and maintain a community learning and resources centre incorporating a primary school. The main building phase of the project was completed in September 2003 when services commenced. The operating contract period expires in September 2028. The FM Provider is Dawn Construction Limited.

### **Ingleby Barwick, Stockton on Tees Schools and Public Library – Robertson Education (Ingleby Barwick) (Holdings) Limited**

The Stockton on Tees Borough Council and the Temporary Governing Body of All Saints Voluntary Aided Church of England Schools appointed the SPC in April 2002 to design, build, finance and operate a new community campus in Ingleby Barwick, including a secondary school,

a primary school and a nursery. The building phase of this project was completed in September 2003 and services and service payment commenced in September 2003. The Project Agreement expires in September 2028. The FM Provider is Robertson Facilities Management Limited.

#### **Chester-le-Street Community Hospital – Robertson Health (Chester-le-Street) (Holdings) Limited**

The North Durham Healthcare NHS Trust appointed the SPC in May 2002 to construct a new hospital and provide services to it. The construction phase of the project was completed in October 2003 when services commenced. The Project Agreement expires in May 2032. The FM Provider is Robertson Facilities Management Limited.

#### **Tiverton Community Hospital – Tiverton Healthcare Facilities (Holdings) Limited**

The Mid Devon Primary Care Trust appointed the SPC in July 2002 to design and construct a hospital and to provide equipment and Hard Services. The construction phase for this project completed in March 2004 when services commenced. The Project Agreement expires in January 2034 whilst the Hard Services agreement will expire in the first quarter of 2009. The FM Provider is Parsons Brinckerhoff Limited.

#### **Falkirk Schools – Falkirk Schools Partnership Limited**

Falkirk Council appointed the SPC in August 1998 for the design, construction and operation of five secondary schools on four sites. The SPC employs a small administration staff headed by a general manager and most facilities management functions are subcontracted to Mitie Olscot Limited. The Project Agreement expires after the beginning of the Autumn term in 2025. Hard FM Services were provided by Wiltshier Facilities Management Limited until it went into administration in 2003. Since then, Mitie Olscot Limited has been providing the relevant services and the SPC is in the process of novating the Hard FM agreement to it. Under the Project Agreement, the SPC was obliged to obtain certain insurances, including insurance to cover the design team. The board of the SPC is currently obtaining quotes from its insurance broker in order to comply with this requirement. At the date of this document, no decision has been taken by the local authority or the senior funders to waive or insist that the requirement is met.

#### **Staffordshire Street Lighting – Lighting for Staffordshire Holdings Limited**

Staffordshire County Council appointed the SPC in March 2003 to design, provide, install and maintain street lighting and illuminated traffic signage. Services commenced in May 2003 and the Project Agreement expires in May 2028. The FM Provider is ABB Limited.

#### **Lochgilphead Hospital Project – Lochgilphead Healthcare Services (Holdings) Limited**

The Argyll and Clyde Health Board appointed the SPC in February 2004 to finance, design and construct a new Mid Argyll hospital and to provide certain services in connection with the hospital. This project is still in the construction phase and is due to complete in March 2006. The construction contractor is Balfour Beatty Construction Limited. The FM Provider is Parsons Brinckerhoff Limited. The Project Agreement expires in March 2036.

#### **Forfar and Kirriemuir Community Resource Centre – Robertson Health (Forfar) Holdings Limited**

Tayside Primary Care NHS appointed the SPC in September 2003 to build and operate a community resource centre. The construction phase is due to complete in December 2004 and the Project Agreement expires in December 2029. The construction contractor is Robertson Group (Construction) Limited. The FM Provider is Robertson Facilities Management Limited.

**Salisbury Hospital Project – Salisbury Healthcare Facilities (Holdings) Limited**

The Salisbury Health Care National Health Service Trust appointed the SPC in March 2004 for the financing, design and construction and provision of services in connection with an extension to the Salisbury District Hospital. Completion of the works is subject to a 2 phase programme. The Phase 1 completion date is scheduled to be July 2005 and Phase 2 completion date is scheduled to be January 2006. The Project Agreement expires in January 2036. The construction contractor is MJ Gleeson Group PLC and the FM Provider is Parsons Brinckerhoff Limited.

**Bannockburn MOD Housing – Bannockburn Group Limited**

The MOD appointed the SPC in August 1999 to construct and maintain 164 houses located in two locations in Edinburgh and one executive estate in Glasgow. This is not a typical PFI project in that at the end of the concession, the housing stock will be owned by the SPC and therefore the SPC is taking the residual value risk. In addition, the SPC will gradually take demand risk in that towards the end of the concession the MOD is entitled to release a number of units per year to the open market from 1 January 2007. The Project Agreement expires in March 2022 and the FM Agreement is for a duration of 7 years only. The FM Provider is John Mowlem & Company PLC trading as Skillbase.

## PART 4

### Valuation Report on the Initial Portfolio



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The Directors  
Collins Stewart Limited  
9th Floor  
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1 July 2004

Dear Sirs

We are writing to provide to the directors of The PFI Infrastructure Company plc ("the Company") and to Collins Stewart Limited ("Collins Stewart") as nominated adviser to the Company our opinion as to the aggregate value ("Valuation Opinion") of the interests being acquired both directly and indirectly by PFI Infrastructure Finance Limited ("PFI Finance") (together the "Consolidated Interests") in the Initial Portfolio.

The companies and interests that have been valued are set out in Appendix 1 to this letter.

#### **Purpose**

Our Valuation Opinion has been provided to the directors of the Company and Collins Stewart solely for their benefit in connection with the proposed acquisition by PFI Finance of the Consolidated Interests ("Acquisition") as set out in this Placing and Admission Document, and it may not be used or relied upon by any other person or persons or for any other purpose whatsoever. No duties or responsibilities are accepted by KPMG Corporate Finance in connection with this letter to any person or persons other than the directors of the Company and Collins Stewart. In providing our Valuation Opinion, KPMG Corporate Finance is not making any recommendations to any person regarding the Placing and Admission in whole or in part and is not expressing an opinion on the fairness of the terms of the Acquisition or the terms of any investment in the Company.

#### **Valuation Basis and Valuation Assumptions**

This letter sets out our opinion as to the aggregate value of the Consolidated Interests as at 1 July 2004 assuming a willing buyer and seller, dealing at arm's length and with equal information.

In determining our Valuation Opinion, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that has been furnished to us by the Company and Quayle Munro Limited (“QM”) or otherwise reviewed by us or which is publicly available. We have not verified the accuracy or completeness of any such information.

Our Valuation Opinion is necessarily based on economic, market and other conditions as in effect on, and the information available to us as of 1 July 2004. It should be understood that subsequent developments may affect our views and that we do not have any obligation to update, revise or reaffirm the views expressed in this letter. Specifically it is understood that our Valuation Opinion is liable to change as a consequence of changes to market conditions, the prospects of the PFI sector in general or the companies in the Initial Portfolio (“SPCs”) in particular. Our Valuation Opinion is also liable to change as a consequence of changes in the circumstances described in the risk factors set out in Part 7 of this Placing and Admission document entitled “Risks Associated with PFI projects”.

In providing this letter we have relied upon the Company’s directors’ and QM’s commercial assessment of a number of issues including the markets in which the SPCs operate, and the assumptions underlying the projected financial information which was provided by the Company and QM and for which the directors of the Company are wholly responsible.

Our Valuation Opinion has been determined using discounted cash flow methodology whereby the cashflows generated by each SPC and attributed to the Consolidated Interests have been discounted by a rate of return reflecting risk associated with the Initial Portfolio and the time value of money. In determining the rate of return applicable to the various SPC projects in the Initial Portfolio, we took into account factors including the stage reached by each project, the period of operation, historical track record and the terms of the project agreements. The discount rates applied in valuing the interests in the Initial Portfolio range from 9.7 percent. to 12.1 percent.

Our Valuation Opinion is based on the following key assumptions:

- The investment models for the SPCs provided to us by QM for the purpose of our Valuation Opinion accurately reflect the terms of all agreements relating to the SPCs and present a fair and reasonable estimation of future cash flows accruing to the holders of subordinated debt and equity of each SPC;
- The accounting policies applied in the investment model for each SPC are in accordance with UK GAAP;
- The tax treatment applied in the investment model for each SPC is in accordance with the applicable tax legislation and does not materially understate the future liability of the SPCs to pay tax;
- The SPCs have legal title to all assets which are assumed in the SPC investment models to generate income for the SPC and the SPCs are entitled to receive income assumed to be realised in the investment models;
- The investment models reflect a fair and reasonable estimation of the obligation of each SPC, as applicable, to pay future insurance costs, costs associated with general and other changes in law, life cycle maintenance costs and employee, professional advisory and any other costs; and
- There are no disputes with parties contracting directly or indirectly with each SPC nor any going concern issues or performance issues as regards contracting parties nor any other contingent liabilities which as at the date of our Valuation Opinion are expected to give rise to a material adverse effect on the future cash flows of each SPC.

**Valuation Opinion**

KPMG Corporate Finance advises the directors of the Company and Collins Stewart that, based on market conditions on 1 July 2004 (being the latest practicable date prior to the publication of this document), and on the assumptions stated above, in our opinion the price being paid for the Consolidated Interests in the Initial Portfolio (comprising the initial consideration of £20.037m and the adjustment to the consideration to be calculated under the mechanism set out under the terms of the Acquisition) is fair and reasonable as far as the Company is concerned.

**General**

KPMG Corporate Finance is acting exclusively for the Company and Collins Stewart and no one else in connection with our Valuation Opinion and will not be responsible to anyone other than the Company or Collins Stewart for providing the protections afforded to its clients or for providing advice in relation to our Valuation Opinion, the contents of the Placing and Admission Document or any matters referred to therein.

Yours faithfully  
for and on behalf of KPMG Corporate Finance

Partner, KPMG LLP

## Appendix 1

<i>Company</i>	<i>Consolidated Interests</i>	
	<i>Equity</i>	<i>Subordinated debt</i>
● Aberdeenshire Schools	20%	20%
● James Watt College	90%	90%
● Larkfield Hospital	90%	90%
● Edinburgh Schools	10%	10%
● Castle Hill Community Learning Resources Centre	80%	80%
● Ingleby Barwick, Stockton on Tees Schools and Public Library	20%	20%
● Chester-le-Street Hospital	20%	20%
● Tiverton Community Hospital	40%	48%
● Falkirk Schools	3%	3%
● Staffordshire Street Lighting	40%	40%
● Lochgilphead Hospital Project	40%	40%
● Forfar and Kirriemuir Community Resources Centre	40%	40%
● Salisbury Hospital Project	40%	46%
● Bannockburn Group	98%	98%

## PART 5

### The Investment Manager

#### Investment Management Agreement

Under the Investment Management Agreement, QM has been appointed to manage the Group's investment portfolio, subject to the overall supervision of the Directors in accordance with the investment objective set out in paragraph 2 of Part 1 of this document.

The Group's investments will be managed in accordance with the investment objective and policy from time to time amended by the Directors. Under the Investment Management Agreement, the Investment Manager will receive an aggregate annual management fee from the Group of 1.5 per cent. of the cost of the investment assets of PFI Finance plus 1.0 per cent. of cash or near-cash holdings. In addition QM will receive an annual fee for accounting and bookkeeping services and a performance fee, details of which are set out in paragraph 12.7 of Part 8 of this document. The Investment Management Agreement is terminable by the Group and the Investment Manager on 12 months' written notice, such notice may be given on or after the fourth anniversary of the date of Admission. The Investment Management Agreement may also be terminated upon three months written notice after the occurrence of certain half yearly assessment dates if the Group does not achieve certain minimum gross returns. The first assessment date is due to occur upon the earlier of 31 December 2007 or the anniversary of the date upon which the portfolio of the Group becomes fully invested although the Board has reserved the right to bring forward such assessment dates if minimum gross returns are not met during any period from Admission to 30 June 2005, 2006 or 2007.

#### Background to Quayle Munro

QM was incorporated on 4 February 1983 and is regulated and authorised by the FSA. QM is owned by QMH, an independent investment banking group with offices in Edinburgh and London which specialises in investing in and advising the smaller company. It also has a significant practice in transactions involving the introduction of private sector capital and management to public sector enterprises, including PFI projects.

QM was co-founded in 1983 by its present Chairman, Ian Quayle Jones. From inception, the firm has engaged in three core merchant banking activities: corporate finance advisory services, investment management for third party clients, and investment on its own account.

#### Investment Management

On its formation in 1983, QM assumed the management of two small investment companies, namely East of Scotland Onshore plc and East of Scotland Industrial Investment plc (ESII), an institutionally backed investment company focused on small to medium size businesses. In 1993, QM reversed into the remainder of ESII, following a distribution of approximately two thirds of its resources by the payment of a large special cash dividend. ESII was then renamed Quayle Munro Holdings PLC, and at that time the group obtained a full listing on the London Stock Exchange. Since that date, QMH has continued to manage its own portfolio of investments, split between unlisted investments, listed securities, investments in PFI companies and cash. QMH has had an excellent investment record growing assets over eleven years from £5 million to £24 million including special (i.e. capital) dividends and share buy-backs, giving an annual compound rate of return to shareholders of 21 per cent. In 2003 the listing of QMH was transferred to AIM.

Up to 2000 QM invested a total of £1.4 million on its own account in three PFI projects. In 2001 it formed the Quayle Munro PFI Fund in partnership with a subsidiary of the Bank of Scotland, now HBOS. This fund has invested a total of £5.1 million in 10 Primary PFI Investments (all of which are included in the Initial Portfolio) and £6.4 million in 5 Secondary PFI Investments, four

of which are included in the Initial Portfolio and three of which were already direct investments by QMH.

### **Corporate Finance**

Initially QM's corporate finance client base was confined mainly to the private sector, including capital raising and mergers and acquisitions. In the late 1980s, QM began to win substantial public sector work, mainly for the Scottish Office on privatisation and related studies on the introduction of private sector capital and management for public infrastructure. This led naturally into PFI: QM advised the Scottish Office on Scotland's first project using PFI techniques, the Skye Bridge, starting in 1990. Two major public sector remits were as financial adviser to the Scottish Office on the options for the introduction of private sector capital and management to the water and sewerage industry in Scotland in 1992/3 and to OPRAF in franchising ScotRail in 1995-7. A significant part of QM's advisory activity is now concerned with PFI, which encompasses work for public bodies on PFI procurement and for private sector participants in PFI projects, in addition to its PFI – related fund management activity. QM is actively involved in PFI projects across the UK.

In addition to consortia bidding for PFI projects, in which the Company may become a shareholder, QM provides financial management and corporate finance advisory services to SPCs in the Initial Portfolio. All these activities are expected to continue after the Acquisition, on arms length commercial terms.

### **Debt Advisory**

QM has recently established a specialist debt advisory business, led by Miriam Greenwood who was a founder director of British Linen Advisers and previously the Managing Director of Morgan Grenfell in Scotland. The team's expertise in advising on raising and structuring debt in the debt and capital markets for private and public sector bodies represents an additional resource in advising clients on debt strategies for PFI projects.

These various strands of activity combine to give the QMH group an in depth understanding and involvement in the PFI/PPP market as it has developed in the UK.

### **Investment Management Duties and Investment Process**

Under the Investment Management Agreement, the duties of QM will include advising on actions relating to investments or potential investments which are consistent with the investment objective and policies of the Group and evaluating opportunities. Prior to making any investment or disposal on behalf of the Group, the Investment Manager will present the Board with its proposals for their review and consent. Investment policies will be determined by the Board. QM will report regularly to the Board on the progress of individual investments and on progress in investing in Primary and Secondary PFI investments, and any issue concerning potential conflict of interest will be brought to the attention of the Board.

QM will only have authority to negotiate and commit investments or disposals on behalf of the Company once the Board has approved the investment or disposal in question. Within QM this process will be controlled through the Investment Committee which will be established by QM and constituted with the approval of the Board. Any change to the Investment Committee will require the approval of the Board and QM will present proposed investments and disposals to the Investment Committee in accordance with the formal process determined by the Board from time to time. The Investment Committee will include the QM directors named below.

## Key Personnel

QM has an experienced team of professionals that specialise in PFI and PPP transactions. Their experience comes from both acting as financial adviser to government agencies and private sector consortium bidders in projects as well as acting as fund manager for the investments made through the Initial Portfolio.

Brief biographies of the key QM personnel are set out below.

*Ian Jones* MA, LLB, WS, part-time Executive Chairman of QMH. He was also Chief Executive until reaching the company's normal retirement age of 61 in July 2002. He is experienced in fund management and corporate advisory work in both listed and unlisted situations, and led the teams which worked on privatisation remits and in public to private studies. He has been responsible for the management of the resources in the QM Group and for the development of its professional resource base and capital assets. He retains an executive role and overall responsibility for QM's investment processes for and on behalf of the Company, and will chair the Investment Committee.

*Jo Elliot* MA, MBA, Chief Executive of QMH, joined the company in 1983 and became Managing Director in 1999 and Chief Executive in 2002. He has experience of a wide variety of private and public sector corporate finance transactions, including mergers and acquisitions, privatisation and railway franchising. He has been responsible within QM for leading the firm's PFI work on a number of projects as the initiative has developed, establishing QM as a significant force in the PFI market. He is a director of the 14 SPCs in the Initial Portfolio and will be a member of the Investment Committee.

*Alan Ritchie* B Acc, CA, Director of QMH, joined QM from Ernst & Young in 1996. He has been responsible for the day-to-day running of the First Fund, including the sourcing of new opportunities, negotiation of terms and management through to completion of an investment. He will have a similar role in relation to the Company. He has significant expertise in leading PFI projects for the health and education sectors advising both public sector and private sector clients. He will be a member of the Investment Committee.

## PART 6

### Accountant's Report on the Company



Ernst & Young LLP

The Directors,  
The PFI Infrastructure Company plc  
St James's Chambers  
Athol Street  
Douglas  
Isle of Man IM1 1JE

The Directors,  
Collins Stewart Limited  
9th floor  
88 Wood Street  
London EC2V 7QR

1 July 2004

Dear Sirs

#### 1. INTRODUCTION

We report on the financial information set out below. This financial information has been prepared for inclusion in the AIM admission document dated 1 July 2004 for The PFI Infrastructure Company plc (the "Company").

#### **Basis of preparation**

The financial information set out in paragraphs 2 to 3 is based on the audited financial statements of the Company as at 18 June 2004 to which no adjustments were considered necessary.

The Company was incorporated on 17 May 2004 and the audited financial statements as at 18 June 2004 were prepared for the purposes of the AIM admission document.

#### **Responsibility**

Such financial statements are the responsibility of the directors of the Company who approved their issue.

The directors of the Company are responsible for the contents of the AIM admission document dated 1 July 2004 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

#### **Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that

previously obtained by us relating to the audit of the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

### Opinion

In our opinion, the financial information gives, for the purposes of the AIM admission document dated 1 July 2004, a true and fair view of the state of affairs of the Company as at 18 June 2004.

### Consent

We consent to the inclusion in the AIM admission document dated 1 July 2004 of this report and accept responsibility for this report for the purposes of paragraph 45(8)(b) of Schedule 1, Part VII to the Public Offers of Securities Regulations 1995.

## 2. BALANCE SHEET

	<i>Note</i>	<i>At 18 June 2004 £</i>
<b>CURRENT ASSETS</b>		
Cash at bank and in hand		2
		<u>2</u>
		<u><u>2</u></u>
<b>CAPITAL AND RESERVES</b>		
Called up share capital	(ii)	2
Equity shareholders' funds		<u>2</u>

## 3. NOTES TO THE FINANCIAL INFORMATION

### (i) Accounting policies

#### *Basis of preparation*

The financial information has been prepared under the historical cost convention.

The accounts are prepared in accordance with applicable United Kingdom accounting standards.

#### *Capital instruments*

Shares are included in shareholders' funds. Other instruments are classified as liabilities if they contain an obligation to transfer economic benefits and if not they are included in shareholders' funds. The finance cost recognised in the profit and loss account in respect of capital instruments other than equity shares is allocated to periods over the term of the instrument at a constant rate on the carrying amount.

(ii) Share capital

	<i>At 18 June 2004</i>
	£
<b>Authorised</b>	
Ordinary shares of £1 each	2
	<u>2</u>
	<u><u>2</u></u>
	<i>At 18 June 2004</i>
	£
<b>Allotted, called up and fully paid</b>	
Ordinary shares of £1 each	2
	<u>2</u>
	<u><u>2</u></u>

On incorporation on 17 May 2004 as a public limited company, 2 ordinary shares were issued at £1 each.

(iii) Post balance sheet event

On 1 July 2004, the Company entered into agreements, as referred to in the prospectus, conditional on the admission of the ordinary share capital of the Company to AIM:

- (1) to subscribe for 10,810,000 Ordinary Shares of 10p each in PFI Infrastructure Finance Limited for cash; and
- (2) to subscribe for £28,106,000 11 per cent. Eurobonds due 2034 issued by PFI Infrastructure Finance Limited

Apart from these transactions and the issue of shares described in note (ii) the Company has not traded, paid a dividend or entered into any other transactions since incorporation.

(iv) Name and address of Auditor

Ernst & Young  
Rose House  
51-59 Circular Road  
Douglas  
Isle of Man  
IM1 1AZ

Yours faithfully

Ernst & Young LLP

## PART 7

### Risk Factors

In addition to all other information set out in this document, including in particular, the risks (if any) identified in the investments in the Initial Portfolio referred to in Part C of Part 3 of this document, the following specific factors should be considered carefully in evaluating whether to make an investment in the Company. The investment offered in this document may not be suitable for all of its recipients. An investment in the Company is only suitable for investors who are capable of evaluating the risks and merits of such investments and who have sufficient resources to bear any loss which might result from such investment. **If you are in any doubt about the action you should take, you should consult your stockbroker, accountant or other independent financial adviser duly authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.** This summary is not intended to be exhaustive.

#### 1. General Risks

##### 1.1 Investment in AIM Listed Securities

Investment in shares traded on AIM is perceived to involve a higher degree of risk and be less liquid than investment in companies whose shares are listed on the Official List. An investment in the Ordinary Shares may be difficult to realise. Prospective investors should be aware that the value of an investment in the Company may go down as well as go up and that the market price of the Ordinary Shares may not reflect the underlying value of the Company. Investors may therefore realise less than, or lose all of their investment.

##### 1.2 Share Price Volatility and Liquidity

The share price of quoted companies can be highly volatile and shareholdings illiquid. The price at which the Ordinary Shares are quoted and the price which investors may realise for their Ordinary Shares will be influenced by a large number of factors, some specific to the Company and its investments and some which may affect quoted companies generally. These factors could include the performance of the Company, large purchases or sales of the Ordinary Shares, legislative changes and general economic, political or regulatory conditions.

##### 1.3 Dividends

Dividend growth in the Ordinary Shares will rely on underlying returns on the investments of the Group and in particular, the dividend policy mentioned in Part 1 of this document should not be construed as a dividend forecast. Any change in the tax treatment of dividends or interest received by the Company may reduce the level of yield received by the Shareholders. The market value of the Ordinary Shares can fluctuate and may not always reflect the underlying asset value. There can be no guarantee that the Company's investment objective will be achieved.

##### 1.4 Taxation

Any change in the Company's tax status or in taxation legislation could affect the Company's ability to provide returns to Shareholders or alter post tax returns to Shareholders. Statements in this document concerning the taxation of investors in Ordinary Shares are based on current tax law and practice which is subject to change. The taxation of an investment in the Company depends on the individual circumstances of investors.

Any change in the tax status or tax residence of the Company or in tax legislation or practice may have an adverse effect on the returns available on an investment in the

Company. The Company is incorporated in the Isle of Man. Any changes under the laws of the Isle of Man to the basis on which Isle of Man companies may pay dividends could have an adverse effect on the Company's ability to pay dividends.

## **2. Risks Relating to the Business of the Group**

### **2.1 Unspecified Use of Proceeds**

As of the date of this document, and with the exception of the Acquisition, the Group has not selected the investments that it will make. The Shareholders will not have an opportunity to evaluate for themselves the relevant economic, financial and other information regarding the investments to be made by the Group and, accordingly, will be dependent upon the judgement and ability of the Investment Manager in investing and managing the assets of the Group. No assurance can be given that the Group will be successful in obtaining suitable investments, or that if such investments are made, the investment objective of the Group will be achieved.

### **2.2 Availability of Investments**

The success of the Group depends upon the ability of the Investment Manager to identify, select and execute investments that the Investment Manager and the Board believe offer the potential for satisfactory returns. The availability of such opportunities will depend, in part, upon conditions in the PFI market. Although the Group believes that significant opportunities currently exist, there can be no assurance that the Investment Manager will be able to identify and execute a sufficient number of opportunities to permit the Group to invest all of the Placing proceeds.

### **2.3 Structuring of Investments**

Although the SPCs in which the Group will invest are generally structured with the aim of passing substantial elements of business risk to subcontractors, such risk transfer may turn out to be contractually ineffective or the counterparty may not have the financial capacity to fulfil its contractual obligations. Some cost and income risks are incapable of transfer to third parties and will be retained by the SPCs. On the income side SPCs will be exposed to the risk of default by the counterparty to the Project Agreement.

### **2.4 Liquidity**

The majority of investments made by the Group will comprise unquoted interests in PFI companies which are not publicly traded or freely marketable and may, therefore be difficult to value and realise.

### **2.5 Competition**

The Group will be competing against other PFI investors for investment relationships with bidding consortia and the consortia will be competing with each other to win PFI contracts from public authorities. Competition for appropriate investment opportunities may increase, thus reducing the number of opportunities available and adversely affecting the terms upon which investments can be made.

### **2.6 Government Policy**

PFI is not the only way of funding UK Government projects. The UK Government may in future decide to favour alternative funding mechanisms or a variety of the structures described herein. In addition the Government may reduce the overall level of funding allocated to major capital projects. Both of the above may reduce the number of investment opportunities and/or reduce the returns from available investments.

## 2.7 Investment Manager

The Company is dependent upon the Investment Manager and its Investment Committee and may be adversely affected if the services of the Investment Manager and/or the Investment Committee cease to be available to the Company.

## 3. Risks Associated with PFI Projects

### 3.1 Failure of Contracting Parties

The performance of PFI investments can be adversely affected by the failure of parties with which the SPCs have contracted to fulfil their contractual obligations. The failure of a single contractor could adversely affect a number of SPCs in which the Group had invested.

### 3.2 Defects in Contractual Documentation

The contractual arrangements for PFI projects are structured so as to minimise risks inherent to projects which are retained by the SPC. The contractual documentation may be ineffective in distributing risks to the degree expected at financial close, resulting in unexpected costs or reduction in revenues which could impact adversely on investment returns. Due to commonalities in the drafting, such issues could affect a number of SPCs in which the Group had invested. The arrangements for allocation and mitigation of risks may be ineffective.

The SPC is allocated numerous responsibilities under the Project Agreements. To the extent borne by the SPC under the Project Agreement, risks are passed on to insurers or to sub-contractors, any residual risk being retained by the SPC. To the extent that the sub-contractors, their respective guarantors, the relevant public authority or insurers fail to meet the obligations in respect of risks that have been passed on to them, or claims by the SPC exceed agreed limits on liability, the SPC will continue to bear such risks to the extent defined in the relevant Project Agreement. Defects in financial modelling may cause an SPC to overestimate its future income or underestimate its future costs relative to the contractual position, resulting in lower returns to the shareholders.

### 3.3 Costs Overrun, Construction Delay

During the construction period there are risks that the works are not completed within the agreed time. To the extent that such risks are not borne by subcontractors, delays or cost overruns will affect the return on the investment in the SPC. A delay of any kind will result in a delay in receiving monthly payments for the use of the facility and will reduce the period in which payments are received as the length of the concessions are fixed.

### 3.4 Termination

The Project Agreement will give the relevant public authority and the SPC rights of termination. The compensation which the SPC will receive on termination will depend on the reason for termination. In some cases, notably SPC default, the compensation will not include amounts specifically to repay the Equity investment and is likely only to cover the amount of senior debt in the relevant SPC. In other cases (e.g. termination for *force majeure*) only the nominal value of the Equity is compensated. Typically, senior leaders will also have security over compensation proceeds.

### 3.5 Service Performance and Availability

Each service provided by the SPC will be monitored against agreed measures. Deficient performance can lead to deductions to availability payments which are only recoverable from a sub-contractor up to the liability cap agreed with the sub-contractor. In certain circumstances, poor performance may lead to termination of the concession or to the relevant public authority requiring the SPC to terminate the contract with the sub-contractor and retender the contract at the cost of the SPC.

### 3.6 Inflation and Deflation

Where the unitary charge payable to the SPC by the public sector is index linked, the returns to the Equity investors in the SPCs will be reduced in the event that wage costs rise faster than the rate of inflation. This risk is offset by a reduction in the real value of the debt to be repaid as inflation increases. Correspondingly, if deflation were to occur, the real value of the debt to be repaid would increase. The effect of inflation or deflation on each SPC will vary depending on that SPC's individual cost profile.

### 3.7 Financing Terms

Typically, the terms of the senior debt impose financial covenants on the SPCs; failure to comply with the financial covenants may result in an SPC being unable to declare or make distributions in respect of Equity.

## PART 8

### Additional Information

#### 1. Incorporation of the Company

The Company was incorporated as a public limited company in the Isle of Man under the Law with registered number 110877C on 17 May 2004.

The Company's registered office is at St. James's Chambers, Athol Street, Douglas, Isle of Man, IM1 1JE. The Company does not have a place of business within the United Kingdom.

#### 2. Subsidiary

PFI Finance was incorporated as a private limited company in England & Wales with registered number 5092397 on 2 April 2004 as DWSCO 2511 Limited and changed its name to PFI Infrastructure Finance Limited on 14 May 2004. The registered office of PFI Finance is c/o McDermott Will & Emery, 7 Bishopsgate, London EC2N 3AR.

#### 3. Share Capital

3.1 On incorporation the authorised share capital of the Company was £2,000 divided into 2,000 ordinary shares of £1 each of which 2 were issued. Since incorporation, there has been no change to the authorised or issued share capital of the Company.

3.2 On 29 June 2004, by special resolution conditional upon Admission:

3.2.1 the Articles (referred to in paragraph 5 below) were adopted;

3.2.2 the 2,000 Ordinary Shares of £1 each were subdivided into 20,000 Ordinary Shares;

3.2.3 the authorised share capital of the Company was increased to £4,500,000 by the creation of 44,980,000 Ordinary Shares;

3.2.4 the Directors were given authority to allot the Ordinary Shares up to a maximum aggregate nominal value of £4,476,160;

3.2.5 the Directors were empowered to allot the Ordinary Shares as if the pre-emption provisions in the Articles did not apply to any such allotment, such power (unless and to the extent previously revoked, varied or reviewed by the Company in general meeting) to expire on 29 June 2009 and be limited to:

- (a) the allotment of the Placing Shares in connection with the Placing;
- (b) the allotment of shares for cash to Shareholders where the shares respectively attributable to the interests of such Shareholders are proportionate (as nearly as may be practicable) to the respective numbers of Ordinary Shares held by them, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with any fractional entitlements or any legal or practical problems under the laws of, or the requirements of any regulatory body or any recognised stock exchange in any country or territory;
- (c) the allotment (other than pursuant to paragraphs (a) and (b) above) of shares up to a maximum aggregate nominal value of £167,857 (being equal to approximately five per cent. of the issued ordinary share capital of the Company immediately following the Placing) provided that the Company may before the expiry of this power, make an offer or agreement (limited to the maximum allotment permitted pursuant to this resolution) which would or might require shares to be allotted after the expiry of this power and the

Directors may allot equity securities in pursuance of such an offer or agreement as if such power had not expired;

3.2.6 the Directors were authorised to make market purchases (within the meaning of section 13 of the Companies Act 1992 (Isle of Man)) of Ordinary Shares provided that:

- (a) the maximum number of Ordinary Shares authorised to be acquired is 14.99 per cent. of the issued Ordinary Shares immediately following Admission;
- (b) the minimum price which may be paid for any such Ordinary Share is 10p;
- (c) the maximum price which may be paid for any such Ordinary Share is the amount equal to 105 per cent. of the average of the middle market quotations for an Ordinary Share as derived from the AIM appendix of the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which the Ordinary Share is purchased;
- (d) the authority shall expire 31 December 2005 or the next annual general meeting of the Company, whichever is later; and

3.2.7 £43,642,831 standing to the credit of the share premium account of the Company be, subject to the confirmation of the court, cancelled in accordance with section 57 of the Companies Act 1931 (Isle of Man).

3.3 The authorised share capital of the Company immediately following Admission will be £4,500,000 divided into 45,000,000 Ordinary Shares of which up to 33,571,429 Ordinary Shares will have been issued and credited as fully paid.

3.4 The authorised but unissued share capital of the Company immediately following Admission will be £1,142,857.10 representing approximately 25.4 per cent. of the authorised share capital.

3.5 Save as disclosed in paragraph 9 below, no commissions, discounts, brokerages or other special terms have been granted by the Company or any of its subsidiary undertakings in connection with the issue or sale of any Ordinary Share or loan capital of the Company or any of its subsidiaries.

#### **4. Memorandum of Association**

The Memorandum of Association of the Company provides that the objects of the Company are unrestricted and the Company has, by and subject to the Law, the same rights, powers and privileges as an individual, unless restricted by special resolution and no such restrictions have been imposed or are resolved to be imposed.

#### **5. Articles of Association**

The following is a description of the rights attaching to the Ordinary Shares based on the Company's Articles of Association which have been adopted, conditionally upon Admission (the "Articles"). This description does not purport to be complete and is qualified in its entirety by the full terms of the Articles.

##### **5.1.1 Rights Attaching to Ordinary Shares**

###### **(a) Voting**

Subject to disenfranchisement in the event of non-payment of calls or other monies due and payable in respect of Ordinary Shares or non-compliance with a statutory

notice requiring disclosure as to beneficial ownership of Ordinary Shares, and, without prejudice to any special rights previously conferred and subject 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 shareholder who is present in person at a general meeting of the Company shall have one vote, and on a poll every shareholder who is present in person or by proxy shall have one vote for every share held.

(b) *Dividends*

Subject to the Statutes (as defined in the Articles), the Company at a general meeting may declare dividends to be paid to shareholders according to their rights and interests in the profits available for distribution, but no dividend shall be declared in excess of the amount recommended by the Board. Except insofar as the rights attaching to, or the terms of issue of, any share otherwise provide, all dividends shall be declared according to the amounts paid-up on the Ordinary Shares and apportioned and paid pro rata according to the amounts paid-up on the Ordinary Shares during any portion or portions of the period in respect of which the dividend is paid. The Board may from time to time pay to the shareholders such interim dividends as appear to the Board to be justified by the position of the Company. Any dividend unclaimed after a period of 12 years from the date it became due for payment shall be forfeited and shall revert to the Company.

(c) *Distribution of Assets on Liquidation*

On a winding-up, the liquidator may, with the sanction of an extraordinary resolution of the Company and subject to and in accordance with the Statutes, divide among the shareholders in specie or kind the whole or any part of the assets of the Company, subject to the rights of any shares which may be issued with special rights or privileges.

5.1.2 Issues of Shares

Although there are no provisions in the laws of the Isle of Man equivalent to sections 89 to 96 of the English Act which confer pre-emption rights on existing shareholders in connection with the allotment of equity securities for cash, the Company's Articles contain provisions having a similar effect and giving Shareholders similar rights to rights of shareholders under the statutory provisions of sections 89 to 96 of the English Act.

5.1.3 Transferability of Ordinary Shares

All transfers of Ordinary Shares which are in certificated form may be effected by transfer in writing in any usual or common form or in any other form acceptable to the Board. 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. All transfers of Ordinary Shares which are in uncertificated form may be effected in accordance with the Uncertificated Regulations (as defined in the Articles).

The Directors may, in the case of Ordinary Shares in certificated form, in their absolute discretion and without assigning any reason therefore refuse to register any transfer of shares (not being fully-paid shares), provided that any such refusal does not prevent dealings in partly-paid shares from taking place on an open and proper basis. In addition, the Directors may refuse to register a transfer of shares (whether fully-paid or not) in favour of more than four persons jointly or made to or by an infant or patient within the meaning of the Mental Health Act 1998 (as amended).

The Directors may decline to recognise any instrument of transfer relating to shares in certificated form unless the instrument of transfer is duly stamped (if so required), is in respect of only one class of share and is lodged at the Transfer Office (as defined in the

Articles) accompanied by the relevant share certificates or such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer.

#### 5.1.4 Variation of Rights

Subject to the Act (unless otherwise provided by the terms of the issue of the shares of that class), the special rights attached to any class of shares for the time being issued, may from time to time (whether or not the Company is being wound-up) be altered or abrogated either with the written consent of the holders of three-quarters in nominal value of the issued shares of that class or with the sanction of an Extraordinary Resolution passed at a general meeting of the holders of that share class. The quorum at any such separate general meeting shall be two or more persons holding or representing by proxy not less than one-third in nominal value of the issued shares of the class (or in the case of an adjourned meeting any holder of shares of the class present in person or by proxy shall be a quorum). The special rights conferred upon the holders of any class of shares having preferential rights shall not, unless otherwise expressly provided by the terms of issue thereof, be deemed to be altered by the creation or issue of further shares ranking as regards participation in the profits or assets of the Company in some or all respects *pari passu* therewith but in no respect in priority thereto or by the purchase by the Company of any of its own shares.

#### 5.1.5 Shares

Subject to the provisions of the Act and to any special rights previously conferred on the holders of any shares or class of shares, the Company may issue redeemable shares. Subject to the provisions of the Act and to any special rights previously conferred on the holders of any existing shares, any share may be issued with such special rights or such restrictions as the Company may determine by ordinary resolution.

#### 5.1.6 Changes in Capital

The Company may by ordinary resolution increase its share capital, consolidate and/or divide, redesignate or convert all or any of its share capital into shares of a larger or smaller amount or into different classes of shares than its existing shares, 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 authorised share capital by the amount of the shares so cancelled, and sub-divide its share capital into shares of a smaller amount.

Subject to the provisions of the Act, the Company may reduce its share capital, any capital redemption reserve and any share premium account in any manner. The Company may also, subject to the requirements of the Act, purchase its own shares.

#### 5.1.7 Untraced Shareholders

Subject to various notice requirements, the Company may sell any shares of a member or person entitled thereto who is untraceable, if during a period of 12 years, at least three consecutive dividends in respect of the shares in question have become payable and the cheques or warrants for all amounts payable to such member or person in respect of his shares have remained uncashed or mandated dividend payments have failed and the Company has received no indication of the existence of such member or person. The net proceeds of sale shall belong to the Company but the member or person who had been entitled to the shares shall become a creditor of the Company in respect of those proceeds.

#### 5.1.8 Non-UK Shareholders

Save for a restriction upon Isle of Man resident persons who are not exempt from Isle of Man taxation from holding shares in the Company, there are no limitations in the Memorandum or Articles, on the rights of non-UK shareholders to hold, or exercise voting rights attaching to Ordinary Shares.

The Company may require the transfer of any shares held by any Isle of Man resident person who is not exempt from Isle of Man taxation.

#### 5.1.9 Sanctions on Shareholders

A holder of Ordinary Shares loses his rights to vote in respect of Ordinary Shares if and for so long as he or any other person appearing to be interested in those Ordinary Shares fails to comply with a request by the Company (as if the English Act applied to the Company) under the English Act requiring him to give particulars of any interest in those Ordinary Shares within 14 days in the case of shareholdings representing 0.25 per cent. or more, in nominal amount, of the share capital of the Company then in issue, or any class thereof; the sanctions which may be applied by the Company include not only disenfranchisement but also the withholding of the right to receive payment of dividends and other monies payable on, and restrictions on transfers of, the Ordinary Shares concerned.

#### 5.1.10 Disclosure of Interests

Shareholders who hold 3 per cent. or more of the Ordinary Shares will be required to notify their interests and any changes to such interests to the Company as if sections 198-202 of the English Act apply to the Company.

#### 5.1.11 Directors

The Directors (other than those holding executive office with the Company or any subsidiary of the Company) shall be paid by way of fees for their services at such rate and in such proportion as the Board may resolve, a sum not exceeding an aggregate of £175,000 per annum or such larger amount as the Company may by ordinary resolution determine. Any Director who holds an executive office or who performs duties outside the ordinary duties of a Director, may be paid such remuneration or extra remuneration by way of salary, commission or otherwise as the Board may determine.

The Directors shall also be paid all expenses properly incurred by them in attending meetings of the Company or of the Board or otherwise in connection with the business of the Company.

A Director who is in any way, whether directly or indirectly, interested in any contract or proposed contract with the Company shall declare the nature of his interest in accordance with the Statutes.

A Director shall not vote, and shall not be counted in a quorum, in respect of any contract, arrangement or proposal in which he has an interest which (together with any interest of any person connected with him) is to his knowledge a material interest (otherwise than by virtue of his interests in shares or debentures or other securities of or otherwise through the Company), except that this prohibition shall not apply to:

- (a) the giving of any security, guarantee or indemnity in respect of money lent or obligations incurred by him or any other person at the request of or for the benefit of the Company or any of its subsidiaries;
- (b) the giving of any security, guarantee or indemnity in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
- (c) any contract or arrangement by a Director to participate in the underwriting or sub-underwriting of any offer of shares, debentures or other securities of the Company or any of its subsidiaries for subscription purchase or exchange;
- (d) any contract or arrangement concerning any other company in which the Director and any persons connected with him do not to his knowledge hold an interest in

shares (as that term is used in sections 198 to 211 of the English Act) representing one per cent. or more of either any class of the equity share capital, or the voting rights, in such company. For the purpose of this paragraph, there shall be disregarded any shares held by a Director as bare or custodian trustee and in which he has no beneficial interest, any shares comprised in a trust in which the Director's interest is in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director is interested only as a unit holder;

- (e) any arrangement for the benefit of employees of the Company or any of its subsidiaries which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates;
- (f) any proposal concerning any insurance which the Company is empowered to purchase and/or maintain for or for the benefit of *inter alia* any Directors of the Company.

Subject to the provisions of the Statutes, and provided that he had disclosed to the Board the nature and extent of any material interest he may have, a Director notwithstanding his office may be a party to, or otherwise interested in, any transaction or arrangement with the Company or in which the Company is otherwise interested, may be a director or other officer of, or employed by, or a party to any transaction or arrangement with, or otherwise interested in, any body corporate promoted by the Company or in which the Company is otherwise interested and shall not, by reason of his office, be accountable to the Company for any benefit which he derives from any such office or employment or from any such transaction or arrangement or from any interest in any such body corporate and no such transaction or arrangement shall be liable to be avoided on the ground of any such interest or benefit. Any Director may act by himself or by his firm in any professional capacity (other than auditor) for the Company and he or his firm shall be entitled to remuneration as if he were not a Director.

The Directors are not required to hold qualification shares.

At each annual general meeting of the Company one-third (or the nearest number to one-third) of the Directors shall retire from office by rotation. The Directors to retire every year shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot. In addition, any Director who would not otherwise be required to retire shall retire by rotation at every third annual general meeting after his last appointment or re-appointment. A retiring Director shall be eligible for re-election.

The Company may from time to time by ordinary resolution appoint any person to be a Director.

The Directors may also from time to time appoint one or more Directors and any Director so appointed shall retire at or at the end of the next annual general meeting of the Company but shall then be eligible for re-election and any Director who so retires shall not be taken into account in determining the number of Directors who are to retire by rotation at such meeting.

The Board may from time to time appoint one or more Directors to be the holder of any executive office for such period and on such terms as it decides.

#### 5.1.12 Borrowing Powers

The Articles provide that the aggregate principal amount from time to time remaining undischarged of all monies borrowed by the Group (to include the Company and its subsidiaries for the time being) shall not, without the previous sanction of an ordinary

resolution of the Company, exceed an amount equal to the higher of £100,000,000 and an amount equal to four times the aggregate of the issued share capital and reserves of the Company adjusted in the manner set out in the Articles.

#### 5.1.13 Application of the English Act

Where referred to in the Articles, certain provisions of the English Act apply to the Company in their entirety, in addition to the provisions of the Act.

**The above is a summary only of certain provisions of the Articles, the full provisions of which are available for inspection as described in paragraph 16 below.**

## 6. Information on the Directors

6.1 There follows a list of the directorships (excluding directorships of the Company or of its subsidiaries) and partnerships held, or which in the five years preceding the date of this document have been held, by the Directors named in Part 1 of this document:

<i>Director</i>	<i>Current directorships</i>	<i>Past directorships</i>
Richard Jewson	111 Alderney Street (1981) Limited Savills plc Taverham Hall Educational Trust Limited East Port Great Yarmouth Limited Temple Bar Investment Trust plc Archant Limited Archant Profit Sharing Scheme Trustee Limited Archant Employee Benefit Trustee Company Limited Archant Charitable Trustee Company Limited Anglian Water Services Financing plc Anglian Water Services Limited Jarrold & Sons Limited Octagon Healthcare Funding plc Octagon Healthcare Holdings (Norwich) Limited Octagon Healthcare Limited Octagon Healthcare Group Limited Grafton Group plc Watts, Blake, Bearne & Company PLC	Delian Lloyd's Investment Trust plc AWG Group Limited Hy-phen.com Limited Archant Lifestyle plc Archant Regional Limited AWG plc AWG LTIP Limited Anglian Water LTIP Limited Queens Moat Houses plc Danogue plc Anglian Housing Group Limited
David Steeds	Autoroute de Liaison Seine Sarthe SA	Science Enterprises Limited Adept Solutions (UK) Limited 20/20 Speech Limited ZBD Displays Limited Bookcash Trading Limited The Gourmet Pizza Company Limited Speed 3969 Limited Wayracer Limited Halfcity Limited

<i>Director</i>	<i>Current directorships</i>	<i>Past directorships</i>
Tim Walker	Neptune Whitbread Hotel Limited Church Farm Consultants Limited Residan Ltd. Liselle Ltd Lawcall Insurance Limited Erissa Insurance Company Limited Promenade Investments Limited Heron and Brearley Limited	Whitbread Hotel Company Limited (previously Swallow Group plc) Strix (U.K.) Limited Swift Quest Limited Swift Inns and Restaurants Limited Swift (Lurchrise) Limited Swift Hotels Limited Swift Hotels (1995) Limited Swift Hotels (Management) Limited S.H. Ward & Company Limited W.R. Wines Limited Vaux Group Limited Vaux Breweries Limited Vaux Breweries (1995) Limited Vaux (Aviation) Limited Summerfields Care Limited Sprowston Manor Hotel Limited Sprowston Park Golf Club Limited Spring Soft Drinks Limited Small & Co. (Engineering) Limited Small & CO. Limited Percheron Properties Limited Norseman Lager Limited Morris's Wine Stores Limited Maintenance, Building & Signage Limited London International Hotel Limited Leisure and Retail Resources Limited Lambtons Ale Limited James Bell and Co Limited Gable Care Limited Finite Hotel Systems Limited Eagle Public House Company (Middlesborough) Limited W.M. Darley Limited Churchgate Manor Hotel Limited William Overy Crane Hire Limited Lurchrise Limited Sula Group Limited Strix Group Limited Strix Limited Sula Limited Strix Engineering Limited Malew Engineering Limited Westport Insurance Limited Strix (Hong Kong) Limited

<i>Director</i>	<i>Current directorships</i>	<i>Past directorships</i>
Tim Walker (continued)		Strix (Guangzhou) Limited Strix Europe SA Strix SA Proprietary Limited Strix Limited (India Liaison office) Strix Australia Proprietary Limited Strix (North America) LLC Strix Far East Limited St Bernards Insurance Co. Limited Noble Grossart (IOM) Limited Belstead Brook Manor Hotel Limited Autumn Days Limited Lorimer & Clark, Limited Respotel Limited Kingsmill Hotel Company Limited Alastair Campbell and Co Limited The Scorpion Island Brewing Company Limited Manor Hotels Limited St Andrews Homes (1995) Limited
Rupert Cottrell	New European Investments Limited	Capital International Limited Mill Yard Properties Limited Mill Yard Services Limited Mirabelle Fund
Jonathan Clague	Langness Limited Casino Services Limited Palace Entertainments Limited Palace Group Limited Palace Travel & Reservations Limited Palace Developments Limited Main Street Services Limited Cronk-e-Berry Developments Limited Douglas Estates Limited Douglas Estates (2000) Limited Claydale Estates Limited Kinsman Services Limited Gleemore Limited Kirtle Limited Heron & Brearley Limited Isle of Man Breweries Limited Okells Limited Castletown Brewery Limited Manx Cat Inns Limited Island Automatics Limited Trade Distribution Limited Harbatta & Dougherty Limited Kinsman Trustees Limited Hammersfield Bloodstock Limited Britcross Limited	NatWest Offshore Ltd Glenpeat Limited Glenelden Limited

6.2 No Director has:

- 6.2.1 any unspent convictions in relation to an indictable offence;
- 6.2.2 been bankrupt or the subject of an individual or voluntary arrangement, or has had a receiver appointed to any asset of such Director;
- 6.2.3 been a director of any company, which, while he was a director or within 12 months after he ceased to be a director, had a receiver appointed or went into compulsory liquidation, creditors voluntary liquidation, administration or company voluntary arrangement, or made any composition or arrangement with its creditors generally or with any class of its creditors;
- 6.2.4 been a partner of any partnership which, while he was a partner or within 12 months after he ceased to be a partner, went into compulsory liquidation, administration or partnership voluntary arrangement, or had a receiver appointed to any partnership asset;
- 6.2.5 had any public criticism by any statutory or regulatory authority (including recognised professional bodies); or
- 6.2.6 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.

**7. Directors' and Other Interests**

**7.1 Director's Interests**

None of the Directors have any interest in the issued share capital of the Company which:

- 7.1.1 are required to be notified by each Director as if section 324 or section 328 of the English Act applied to the Company;
- 7.1.2 are required as if section 325 of the English Act applied to the Company to be entered into the register referred to therein; or
- 7.1.3 are interests of a connected person of a Director (as defined in section 346 of the English Act) which would, if the connected person were a Director, be required to be disclosed under paragraph 7.1.1 or 7.1.2 above and the existence of which is known to or could with reasonable diligence be ascertained by that Director.

7.2 The Company has not been notified by any Director of any interest, including any interests of a person connected with him, the existence of which is known to, or could with reasonable diligence be ascertained by, that Director whether or not held through another party, in the share capital of the Company together with any options in respect of such capital, which will be required to be notified to the Company under the Law, to be entered in the register referred to therein.

7.3 The Directors are not aware of any person who will, immediately following Admission, be interested, directly or indirectly in 3 per cent. or more of the issued share capital of the Company or could directly or indirectly, jointly or severally, exercise control over the Company.

7.4 No Director has any interest in any transactions which are or were unusual in their nature or conditions or which are or were significant to the business of the Group and which were effected by any member of the Group in the current or immediately preceding financial year or which were effected by any member of the Group during any earlier financial year and which remain in any respect outstanding or unperformed.

7.5 There are no outstanding loans granted by any member of the Group to any of the Directors nor has any guarantee been provided by any member of the Group for the benefit of any of the Directors.

## 8. Directors' Fees

- 8.1 No Director has a service contract with the Company, nor are any such contracts proposed. The Directors were appointed as non-executive directors on 25 May 2004 and will be subject to the terms set out in their letters of appointment dated 29 June 2004 with effect from Admission unless and until terminated on 6 months' notice. Their appointment is subject to the Articles of Association. The Directors' appointments can be terminated without notice and without compensation (save for any unpaid expenses properly incurred). Copies of the Directors' letters of appointment are available for inspection as referred to in paragraph 16 below. Pursuant to such letters, the Chairman will receive a fee of £35,000 per annum, David Steeds will receive a fee of £30,000 per annum and each of the other Directors (other than the Chairman and David Steeds) will receive £25,000 per annum.
- 8.2 The aggregate of the remuneration payable by any member of the Group (including benefits in kind) to the Directors in respect of the financial year ending 30 June 2005 under the arrangements in force at the date of this document is estimated to amount to approximately £140,000.
- 8.3 There is no arrangement under which any Director has waived or agreed to waive future emoluments nor has there been any waiver of emoluments during the financial year immediately preceding the date of this document.
- 8.4 There are no entitlements to commissions, profit sharing arrangements or any other specific compensation payments under the Directors' letters of appointment.

## 9. Arrangement Relating to the Placing

Under the Placing Agreement, Collins Stewart has agreed, subject to the conditions set out in that agreement, to use its reasonable endeavours to procure subscribers for the Placing Shares at the Placing Price.

Under the Placing Agreement, Collins Stewart will receive from the Company a placing commission of 4 per cent. of the gross proceeds of the Placing. The Company will also be responsible for certain costs and expenses incurred by Collins Stewart in connection with the Admission and the Placing.

The Placing Agreement contains certain undertakings and warranties given by the Company and the Directors in favour of Collins Stewart (including warranties relating to the accuracy of the information in this document and the Company's incorporation and capacity) and an indemnity given by the Company in favour of Collins Stewart. Collins Stewart's placing and underwriting obligations are conditional on, *inter alia*, Admission occurring not later than 15 July 2004.

Collins Stewart may terminate the Placing Agreement before Admission in the event of, *inter alia*, a material breach of warranty or a material breach of the Company's obligations under the Placing Agreement and in certain force majeure circumstances (including an outbreak or escalation of hostilities or acts of terrorism involving the United Kingdom or the declaration by the United Kingdom of a national emergency or war).

## 10. Taxation

The information below, which is of a general nature only and which relates only to UK and Isle of Man taxation, is applicable to the Company and to persons who are resident or ordinarily resident in the UK (except where indicated) and who hold Ordinary Shares as an investment and not as an asset of a financial or other trade. It is based on existing law and practice and is subject to subsequent changes therein. Any change in the Company's tax status or in taxation legislation in the Isle of Man or the UK or any other tax jurisdiction affecting Shareholders or investors

could affect the value of the investments held by the Company or PFI Finance or affect the Company's ability to achieve its investment objective for the Ordinary Shares or alter the post-tax returns to Shareholders. The attention of US persons is drawn to paragraph 11 below entitled "Notice to US Investors". Any Shareholders who are in any doubt as to their tax position should consult their own professional adviser without delay.

## 10.1 The Company

### 10.1.1 Exempt Status

The Company will apply on an annual basis for tax exempt status in the Isle of Man pursuant to the Isle of Man Income Tax (Exempt Companies) Act 1984 (as amended). As at 17 February 2004 the fee is £450 payable on an annual basis in respect of the company's exempt status. As a tax exempt company, the Company will not be subject to Isle of Man income tax. There is no capital gains tax, inheritance tax or stamp duty in the Isle of Man.

The granting of exemption does not affect the liability of a company to deduct and account for income tax under the Income Tax (Instalment Payments) Act 1974.

It is the intention of the Directors to conduct the affairs of the Company so that the management and control of the Company are not exercised elsewhere than the Isle of Man and it is not resident in the UK or elsewhere for taxation purposes and so that it does not carry on any trade in the UK or elsewhere (whether or not through a permanent establishment situated there). Accordingly, the Company should not be liable for the taxation by the UK or any other jurisdiction on its profits or gains, other than taxation souced on certain income deriving from sources within that jurisdiction.

### 10.1.2 The Isle of Man is moving towards Zero Standard Tax Rate for businesses scheduled for completion by 1 January 2006.

The Isle of Man Treasury is proposing the introduction of a standard zero rate of income tax for business as a further evolution of its national tax strategy announced in June 2000.

The zero rate proposal has been developed in consultation with private sector representatives and its implementation would be subject to ongoing Tynwald (the Isle of Man Parliament) approval.

The Isle of Man's 2004 Budget illustrated the continued financial strength of the economy and the continued progress being made to the zero rate tax regime for trading companies and implementation of the strategy which is scheduled for completion by 1 January 2006.

The corporate tax system will replace the existing income tax system for the taxation of companies. All companies will be subject to zero rate taxation on the same basis with a higher rate for defined regulated businesses, the exempt tax regime will ultimately be abolished in order to meet the international standards being set by both the OECD and the EU.

### 10.1.3 Savings Directive

The Code of Conduct is part of a package of EU tax initiatives, the second limb being the proposed Savings Directive relating to automatic exchange of information on cross border interest payments to individual payees. The current draft proposals are conditional upon the introduction of equivalent measures in third party countries such as Switzerland and the USA and the same measures being introduced to the EU dependencies and associated territories including the Isle of Man.

The Isle of Man's position is that it will support all international initiatives to introduce greater fairness and to prevent illegal activities but will do so when other countries do likewise so that there is a level playing field and the Isle of Man economy is not disadvantaged.

It is the intention of the Directors to conduct the affairs of the Company so that the management and control of the Company are not exercised elsewhere than the Isle of Man and it is not resident in the UK or elsewhere for taxation purposes and so that it does not carry on any trade in the UK or elsewhere (whether or not through a permanent establishment situated there). Accordingly, the Company should not be liable for the taxation by the UK or any other jurisdiction on its profits or gains, other than taxation soured on certain income deriving from sources within that jurisdiction.

## 10.2 Investors

### 10.2.1 Taxation of Dividends on Ordinary Shares

Holders of Ordinary Shares who are not tax resident in the Isle of Man will receive dividends without deduction of Isle of Man income tax.

UK resident individual holders of Ordinary Shares will be liable to UK income tax on the dividends received. No UK tax credit will be attached to dividends received by holders of Ordinary Shares. UK resident corporate holders of Ordinary Shares will be liable to corporation tax on dividends received from the Company.

The income tax charge in respect of dividends for UK resident individual holders of Ordinary Shares, other than higher rate taxpayers, will be at the rate of 10 per cent. A higher rate taxpayer will be liable to income tax on dividends received from the Company (to the extent that, taking the dividend as the top slice of his income, it falls above the threshold for the higher rate of income tax) at the rate of 32.5 per cent. UK resident holders of Ordinary Shares who are not liable to income tax on their income and those who hold their Ordinary Shares through a Personal Equity Plan or ISA will not be subject to tax on dividends.

The Company is required to make a return of allotment to the Companies Registration Division of the Isle of Man Financial Supervision Commission, which must give details of the names, addresses and shareholdings of all holders of Ordinary Shares.

### 10.2.2 Taxation of Capital Gains

The Company, as a closed-ended investment company, should not as at the date of this document be treated as an "offshore fund" for the purposes of UK taxation. Accordingly, the provisions of Chapter V of Part XVII of the Income and Corporation Taxes Act 1988 (the "Taxes Act") should not apply. Any gains on disposals by UK resident or ordinarily resident holders of Ordinary Shares may, depending on their individual circumstances, give rise to a liability to UK taxation on capital gains. Likewise, the provisions of section 98 and paragraph 7 of Schedule 10 to the Finance Act 1996, and paragraphs 36 and 37 of Schedule 26 to the Finance Act 2002 should not apply to corporate shareholders. The Finance Bill 2004 contains a number of proposed changes to the offshore funds legislation described above. The proposed changes do not, however, affect the fundamental position as set out above.

### 10.2.3 Stamp Duty and Stamp Duty Reserve Tax ("SDRT")

The following comments are intended as a guide to the general stamp duty and SDRT position and do not relate to persons such as market makers, brokers,

dealers, intermediaries and persons connected with depository arrangements or clearance services, to whom special rules apply. No Isle of Man or UK stamp duty, or SDRT, will be payable on the issue of the Ordinary Shares. UK stamp duty (at the rate of 0.5 per cent. of the amount of the value of the consideration for the transfer rounded up where necessary to the nearest £5) is payable on any instrument of transfer of the Ordinary Shares executed within, or in certain cases brought into, the UK. Provided that the Ordinary Shares are not registered in any register of the Company kept in the UK, any agreement to transfer the Ordinary Shares will not be subject to UK SDRT. In the event of the death of a sole holder of Ordinary Shares, an Isle of Man grant of probate or administration may be required in respect of which certain fees will be payable to the Isle of Man Government.

Capital duty in the Isle of Man is calculated at the rate of 1.5 per cent. and is payable on incorporation or on any increase in the nominal value of the authorised share capital of the Company, ranging from a minimum of £125 for capital up to £2,000, up to a maximum amount of duty of £5,000 for each company.

#### 10.2.4 Other United Kingdom Tax Considerations

The attention of individuals ordinarily resident in the UK is drawn to the provisions of sections 739–745 of the Taxes Act under which the income accruing to the Company may be attributed to such a shareholder and may (in certain circumstances) be liable to UK income tax in the hands of the shareholder. However, the provisions do not apply if such a shareholder can satisfy the UK Inland Revenue that, either:

- (a) the purpose of avoiding liability to UK taxation was not the purpose or one of the purposes of his investment in the Company; or
- (b) the investment was a bona fide commercial transaction and was not designed for the purpose of avoiding UK taxation.

As it is possible that the Company will be owned by a majority of persons resident in the UK, the legislation applying to controlled foreign companies may apply to any corporate holders of Ordinary Shares who are resident in the UK. Under these rules, part of any undistributed income accruing to the Company may be attributed to such a shareholder, and may in certain circumstances be chargeable to UK corporation tax in the hands of the shareholder. However, this will only apply if the apportionment to that shareholder (when aggregated with persons connected or associated with them) is at least 25 per cent. of the Company's relevant profits.

These provisions will not, however, apply so long as the Company follows an acceptable distribution policy (i.e. when the Company distributes at least 90 per cent. of income profits arising in each accounting period). As it is the Company's policy to distribute substantially all income profits, it is anticipated that it will satisfy such requirement.

This paragraph applies only to holders of Ordinary Shares who are resident or ordinarily resident in the UK and whose interest (when aggregated with persons connected with them) in the chargeable gains of the Company exceeds one-tenth. In the event that the Company would be treated as "close" if it were resident in the UK, then part of any chargeable gain accruing to the Company may be attributed to such a shareholder and may (in certain circumstances) be liable to UK tax on capital gains in the hands of the shareholder (section 13 Taxation of Chargeable Gains Act 1992). The part attributed to the shareholder corresponds to the shareholder's proportionate interest in the Company.

## **11. Notice to US Investors**

### **11.1 US Securities Act**

11.1.1 The Placing Shares have not been and are not expected to be registered under the US Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act. Accordingly, the Placing Shares are initially being offered and sold only in the United States, to qualified institutional buyers as defined in Rule 144A under the US Securities Act, and outside the United States, in offshore transactions to persons who are non-US persons, in compliance with Regulation S under the US Securities Act. The term “non-US persons” includes dealers or other professional fiduciaries in the United States acting on a discretionary basis for non-US beneficial owners (other than an estate or trust) in offshore transactions meeting the requirements of Rule 903 of Regulation S. As used herein, the terms “offshore transaction”, “United States” and “US person” have the meaning given to them in Regulation S under the US Securities Act.

11.1.2 Each purchaser of Placing Shares purchasing such Placing Shares outside the United States will be deemed to have represented, warranted, acknowledged and agreed as follows:

- (a) The Placing Shares have not been registered under the US Securities Act or any other applicable securities law, are being offered for sale in transactions not requiring registration under the US Securities Act or any other securities law, and they may not be offered, sold or otherwise transferred in the United States or to a US person except in compliance with the registration requirements of the US Securities Act or any other applicable securities law, pursuant to an exemption therefrom, or in a transaction not subject thereto.
- (b) It is not an affiliate (as defined in Rule 144 under the US Securities Act) of the Company or acting on behalf of the Company and it is a person that, at the time the buy order for the Placing Shares was originated, was outside the United States, was not a US person and was not purchasing for the account or benefit of a US person.
- (c) It acknowledges that the Company and its agents and registrars and others will rely upon the truth and accuracy of the foregoing representations, warranties, acknowledgements and agreements and agrees that if any of such representations, warranties, acknowledgements and agreements deemed to have been made by its purchase of the Placing Shares are no longer accurate, it shall promptly notify the Company. If it is acquiring the Placing Shares as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing representations, warranties, acknowledgements and agreements on behalf of each such account, and that each such investor account is eligible to purchase the Placing Shares subject to the terms and conditions set out herein.

### **11.2 Passive Foreign Investment Company (“PFIC”) Rules**

#### **11.2.1 Generally**

US shareholders of a PFIC are subject to a special tax regime which is intended to eliminate the benefit of deferring US tax on the PFIC.

Whilst it is thought that the Company is not, at present, a PFIC, there can be no guarantee that it may not become one at a future time.

For the reasons given below, this is however, unlikely to be of great practical significance to investors who are tax exempt under US tax principles, or to other investors who will be able to make the election, also explained below, with limited impact on their tax liability.

A foreign corporation is a PFIC if (1) more than 50 per cent. of its average assets are passive (the “Asset Test”), or (2) more than 75 per cent. of its income is passive (the “Income Test”).

In general, distributions from the PFIC and gains from the sale of the PFIC stock are treated as ordinary income and are subject to a special interest charge and tax rate. In effect, the amount of the distribution (or the gain from the sale of the PFIC stock) is allocated over the shareholder’s holding period for the PFIC stock and the amount allocated to prior years is subject to the highest rate of tax imposed in that year, as well as an interest charge (as if the tax should have been paid in the year to which it was allocated). The PFIC rules generally provide that once a foreign corporation has met the definition of a PFIC it remains a PFIC even in years in which it does not satisfy the PFIC test (the “once a PFIC, always a PFIC” rule).

For the purposes of the PFIC regime, a US shareholder is defined as any US person with an interest in a PFIC.

#### 11.2.2 QEF Election

As an alternative to the general PFIC rules set out above, US shareholders of a PFIC may, elect to treat their PFIC interest as a Qualified Electing Fund (“QEF”). US shareholders that make a QEF election with respect to their interest in a PFIC are currently taxable on their proportionate share of the PFIC’s income (i.e., on an annual basis they must pick up in gross income their share of the PFIC’s total income) rather than being subject to the penalty tax rules on distributions and gain as discussed above. If a QEF election is made, the “once a PFIC, always a PFIC” rule does not apply. As a result, if a foreign corporation is a PFIC in Year 1 but not in Year 2 and a QEF election is made by a US shareholder, then the US shareholder does not have to treat his interest in the foreign corporation as an interest in a PFIC in Year 2. Also, any gain from the disposition of PFIC stock with respect to which a QEF election is made retains its capital gain character (assuming the necessary holding period requirements are satisfied) rather than being converted to ordinary income as it would be under the general PFIC rules.

It is intended that the Company will distribute at least 90 per cent. of its income each year to its shareholders. As a result, making the QEF election above, which results in current inclusion of the Shareholder’s share of PFI Finance’s or the Company’s income, should generally have a limited impact on the tax liability of a shareholder.

#### 11.2.3 Application of PFIC Rules to Tax Exempt Investors

In general, the PFIC rules should not apply to organisations which are US tax exempt entities subject to the matters below.

Organisations that are exempt from tax are nevertheless subject to tax on their unrelated business taxable income (“UBTI”). For this purpose, UBTI is generally defined to exclude dividends received or accrued by a tax-exempt organisation, as well as gain realised from the sale of stock. However, dividends from certain debt-financed property (as well as gain from the sale of debt financed stock) are included in the definition of UBTI and are therefore taxable to tax-exempt organisations. For this purpose, debt financed property is generally defined as investment property with respect to which there is acquisition indebtedness.

The PFIC rules provide that a US tax exempt organisation that owns stock in a PFIC is not generally subject to the PFIC rules unless the PFIC stock is debt financed property to the shareholder (i.e., the US tax exempt shareholder incurred indebtedness in order to purchase the stock of the PFIC).

## 12. Material Contracts

The following are the only contracts (not being contracts entered into in the ordinary course of business) which have been entered into by a member of the Group and are or may be material to the Company, or have been entered into by any member of the Group and contain a provision under which any member of the Group has any obligation or entitlement which is material to the Group at the date of this document:

- 12.1 The Acquisition Agreement dated 29 June 2004 a summary of which is set out in Part 3 of this document;
- 12.2 The Amendment and Restatement Agreement dated 29 June 2004 a summary of which is set out in Part 3 of this document;
- 12.3 The Deed of Warranty dated 29 June 2004 a summary of which is set out in Part 3 of this document;
- 12.4 The Placing Agreement a summary of which is set out in paragraph 9 above;
- 12.5 a nominated adviser and broker's agreement dated 29 June 2004 between the Company, the Directors and Collins Stewart pursuant to which the Company has appointed Collins Stewart to act as nominated adviser and broker to the Company for the purposes of AIM. The Company has agreed to pay Collins Stewart an annual fee of £40,000 for its services as nominated adviser and broker. The agreement contains certain undertakings by the Company and the Directors and indemnities given by the Company in respect of , *inter alia*, compliance with all applicable regulations. The agreement continues for an indefinite period from the date of the agreement and is subject to termination, *inter alia*, by either the Company or Collins Stewart on the giving of not less than three months' prior written notice to expire on or after an initial period of twelve months.
- 12.6 The Investment Management Agreement dated 29 June 2004 between the (1) the Company, (2) PFI Finance and (3) the Investment Manager whereby the Investment Manager has agreed to provide investment management services to the Group. The Agreement is terminable on not less than twelve months' written notice such notice to be given on or at any time after the fourth anniversary of the date of Admission save in certain limited circumstances in which the Investment Management Agreement may be determined forthwith. The Investment Management Agreement may also be terminated upon three months written notice after the occurrence of certain regular half yearly assessment dates if the Group does not achieve certain minimum gross returns. The first assessment date is due to occur upon the earlier of 31 December 2007 or the anniversary of the date upon which the portfolio of the Group becomes fully invested although the Board has reserved the right to bring forward such assessment dates if minimum gross returns are not met during any period from Admission to 30 June 2005, 2006 or 2007. Under the Investment Management Agreement, the Investment Manager will receive a monthly fee, payable monthly in arrears, at the rate of 1.5 per cent. per annum of the cost of the investment assets held by PFI Finance and 1.0 per cent. per annum of cash or near-cash holdings exclusive of value added tax or any similar tax where appropriate, plus an additional fee of £40,000 per annum for the provision of accounting and book keeping services being provided by the Investment Manager in relation to the Group and the Group's investments.

In addition, the Investment Manager will also be entitled to a performance fee in respect of the period from Admission to 31 December 2009 (the “First Performance Period”) of 18 per cent. of the amount by which the market value per share (as determined in accordance with the provisions of the Investment Management Agreement), in relation to the First Performance Period, exceeds on 31 December 2009 the Placing Price (compounded annually at a rate of 12 per cent. per annum). Thereafter in relation to performance dates falling on the third anniversary of the previous performance date until termination of the Investment Management Agreement, 18 per cent. of the amount by which the market value per share (as determined in accordance with the provisions of the Investment Management Agreement) exceeds the higher of (1) the highest previous market value per share (as determined in accordance with the Investment Management Agreement) calculated in relation to any previous performance period or (2) the Placing Price (compounded annually at 12 per cent. per annum). The Investment Management Agreement contains certain indemnities and warranties which are standard in an agreement of that nature.

- 12.7 The Administration Agreement dated 29 June 2004 between (1) the Company, (2) PFI Finance and (3) BIM whereby BIM is appointed to act as administrator and registrar of the Company and to provide a qualified individual as secretary and to monitor the maintenance of the accounting records of the Group by the Investment Manager. For these services BIM shall receive an annual fixed fee payable by the Group of £10,000 excl. VAT plus any disbursements and reasonable out of pocket expenses incurred by BIM on behalf of the Company. These fees shall be paid quarterly in arrears. The Administration Agreement is terminable by the Group or BIM on not less than three months’ written notice expiring save in certain limited circumstances in which case the Administration Agreement may be determined forthwith. The Administration Agreement contains certain indemnities and warranties which are all standard in an agreement of that nature.

### **13. Working Capital**

In the opinion of the Directors, taking into account the net proceeds of the Placing receivable by the Company, the working capital available to the Group is sufficient for its present requirements, that is for at least 12 months following the date of Admission.

### **14. Litigation**

The Company is not or has not been involved in any legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this document, a significant effect on its financial position nor are there any such proceedings pending or threatened against it.

### **15. General**

- 15.1 The accounting reference date of the Company is 30 June.
- 15.2 Collins Stewart has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its name in the form and context in which it is included.
- 15.3 Ernst & Young LLP has given and has not withdrawn its consent to the inclusion of its report in Part 6 of this document in the form and context in which it appears and accepts responsibility for such report in accordance with paragraph 45(8)(b) of Schedule 1 of the POS Regulations.
- 15.4 KPMG LLP has given and has not withdrawn its consent to the inclusion of its report in Part 4 of this document in the form and context in which it appears.

KPMG Corporate Finance, a division of KPMG LLP which is authorised and regulated by the Financial Services Authority for investment business activities, is acting for the

Company and Collins Stewart as nominated adviser to the Company, in relation to the valuation report set out in Part 4 of this document and is not acting for any other person in relation to such valuation report.

- 15.5 CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by certificate and transferred otherwise than by written instrument. The Articles, adopted conditionally on Admission, will permit the holding and transfer of Ordinary Shares under CREST. The Directors have applied for the Ordinary Shares to be admitted to CREST and it is expected that the Ordinary Shares will be so admitted, and accordingly enabled for settlement in CREST, as soon as practicable after Admission has occurred. CREST is a voluntary system and Shareholders who wish to receive and retain a share certificate will be entitled to do so.
- 15.6 The total costs (including fees and commissions) (exclusive of VAT) payable by the Company in connection with the Placing and Admission are estimated to amount to approximately £3.78 million, of which £1.88 million is payable in total to financial intermediaries in both cases assuming that the Placing is subscribed in full. The estimated net cash proceeds accruing to the Company from the Placing are approximately £42.9 million assuming that the Placing is subscribed in full.
- 15.7 Except as detailed in this document, no person (excluding professional advisers as stated in this document) has received, directly or indirectly, from the Company preceding the Company's application for Admission, and no persons have entered into any contractual arrangements to receive directly or indirectly, from the Company on or after Admission:
- 15.7.1 fees totalling £10,000 or more;
  - 15.7.2 securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price; or
  - 15.7.3 any other benefit with a value of £10,000 or more at the date of Admission.
- 15.8 The Placing Price is payable in full in cash on subscription.
- 15.9 There are no arrangements in place under which future dividends are to be waived or agreed to be waived.
- 15.10 Save for its entry into the material contracts described in paragraph 12 above, the Company has not traded and no accounts have been made up since incorporation. The financial information given in Part 6 of this document does not constitute accounting records within the meaning of Section 1 of the Companies Act 1982 (Isle of Man).
- 15.11 There are no licences or particular contracts relating to intellectual property rights, where any of these are fundamental the business of the Group.
- 15.12 The Ordinary Shares will be in registered form and may be held in certificated form. It is expected that definitive share certificates will be posted to places no later than 20 July 2004. No temporary documents of title will be issued.
- 15.13 The Company has not had any employees since its incorporation and does not own any premises.
- 15.14 The Company has no subsidiaries or associated companies other than those referred to herein.
- 15.15 The Placing Price represents a premium of 130 pence over the respective nominal value of each such share.
- 15.16 In the Directors' opinion, the minimum amount to be raised pursuant to the Placing for the purposes set out in paragraph 21(a) of Schedule 1 of the POS Regulations and paragraph 5 of Schedule 4 of the Companies Act 1931 (Isle of Man) (as amended) is £23.82 million which will be applied as follows:

- 15.16.1 £20.04 million in respect of the purchase price of the Initial Portfolio;
- 15.16.2 approximately £3.78 million in respect of the expenses of the Placing and the Acquisition; and
- 15.16.3 the balance of the proceeds of the Placing receivable by the Company after payments of the sums described above will be used for working capital.
- 15.17 The Ordinary Shares have not been marketed to, and are not available in whole or in part to, the public in conjunction with the Placing.
- 15.18 No application is being made for the Ordinary Shares to be listed or dealt on any stock exchange or investment exchange other than AIM.
- 15.19 Monies received from applicants pursuant to the Placing will be held in accordance with the terms of the Placing letters issued by Collins Stewart until such time as the Placing Agreement becomes unconditional in all respects. If the Placing Agreement does not become unconditional in all respects by 15 July 2004, application monies will be returned to applicants at their risk without interest.
- 15.20 As a result of anti-money laundering legislation in the Isle of Man, Collins Stewart and/or the Administrator reserves the right in all cases to request further documentation or information from or relating to placees under the Placing. Such documentation and information will be used to verify the identity of investors or the status of financial intermediaries.
- 15.21 The Company's principal bankers are Royal Bank of Scotland International Limited.
- 15.22 The Investment Manager is or may be a promoter of the Company and, save as disclosed in paragraph 12 above, no amount or benefit has been paid or given by the Company to the Investment Manager and none is intended to be paid or given.
- 15.23 The Investment Manager, may also provide corporate advisory services to the SPCs.

## **16. Documents for Inspection**

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the registered office of the Company at St James's Chambers, Athol Street, Douglas, Isle of Man, IM1 1JE and also at the offices of Collins Stewart at 9th Floor, 88 Wood Street, London EC2V 7QR, for a period of one month from the date of Admission:

- 16.1 the valuation report set out in Part 4 of this document;
- 16.2 the Accountant's report set out in Part 6 of this document;
- 16.3 the Memorandum and Articles of the Company referred to in paragraphs 4 and 5, respectively, of Part 8 of this document;
- 16.4 the letters of appointment referred to in paragraph 8 of Part 8 of this document;
- 16.5 the material contracts referred to in paragraph 12 of Part 8 of this document;
- 16.6 the letters of consent referred to in paragraph 15.2, 15.3 and 15.4 of Part 8 of this document; and
- 16.7 this document.

Dated 1 July 2004

