

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt about the contents of this document you should consult a person authorised under the Financial Services and Markets Act 2000 (“FSMA”) who specialises in advising on the acquisition of shares and other securities, before making any decision to invest. Investment in the Company involves significant risks and special considerations and may not be suitable for all investors.

This document comprises a prospectus relating to the Company in accordance with the Prospectus Rules of the Financial Services Authority (“FSA”) made under Section 73A of the FSMA, an admission document relating to the Company as required by the AIM Rules and particulars given in compliance with the Listing Rules of the Channel Islands Stock Exchange, LBG (“CISX”) for the purpose of giving information with regard to the Company. This document has been filed with the FSA, made available to the public in accordance with Rule 3.2 of the Prospectus Rules and has been approved by the FSA as a prospectus under Section 87A of the FSMA.

The directors of the Company (the “Directors”) whose names appear on page 81 of this document, and the Company, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors and the Company (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.

At the date of this document, no Ordinary Shares have been admitted to trading on a regulated market. Application has been made for the whole of the issued and to be issued share capital of the Company to be admitted to trading on AIM, a market operated and regulated by London Stock Exchange plc and for admission to the official list of the CISX. 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. A prospective investor should be aware of the risks in 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 AIM Rules are less demanding than those of the Official List. It is emphasised that no application is being made for admission of the Ordinary Shares to the Official List. Further, the London Stock Exchange has not itself examined or approved the contents of this document. This document includes particulars given in compliance with the Listing Rules of the CISX for the purpose of giving information with regard to the Company. Neither the admission of Ordinary Shares to the official list of the CISX nor the approval of this document pursuant to the listing requirements of the CISX shall constitute a warranty or representation by the CISX as to the competence of the service providers to or any other party connected with the Company, the adequacy and accuracy of the information contained in this document or the suitability of the Company for investment or for any other purpose. It is expected that Admission will become effective and dealings in the Ordinary Shares will commence on AIM on 26 April 2006. No application has been, or is currently intended to be, made for the Ordinary Shares to be admitted to listing or to be dealt in on any other stock exchange. Investment in the Company involves significant risks and special considerations. The whole text of this document should be read. The attention of investors is drawn in particular to the risk factors set out on pages 10 to 18 of this document.

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# European Equity Tranche Income Limited

*(Incorporated and registered in Guernsey under the Companies (Guernsey) Law, 1994  
(as amended) with registered number 44552)*

**Admission to trading on AIM and admission to the official list of the  
Channel Islands Stock Exchange**

**Offer for Subscription and Placing of up to 100,000,000 Ordinary Shares**

**Issue Price of €1.00 per Ordinary Share**

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*Nominated Adviser and Broker*  
**Arbuthnot Securities Limited**

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## EXPECTED SHARE CAPITAL IMMEDIATELY FOLLOWING ADMISSION

<i>Authorised</i>		<i>Issued</i>
Unlimited	Ordinary Shares of no par value	100,000,000

The number of issued Ordinary Shares immediately following Admission assumes the Issue is fully subscribed.

The Issue is conditional, *inter alia*, on Admission taking place on or before 26 April 2006 (or such later date as the Company and Arbuthnot Securities may agree not being later than 2 June 2006). The Ordinary Shares issued pursuant to the Issue 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. The net proceeds of the Issue must be at least €30 million for the Issue to proceed.

Arbuthnot Securities Limited (“Arbuthnot Securities”), which is regulated by the FSA, is acting as nominated adviser and broker to the Company and no one else in relation to the Offer for Subscription and Placing described in this Prospectus and will not be responsible to any person other than the Company for providing the protections afforded to its customers or for advising any other person on the contents of this document or any transaction or arrangement referred to herein. Arbuthnot Securities has not authorised the contents of any part of this document for the purposes of the FSMA. Arbuthnot Securities’ responsibilities as the Company’s nominated adviser and broker under the AIM Rules are owed solely to the London Stock Exchange and are not owed to the Company or any Director or Shareholder (whether current, prospective or future) or any other person.

Ogier Corporate Finance Limited is acting for the Company and or no one else in connection with the admission of Ordinary Shares to the official list of the CISX and will not be responsible to anyone other than the Company.

Arbuthnot Securities is not making any representation or warranty, express or implied, as to the contents of this document, for which the Company and the Directors are solely responsible. Without limiting the statutory rights of any person to whom this document is issued, no liability whatsoever is accepted by Arbuthnot Securities for the accuracy of any information or opinions contained in this document or for any omission of information, for which the Company and the Directors are solely responsible. The information contained in this document has been prepared solely for the purpose of the Issue and Admission and is not intended to be relied upon by any subsequent purchasers of Ordinary Shares (whether on or off exchange) and accordingly no duty of care is accepted in relation to them.

The distribution of this document and the offer and sale of Ordinary Shares in certain jurisdictions may be restricted by law. No action has been taken by the Company or Arbuthnot Securities that would permit a public offer of Ordinary Shares in any jurisdiction where action for that purpose is required other than in the United Kingdom nor has any such action been taken with respect to the possession or distribution of this document in any jurisdiction where action for that purpose is required other than the United Kingdom. Persons outside the United Kingdom into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This document does not constitute an offer to sell, or the solicitation of an offer to buy, Ordinary Shares in any jurisdiction in which such offer or solicitation would be unlawful. In particular, the Ordinary Shares offered by this document have not been and will not be registered under the applicable securities laws of the United States, Canada, Australia or Japan and, subject to certain exceptions, may not be offered or sold directly, or indirectly, in or into the United States, Canada, Australia or Japan.

The Company has not been and will not be registered under the United States Investment Company Act 1940, as amended.

In making any investment decision in respect of the Offer for Subscription or Placing, no information or representation should be relied upon in relation to the Offer for Subscription or Placing, the Company or in relation to the Ordinary Shares other than as contained in this document. No person has been authorised to give any information or make any representation other than that contained in this document and, if given or made, such information or representation must not be relied upon as having been authorised. Neither the delivery of this document nor any subscription or acquisition made under it shall, under any circumstances, constitute a representation or create any implication that there has been any change in the affairs of the Company since the date of this document or that the information in this document is correct as of any time subsequent to the date of this document.

Prospective investors must not treat the contents of this document as advice relating to legal, taxation or any other matters. Prospective investors must inform themselves as to: (a) the legal requirements within their own countries for the purchase, holding, transfer, redemption or other disposal of Ordinary Shares; (b) any foreign exchange restrictions applicable to the purchase, holding, transfer, redemption or other disposal of Ordinary Shares which they might encounter; and (c) the income and other tax consequences which may apply in their own countries as a result of the purchase, holding, transfer, redemption or other disposal of Ordinary Shares. Prospective investors must rely upon their own representatives, including their own legal advisers and accountants, as to legal, tax, investment or any other related matters concerning the Company and an investment therein.

#### **For the attention of residents in the European Economic Area**

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive other than the UK (each, a “host member state”), no Ordinary Shares have been offered or will be offered pursuant to the Issue to the public in that host member state, other than in circumstances which do not require the publication by the Company of a Prospectus pursuant to Article 3 of the Prospectus Directive in that host member state.

For the purposes of this provision, the expression an “offer of Ordinary Shares to the public” in relation to any Ordinary Shares in any host member state means the communication in any form and by any means of sufficient information on the terms of any Ordinary Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Ordinary Shares, as the same may be varied in that host member state by any measure implementing the Prospectus Directive in that host member state.

#### **For the attention of residents of the Cayman Islands**

The Ordinary Shares may not be offered or sold or otherwise transferred into the Cayman Islands except in accordance with the applicable laws and regulations of the Cayman Islands. The Company has not been

authorised by any regulatory authority in the Cayman Islands nor has this document or any of the documents referred to herein been filed with, reviewed or approved by any regulatory authority in the Cayman Islands.

#### **Forward-looking statements**

**This document contains forward looking statements, including, without limitation, statements containing the words “believe”, “anticipated”, “expect” and similar expressions. Such forward looking statements involve unknown risk, uncertainties and other factors which may cause the actual results, financial condition, performance or achievements of the Company, or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in “Risk Factors” set out on pages 10 to 18 of this document and “Principal Bases and Assumptions Relating to the Company’s Target Dividends” in Part VII of this document. In light of these issues, uncertainties and assumptions the events described in the forward looking statements in this document may not occur. Subject to legal or regulatory requirement, the Company disclaims any obligation to update any such forward looking statements in this document to reflect future events or developments. Attention is drawn to the risks associated with an investment in the Ordinary Shares, which are set out on pages 10 to 18 of this document.**

**Copies of this document which is dated 6 April 2006 will be available free of charge to the public during normal business hours on any week day (Saturdays, Sundays and public holidays excepted) from the date of this document for not less than one month following Admission from:**

The registered office of  
Arbuthnot Services Limited  
Arbuthnot House  
20 Ropemaker Street  
London EC2Y 9AR

The registered office of the  
Company  
and the offices of  
Anson Fund Managers Limited  
Anson House  
St George’s Place  
St George’s Esplanade  
St Peter Port  
Guernsey GY1 3GF

and  
the offices of  
Anson Administration (UK) Limited  
Enterprise House  
Ocean Village  
Southampton  
Hampshire PO14 3XB  
England

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## SUMMARY

*This summary should be read as an introduction to the full text of this Prospectus and any decision to invest in Ordinary Shares should be based on the consideration of this Prospectus as a whole. Where a claim relating to information contained in this Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the EEA States, have to bear the costs of translating this Prospectus before legal proceedings are initiated. Civil liability attaches to those persons who are responsible for this summary, including any translation of this summary, but only if this summary is misleading, inaccurate or inconsistent when read together with other parts of this Prospectus.*

*Unless defined herein, all capitalised terms used in this summary are defined in the section entitled "Definitions and Glossary".*

### **1. The Company**

The Company is a newly-established, closed-ended limited liability investment company incorporated in Guernsey under the Companies Law. The Company will not have a fixed life. Shareholders will have the opportunity to review the future of the Company after an initial period of seven years following Admission and every second year thereafter.

### **2. Investment Objective and Policy**

The Company's investment objective is to deliver stable returns to Shareholders in the form of quarterly dividends and to preserve capital. It intends to achieve this by investing in non-investment grade and equity tranche (or "first loss") positions of residential mortgage-backed securities ("RMBS") and, to a limited extent, other asset-backed securities ("ABS") in Continental Europe and the UK. The Directors intend that, once fully invested no less than 75 per cent. of investments be made in RMBS and up to 25 per cent. in other ABS.

Typical investors in the Company are expected to be UK- and European-based asset and wealth managers regulated or authorised by the FSA or the relevant local regulator, retail clients who will invest through brokers and some private individuals. Typical investors will be those seeking stable returns in the form of dividends and capital preservation although there can be no guarantee that this will be achieved.

### **3. Market Opportunities**

The Directors believe that RMBS offer the following market opportunities:

- RMBS give investors exposure to an asset class that may otherwise not be open to them.
- RMBS now represents a deep and liquid market in Continental Europe and the UK, offering broad diversity in the geographic location of Originators, Servicers and underlying asset pools.
- Growth in residential mortgage lending in Continental Europe and the UK over the short and medium term is expected by the Directors to result in a larger pool of high quality assets available for securitisation.
- Credit enhancement features embedded in securitisation structures, combined with the granular nature of RMBS, provide enhanced stability against credit shocks and adverse eventualities that could affect the asset pool.
- The issuance of RMBS and other ABS has become an important source of financing and diversification of funding sources for European financial institutions.

The Directors believe the equity tranche offers the following investment highlights:

- RMBS equity tranche portfolios can offer the potential for a yield in excess of that generated by investments in rated RMBS securities and/or rated fixed income products such as European sovereign and corporate bonds.
- Carefully selected equity tranches backed by high quality asset portfolios can offer attractive risk and reward characteristics.
- Equity tranches are under-researched by institutions and are targeted by a small investor base. In the view of the Directors, the investor base for equity tranches will remain limited as successful investments in those tranches requires expertise in securitisation in addition to detailed knowledge of the underlying assets and of the Originator, Servicer and national regulatory requirements.

#### **4. Financing Strategy**

At the date of this document the Company has not, and will not have at Admission, incurred any indebtedness. At Admission, Shareholders' equity is expected to be up to €100 million assuming the Issue is fully subscribed. The Company intends to use borrowing with the objective of enhancing returns to Shareholders once substantially all of the net proceeds of the Issue have been invested, subject to the discretion of the Board. The Company has an unlimited power to borrow. However, the Directors intend to limit borrowing to an amount equal to 240 per cent. of its net assets.

#### **5. Dividends and Dividend Policy**

The Company's dividend policy will be to pay quarterly dividends subject to having profits or distributable reserves available for the purpose.

It is not anticipated that the Company will pay a dividend for the initial financial period ending 30 June 2006. In the absence of unforeseen circumstances, the Company is targeting gross dividends totalling €0.08 per Ordinary Share in its first financial year ending 30 June 2007 and €0.12 per Ordinary Share in subsequent 12 month financial periods. These are target dividend levels and not forecasts and are based on certain assumptions, and there can be no assurance or guarantee that the target dividends will be realised.

The Company intends to pay quarterly dividends in respect of periods ending 31 March, 30 June, 30 September and 31 December. The Directors anticipate that the first such quarterly dividend be paid for the quarter ending 30 September 2006.

#### **6. The Investment Manager**

The Company's Investment Manager is Ocean Capital Associates LLP, a UK-based investment management partnership authorised and regulated by the FSA.

#### **7. Directors**

The Directors, all of whom are non-executive, are as follows:

Robin Monro-Davies (Chairman)  
Leslie Goodman  
John Le Prevost  
Françoise Henry  
Tanguy Boulet  
Juan de Dios Sanchez-Roselly Moreno

#### **8. Fees and Expenses**

The Investment Manager will be paid a management fee by the Company at the annual rate of 1.25 per cent. of the lower of (i) the Net Asset Value of the Company immediately following Admission and (ii) the Net Asset Value of the Company on 31 March, 30 June, 30 September and 31 December (before deduction of accruals in respect of the management fee for the current period and any performance fee) (excluding current period income). The management fee accrues daily and is payable quarterly in arrear (together with an amount equal to any relevant VAT thereon, if applicable).

A management fee shall be payable for each successive quarter, except the first period in respect of which a management fee is payable from Admission to 30 June 2006.

In addition to the management fee, the Investment Manager may also be entitled to receive a performance related fee in respect of each performance period which will be paid quarterly in arrear. A performance period shall comprise each successive quarter, except the first such period which shall be the period from Admission to 30 June 2006.

#### **9. Risk Factors**

An investment in Ordinary Shares is only suitable for investors who are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses which may arise from that investment. Such an investment should be seen as long term in nature and complementary to existing investments in a range of other financial assets and should not form a major part of an investment portfolio. An investment in the Ordinary Shares is subject to a number of risks which could materially and adversely affect the Company's business, financial condition or results of operations, certain of which are highlighted below.

#### *Risks Relating to the Company's Investments*

- The ability of the Company to effectively implement its investment policy and achieve its desired investment returns may be limited by its ability to source appropriate investments in which to invest the net proceeds of the Issue and re-invest capital returned on its existing investments.
- Most of the Company's investments will be in the "equity tranche" or the "first loss" positions of RMBS or other ABS, which are subordinated securities, which can be particularly susceptible to losses.
- The Company's net income will be derived from revenue payments received from its investments and changes in value of investments. Any default on investments may have a negative impact on the Company's performance, the value of its portfolio and on cash flows received.
- Many of the Company's investments will be illiquid.
- The Company will be reliant on the skill and judgement of the Investment Manager in valuing and determining an appropriate purchase price for its investments. Any determinations of value that differ materially from the values the Company realises upon maturity of the investments or upon their disposal may have a negative impact on the Company and its share price.
- The Company is subject to concentration risk in its investment portfolio.
- The Company may be exposed to issuer risk and counterparty risk.
- The performance of many of the Company's investments will depend to a significant extent upon the performance of the servicers of the underlying asset portfolio.
- The Company may become subject to increased competition in seeking investments.
- The Company's investments are subject to prepayments, increasing re-investment risk.
- Changes in the tax treatment of investments and special purpose vehicles and unanticipated income and/or withholding taxes may affect anticipated cash flows.
- Rising interest rates may adversely affect the value of some of the Company's investments.
- Hedging transactions may limit gains or result in losses.
- Investments will be subject to differing laws regarding creditors' rights and enforceability of security.

#### *Risks Relating to the Company's Borrowings*

- Borrowings could adversely affect the Company's Net Asset Value and the level of the Company's dividends.
- The Company may not be able to arrange the debt facilities that it requires either within its anticipated timescales or at all which would adversely affect its anticipated investment performance and may prevent the Company from fulfilling its investment objectives.
- If the Company breaches covenants under its financing agreements it could be forced to sell assets in order to reduce borrowings.
- A decline in the value or credit profile of the Company's investments may result in margin calls being made on the Company.
- The structure and specific provisions of any financing arrangements could give rise to additional risks.

#### *Risks Relating to the Investment Manager*

- The Company's performance is dependent on the skill, experience and judgement of the Investment Manager.
- The Investment Manager's other client relationships may give rise to conflicts of interest.
- The Investment Manager's compensation structure may encourage the Investment Manager to invest in high risk investments.
- The Investment Manager's investment strategies may not achieve the Company's investment objective and policy.
- The Investment Manager's appointment is subject to a fixed initial term and a long notice period.

- The Investment Manager may receive a performance fee in respect of periods when the Company is unable to pay a dividend.
- The liability of the Investment Manager to the Company in respect of the Investment Manager's default is limited.
- The Investment Manager is authorised and regulated by the FSA. If the Investment Manager fails to comply with legal and regulatory requirements, the Company and its share price may be adversely affected.

#### *Risks Relating to the Company and the Issue*

- The Company is newly formed and there can be no assurance that it will achieve its investment objective.
- An adverse change in the Company's tax status or applicable tax legislation could have a negative effect on the Company's financial condition or prospects.
- Changes in the Company's non-UK tax residence status would adversely affect the Company.
- The Company is subject to market risk, interest rate risk and credit risk.
- The Company's results may be adversely affected by movements in foreign exchange rates to the extent not hedged.
- Future share issues could dilute the interests of existing Shareholders and lower the price of the Ordinary Shares.
- There may not be a liquid market for the Ordinary Shares and the market price of the Ordinary Shares may fluctuate.
- The Company's ability to pay dividends will depend on its ability to generate sufficient net income as well as on certain legal and regulatory restrictions.

#### **10. The Placing and Offer for Subscription**

- Certain institutional and other sophisticated investors outside the United States will be able to subscribe for Ordinary Shares under the Placing. The Offer for Subscription is being made to the public in the UK.
- Ordinary Shares are being placed and offered at the Issue Price and are available at the Issue Price under the Placing and Offer for Subscription. The Placing and Offer for Subscription will open on 6 April 2006 and the latest time for receipt of Application Forms under the Offer for Subscription will be 12 noon on 18 April 2006 and commitments under the Placing will be 5.00 p.m. on 18 April 2006.
- Admission to AIM and the official list of CISX and unconditional dealings in Ordinary Shares issued under the Issue are expected to commence at 8.00 a.m. on 26 April 2006.
- A maximum of 100 million Ordinary Shares are available under the Placing and Offer for Subscription. In the event that commitments under the Placing and valid applications under the Offer for Subscription exceed 100 million Ordinary Shares, the Directors will after consultation with the Investment Manager and Arbuthnot Securities scale back applications at their absolute discretion with a view to achieving an appropriate mix of investors.
- The Company is seeking to raise up to €100 million, before expenses, through the Issue. The net proceeds of the Issue, assuming the Placing and Offer for Subscription are fully subscribed, after deducting expenses will be €97.5 million. The Issue will not proceed unless the minimum net proceeds of the Issue are at least €30 million.
- The costs and expenses (including VAT where relevant) of, and incidental to, the Issue payable by the Company are estimated to amount to €2.5 million.
- It is expected that the Ordinary Shares will qualify for inclusion in an ISA, provided that they are acquired pursuant to the Offer for Subscription or by purchase in the market and that they will qualify for inclusion in a SIPP and a SSAS. The Ordinary Shares may be investments for existing PEPs provided that the PEP manager has acquired such Ordinary Shares by purchase pursuant to the Offer for Subscription or in the market and is satisfied on the subject of eligibility.

## **11. Lock-in Arrangements**

The Company has, subject to certain exceptions, entered into lock-in arrangements preventing it from issuing Ordinary Shares, without the prior written consent of Arbuthnot Securities, during the period commencing on the date of the Placing Agreement and ending six months after Admission. Each of the Directors will also enter into lock-in arrangements. Each Director will agree not to sell, transfer or otherwise dispose of any Ordinary Shares held by him or his associates (as such term is defined in the AIM Rules) on Admission or which he or she may subsequently acquire following Admission for a period of 12 months from Admission, subject to certain exceptions. In addition, the Investment Manager and each partner, officer or employee of the Investment Manager who subscribes for Ordinary Shares in the Issue will also be required to enter into a lock-in deed in similar terms to the Directors.

## **12. Use of Proceeds**

The Company intends to use the net proceeds of the Issue, expected to be up to €97.5 million after deduction of expenses, to acquire a portfolio of securities and other investments meeting the Company's investment objective and policy.

## RISK FACTORS

*An investment in the Ordinary Shares involves a degree of risk including the risks in relation to the Company's investments, the Company's borrowings, the Investment Manager and the Company and the Issue referred to below. Accordingly, prospective investors should carefully consider the specific risk factors set out below in addition to the other information contained in this document before investing in Ordinary Shares. The Directors currently consider the following risks and other factors to be the most significant for potential investors in the Company, but the risks referred to below do not purport to be an exhaustive list. Additional risks and uncertainties not currently known to the Directors, or that the Directors currently do not consider to be material, may also have an adverse effect on the Company's business.*

*If any of the following risks were to occur, the Company's business, financial condition, capital resources, results or future operations could be materially adversely affected. In such a case, the price of the Ordinary Shares could decline and investors may lose all or part of their investment. Investors contemplating an investment in the Ordinary Shares of the Company should recognise that there is no guarantee that the Company will achieve its investment objective. Prospective investors should regard an investment in the Company as long-term in nature and they may not recover the full amount initially invested.*

### **Investor Profile**

The Placing will be marketed to institutional and sophisticated investors. The Offer for Subscription will be open to members of the public in the UK. Typical investors in the Company are expected to be UK- and European-based asset and wealth managers regulated or authorised by the FSA or the relevant local regulator, retail private clients who will invest through brokers and some private individuals. Typical investors will be those seeking stable returns in the form of dividends and capital preservation, although there can be no guarantee that this will be achieved.

An investment in the Ordinary Shares is only suitable for investors who are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses which may arise from that investment (taking into account the fact that those losses may be equal to the whole amount invested). Such an investment should be seen as long term in nature and complementary to existing investments in a range of other financial assets and should not form a major part of an investment portfolio. The value of Ordinary Shares can go down as well as up, any dividend returns can fluctuate widely and investors may not realise the value of their initial investment.

### **Risks Relating to the Company's Investments**

*The ability of the Company to effectively implement its investment policy and achieve its desired investment returns may be limited by its ability to source appropriate investments in which to invest the net proceeds of the Issue and reinvest capital returned on its existing investments*

The ability of the Company to implement its investment policy effectively and achieve its desired investment returns may be limited by its ability to source appropriate investments in which to invest the net proceeds of the Issue. Until such time as the Company is able to invest in suitable investments, its funds may not be fully invested. In addition, the majority of the Company's investments are expected to amortise or be repaid over time, such that their weighted average lives generally range from 3 to 7 years, giving rise to re-investment risk. There can be no assurance that, upon receiving the full or partial repayment of a given investment, the Company will be able to make a further investment with an expected rate of return at least equal to that of the investment repaid. If the expected rate of return of the new investment is less than that of the investment repaid, this may reduce the value of the Ordinary Shares and net income and, consequently, could have an adverse impact on the Company's ability to pay dividends.

*Most of the Company's investments will be in the "equity tranche" or "first loss" tranche of RMBS or other ABS, which are subordinated securities, which can be particularly susceptible to losses*

The majority of the Company's investments will consist of interests in, and/or economic exposures to, the "equity tranche" or "first loss" position of RMBS or other ABS, which are limited recourse securities that are subordinated in right of payment and ranked junior to other securities that are secured by, or represent ownership in, the same pool of assets. In the event of default by an issuer in relation to such investments, holders of the issuer's more senior securities will be entitled to payments in priority to the Company. Some of the Company's investments may also have structural features that divert payments of interest and/or principal to more senior classes of securities secured by, or representing ownership in, the same pool of assets when the delinquency or loss experience of the pool exceeds certain levels. This may lead to interruptions in

the income stream that the Company anticipates receiving from its investment portfolio, resulting in the Company having less income to distribute to Shareholders.

Although holders of RMBS and other ABS generally have the benefit of first ranking security (or other priority rights) over any collateral, control of the timing and manner of the disposal of such collateral upon a default typically will devolve to the holders of the senior class of securities outstanding. There can be no assurance that the proceeds of any such sale of collateral will be adequate to repay in full the Company's investments.

*The Company's income will be derived from payments from its investments and default on investments may have a negative impact on the Company's performance, the value of its portfolio and on cash flows received*

The Company will invest predominantly in subordinated tranches of RMBS and other ABS. The issuer of the securities relies upon the receipt of payments from underlying borrowers in order to make the interest payments. The ability of borrowers to repay loans secured by residential properties in the case of RMBS or, in the case of other ABS, the ability of individual or corporate borrowers to honour their obligations, will determine the ability of the issuers to service the debt securities. A wide range of factors could adversely affect the ability of the issuers of the securities to make interest or other payments. These factors include a downturn in general economic conditions; adverse changes in the financial condition of the underlying borrowers; a decline in real estate prices; changes in law and taxation; changes in governmental regulations or other policies; the issuer's exposure to counterparty risks, systemic risk in the financial system and settlement; adverse changes in the financial position of the issuers and/or; natural disasters, terrorism, social unrest and civil disturbances.

To the extent that actual defaults on any assets in an underlying asset portfolio exceed the expected level of defaults factored into the purchase price of the relevant investment by the Investment Manager, the returns on the investments will be below those anticipated by the Investment Manager. The more deeply subordinated the tranche of securities in which the Company invests, such as equity tranche securities, the greater the risk of loss. While the Investment Manager takes into account the estimated levels of default when determining the prices it pays for investments and the values at which those investments are carried in its books, any defaults could have a negative impact on the value of the Company's investments, may reduce the cash flows that the Company receives from its investments and may adversely impact the Company's ability to pay dividends.

*Many of the Company's investments will be illiquid*

The market for subordinated RMBS and other ABS, including equity tranches, is illiquid. Accordingly, most of the Company's investments will be illiquid and there will be no readily available market for sale of those investments or reference by which they may be valued. In addition, investments that the Company may purchase in privately negotiated (also known as "over the counter" or "OTC") transactions may not be registered under relevant securities laws or otherwise may not be freely tradable, resulting in restrictions on their transfer, sale, pledge or other disposition except in a transaction that is exempt from the registration requirements of, or is otherwise in accordance with, those laws. As a result of this illiquidity, the Company's ability to vary its portfolio in a timely fashion and to receive a fair price on disposal in response to changes in economic and other conditions may be limited.

Furthermore, where the Company acquires investments for which there is not a readily available market, the Company's ability to deal in any such investment or obtain reliable information about the value of such investment or risks to which such investment is exposed may be limited. The valuation of equity tranches and other subordinated instruments relies on assumptions and judgements which are subjective in nature. Furthermore, there is no industry standard methodology to value subordinated tranche positions and it may not be possible to obtain "bid" or "offer" prices from market makers for such securities.

*The Company will be reliant on the skill and judgement of the Investment Manager in valuing and determining an appropriate purchase price for its investments. Any determinations of value that differ materially from the values the Company realises upon maturity of the investments or upon their disposal may have a negative impact on the Company and its share price*

The Company will be dependent on the Investment Manager's assessment of an appropriate acquisition price for, and on-going valuation of, most equity tranche positions and certain other investments. The acquisition price determined by the Investment Manager in respect of an equity tranche position will be based on the returns (Internal Rate of Return or discount rates for such asset as well as the expected cash flow returns) that the Investment Manager expects the investment to generate. The Investment Manager will

use a financial pricing model that reflects numerous factors including the Investment Manager's assessment of the nature of the investment and the collateral, security position, risk profile, historical default rates and the Originator and Servicer. Each of these factors involves subjective judgements and forward-looking determinations by the Investment Manager. In the event that the Investment Manager misprices an investment (for whatever reason), the actual returns on the investment may be less than anticipated at the time of acquisition. Further, in the event of illiquidity in the market for similar investments, it may be difficult for the Company to dispose of the investment at a price similar to the acquisition price or at all.

Since the Investment Manager's valuations will be based on assumptions and estimates, not all of which can be confirmed, whether readily or at all, the Investment Manager's, and therefore the Company's, determinations of fair value of relevant financial assets, including in particular the Company's equity tranche positions, may differ materially from the values that might have been determined if a ready market for those investments existed. The value of the Ordinary Shares could be adversely affected if the Investment Manager's determinations regarding the fair value of these investments are materially higher than the values that the Company ultimately realises upon maturity of the investments or upon their disposal.

*The Company is subject to concentration risk in its investment portfolio*

The Company will regularly monitor the concentration of its portfolio and its exposure to any one region or country or with respect to any given Servicer or Originator. However, the Company is not subject to any concentration limits in the structure of its investment portfolio and so concentration in any one region or country or with respect to any given Servicer or Originator may arise from time to time. For example, at any given time, certain geographic areas or sectors may provide more attractive investment opportunities than others and, as a result, the Company's investment portfolio may be concentrated in those countries or regions or specific sectors or with respect to particular Servicers or Originators. The risk that payments on the Company's investments could be adversely affected by defaults on debt obligations or the general deterioration of underlying portfolios of assets is likely to be increased to the extent that the Company's portfolio is concentrated in such a way as a result of downturns relating to such region, country, Servicer or Originator.

*The Company may be exposed to counterparty risk*

The Company may enter into financing transactions (including, transactions in over the counter markets) and hold investments (including synthetic securities) which would expose the Company to the credit risk of its counterparties and their ability to satisfy the terms of such contracts. In the event of a bankruptcy or insolvency of such a counterparty, the Company could experience significant losses, declines in the value of its investment during the period in which the Company seeks to enforce its rights, inability to realise any gains on its investment during such period and fees and expenses incurred in enforcing its rights.

In addition, with respect to synthetic or pass-through securities the Company will not usually have a contractual relationship with the underlying issuer of the underlying obligation. Therefore the Company will generally have no right to enforce directly compliance by the actual issuer with the terms of the underlying obligation nor any rights of set-off against the actual issuer, nor have any voting rights with respect to the underlying obligation. The Company will not directly benefit from the collateral supporting the underlying obligation and will not have the benefit of the remedies that would normally be available to a holder of such underlying obligation. In the event of the insolvency of the counterparty to such synthetic or pass-through security, the Company will be treated as a general creditor of such counterparty, and will not have any claim with respect to the underlying obligation.

*The performance of many of the Company's investments may depend to a significant extent upon the performance of the Servicers of the underlying asset portfolio*

The Company will not control the portfolios of assets underlying the RMBS or other ABS in which it invests and will rely on the Servicers to administer and review the portfolios. Particularly in the case of equity tranche positions, the actions of the Servicer, including its ability to identify and report on issues affecting the portfolio on a timely basis, may affect the Company's return on its investments, in some cases significantly. In addition, concentration of a significant number of the Company's investments with one Servicer could affect the Company adversely in the event that the Servicer fails to fulfil its function effectively or at all. In the event of fraud by any entity in which the Company invests or by other parties involved with the entity, such as Servicers or cash managers, the Company may suffer a partial or total loss of the amounts invested in that entity.

*The Company may become subject to increased competition in seeking investments*

The Company may become subject to increased competition in seeking investments. Some of the Company's competitors may have greater resources and the Company may not be able to compete successfully for investments. Furthermore, competition for investments may lead to the price of such investments increasing which may further limit the Company's ability to generate its desired returns.

*The Company's investments are subject to prepayments, increasing re-investment risk*

While the Company's valuations and projections take into account certain expected levels of prepayment, investments may be prepaid more quickly than expected. Prepayment rates are also influenced by changes in interest rates and a variety of economic, geographic and other factors which cannot be predicted with certainty. Early prepayments give rise to increased re-investment risk, as the Company might realise cash earlier than expected. If the Company is unable to reinvest such cash in a new investment with an expected rate of return at least equal to that of the investment repaid, this may reduce the Company's net income and could have an adverse impact on the Company's ability to pay dividends and on the value of the Ordinary Shares.

*Changes in the tax treatment of investments and special purpose vehicles and unanticipated income and/or withholding taxes may affect anticipated cash flows*

In certain cases the Company may use special purpose vehicles ("SPVs") to acquire investments. The Company intends that each such SPV will be structured so that it is substantially exempt from, or neutral to, income taxes in its jurisdiction of incorporation and that each SPV should conduct its affairs so as not to be subject to, or to be subject to minimal, income tax in the jurisdictions in which it operates. The Company expects that the securities held by such SPVs generally will not be subject to withholding taxes on distributions made by, or on realisations of, the assets.

In some cases, certain procedural formalities may need to be completed before payments in respect of such assets can be made free of withholding tax. The completion of such formalities may depend on the agreement of taxation authorities, the timing of which cannot be guaranteed.

Tax laws may change or be subject to differing interpretations, possibly with retroactive effect, so that the tax consequences of a particular investment or structure may change after the investment has been made or the structure has been established with the result that investments held by SPVs may be subject to withholding tax or SPVs may need to be unwound or restructured, in each case resulting in the Company's returns being reduced. The Company and the SPVs will be subject to such risk both in the jurisdiction of their respective incorporation and in each jurisdiction of their respective operations.

Moreover, the underlying issuers of RMBS and/or ABS could become subject to income tax, the imposition of any such income tax would reduce the cash received by the Company, and could materially impair the Company's ability to pay dividends on the Ordinary Shares.

IFRS governing the consolidation of special purpose entities are subject to interpretation regarding the requirement to consolidate such special purpose entities where a company holds equity tranche positions in those entities, but does not have control over them. On the basis of its envisaged investment structures the Company does not expect to consolidate special purpose entities in which it holds equity tranche positions where control is not otherwise indicated. If the Company were in a position to have to consolidate the assets and liabilities of such special purpose entities, the financial statements of the Company may appear materially different as a result of such consolidation. However, such a change should not have any substantive effect on the financial position or the results of the Company itself.

*Rising interest rates may adversely affect the value of some of the Company's investments*

In the event of a general rise in interest rates, the value of certain investments that may be contained in the Company's investment portfolio may fall, reducing the Net Asset Value of the Company. Interest rates are highly sensitive to factors beyond the Company's control, including, among others, governmental monetary and tax policies, and domestic and international economic and political conditions.

*Hedging transactions may limit gains or result in losses*

Where the investments undertaken by the Company are denominated in another currency than the Euro, the Company intends to hedge the currency risk. The use of hedging transactions by the Company to reduce its exposure to currency fluctuations may not be effective in eliminating all of the risks inherent in any particular position and there can be no guarantee that suitable instruments for hedging will be available. The Company

will also be exposed to the credit risk of the relevant counterparty with respect to relevant payments under hedging instruments. Failure by a counterparty to make payments due under hedging instruments will reduce the Company's income and, consequently, could have an adverse impact on the Company's ability to pay dividends.

The Company may also in certain cases enter into transactions to hedge the risk of currency fluctuations. Such currency hedging agreements could also adversely affect the Company's ability to pay dividends as well as expose it to counterparty risk.

The Company may also in certain cases enter into derivative transactions to hedge the risk of interest rate fluctuations. Such interest rate hedging agreements could also adversely affect the Company's ability to pay dividends as well as expose it to counterparty risk.

*Investments will be subject to differing laws regarding creditors' rights and enforceability of security*

The Company's investments and the collateral underlying those investments may be subject to various laws for the protection of creditors in the jurisdictions of incorporation of the SPVs or the underlying borrowers in the portfolio and, if different, the jurisdictions from which they conduct business and in which they hold assets (such as the jurisdiction of the underlying borrowers in respect of the securitised assets), which may adversely affect an issuer's or the underlying borrower's ability to make payment in full or on a timely basis. These insolvency considerations will differ depending on the country in which a borrower or its assets are located and may differ depending on the legal status of the borrower. Additionally, the Company, as a creditor, may experience less favourable treatment under different insolvency regimes than apply in the UK.

**Risks Relating to the Company's Borrowings**

*Borrowings could adversely affect the Company's Net Asset Value and the level of the Company's dividends*

While the Company will not have incurred any borrowings at the time of Admission, it intends in the future to borrow to fund the acquisition of additional investments in order to enhance returns to Shareholders, subject to the borrowing restrictions set out in paragraph 6 of Part II of this document. These borrowings may be secured against some or all of the Company's assets.

The application of leverage to an investment magnifies the adverse impact caused by defaults in the underlying investment portfolio. Since the Company's investments are typically subordinated to more senior claims on the underlying assets, any borrowings by the Company would be incremental to the leverage already inherent in those investments. Therefore, in the event of a default in the assets underlying investments in the Company's portfolio, the level of losses suffered by the Company would be magnified and a relatively small increase in the rate of defaults could have a materially detrimental effect on returns to Shareholders.

The Company's earnings will be generated from the difference between income received and interest expense plus gains or losses arising from the revaluation or sale of investments. The Company's return on investments and cash available for distribution to Shareholders would be reduced to the extent that its interest expense increases relative to income, such as in the event of a general rise in interest rates, or in the event of losses arising from the sale of assets. Interest rates are highly sensitive to factors beyond the Company's control, including, among other things, governmental monetary and tax policies and domestic and international economic and political conditions.

*The Company may not be able to arrange the debt facilities that it requires either within its anticipated timescales or at all, which would adversely affect its anticipated investment performance and may prevent the Company from fulfilling its investment objectives*

The Company's ability to fulfil its investment objective and deliver its targeted results depends on its ability to obtain appropriate and sufficient debt finance for its investments. With a target portfolio size of approximately €100 million following investment of the net proceeds of the Issue, the Company anticipates that it will have the facility to arrange up to €240 million of debt finance before the end of June 2007 and increase the portfolio size to up to approximately €340 million. Failure to arrange any or all of this debt finance either within the projected timeframe or at all would adversely impact the Company's ability to achieve enhanced returns to Shareholders and would be expected to impact negatively on the Company's investment performance and the return on the Ordinary Shares.

*If the Company breaches covenants under its financing agreements it could be forced to sell assets*

The Company's banking facilities will generally contain representations, warranties, covenants and financial ratios which, if breached, may result in the termination of the relevant facility and may require the Company to immediately repay such borrowings in whole or in part, together with any attendant costs. In particular, facilities may contain covenants that allow for termination of the facility should the Investment Manager cease to be the investment manager of the Company.

If the Company does not have sufficient cash resources or other credit facilities available to make such repayments, it may be forced to sell some or all of the assets comprising its investment portfolio at prices which are less than the valuations of the Company. To the extent that the Company's borrowings are secured against all or a portion of its assets, a lender may be able to sell those assets. Moreover, any failure to repay such borrowings or, in certain circumstances, other breaches of covenants under the Company's loan or Repurchase Agreements could result in the Company being required to suspend payment of its dividends.

*A decline in the value or credit profile of the Company's investments may result in margin calls being made on the Company*

A decline in the value or credit profile of the investments contained in the Company's investment portfolio may result in the Company's lenders initiating margin calls or seeking a partial repayment of borrowing. If a lender initiates a margin call the Company may be required to pledge additional collateral to re-establish the ratio of the value of the collateral to the amount of the borrowing.

Funding may be committed or uncommitted. While the Company's borrowings are expected generally to be secured directly over its assets, the form and extent of any collateral may depend on the type, terms and source of the funding. In some instances, funding may require that the investments that are being financed and/or provided as collateral are periodically valued on a "mark-to-market" basis. A decline in the value of those investments may, among other things, require the Company to provide additional collateral under the relevant facility or result in the reduction of the amount available to the Company under the facility or, possibly, the termination of the facility.

Foreclosure on the Company's collateral could force the sale of securities in the Company's investment portfolio, which may be at reduced prices. There can be no assurance that in those circumstances, the Company or such lender would be able to sell any such assets at their market value.

Where investments are held by a lender as collateral for borrowings the Company relinquishes control of such assets and the Company could be exposed to the default of the lender.

*The structure and specific provisions of any financing arrangements could give rise to additional risks*

To the extent that the Company enters into any financing arrangements, such arrangements may contain provisions that expose it to further risk of loss. For example, any cross-default provisions (such that a default under one particular financing agreement could automatically trigger defaults under other financing agreements) could magnify the effect of an individual default and if such a provision were exercised, this could result in a substantial loss for the Company.

## **Risks Relating to the Investment Manager**

*The Company's performance is dependent on the Investment Manager*

The Company has no employees and is reliant on the Investment Manager, which has significant discretion as to the implementation of the Company's investment objective and policy. In particular, the Company's performance will be dependent on the success of the Investment Manager's investment process as set out in paragraph 5 of Part II of this document. The Investment Manager has the right to resign its appointment and terminate the Investment Management Agreement in accordance with the notice provisions set out in paragraph 4 of Part III of this document. If the Investment Manager resigns its appointment, the Company is subject to the risk that no suitable replacement will be found. In addition, the Directors believe that the Company's success depends to a significant extent upon the experience of the members of the Investment Manager's team. The continued service of the individual members of the Investment Management Team is not guaranteed. The departure of one or several members of the Investment Management Team may have an adverse effect on the performance of the Company.

*The Investment Manager's other client relationships may give rise to conflicts of interest*

The Investment Manager may manage other investment vehicles besides the Company which may lead to conflicts of interest. For example, certain investments appropriate for the Company may also be appropriate

for one or more of these other investment vehicles managed by the Investment Manager, and the Investment Manager may decide to allocate a particular investment to another investment vehicle rather than through the Company. Also, the compensation structures of other investment vehicles managed by the Investment Manager differ from that provided under the Investment Management Agreement and such differences could incentivise the Investment Manager to allocate certain opportunities to these other investment vehicles.

Additionally, the fact that the Investment Manager and its officers manage other vehicles and engage in other business activities may reduce the time the Investment Management Team spends managing the Company's investments. The Investment Manager's decision to spend time on other activities besides the management of the Company's investments could be influenced by a variety of factors, including the compensation structures of other investment vehicles as compared to that of the Company and the performance of the various vehicles.

See the section entitled "Conflicts of Interest" in Part III of this document for further information.

*The Investment Manager's compensation structure may encourage the Investment Manager to invest in high risk investments*

In addition to its Management Fee, the Investment Manager is entitled under the Investment Management Agreement to receive a performance fee based upon the Company's consolidated net income (a summary of the fee arrangements is set out in paragraph 4 of Part III of this document). In evaluating investments and other management strategies, the opportunity to earn a performance fee based on net income may lead the Investment Manager to place undue emphasis on the maximisation of net income at the expense of other criteria, such as preservation of capital, in order to achieve a higher performance fee. Investments with higher yield potential tend to be riskier or more speculative.

*The Investment Manager's investment strategies may not achieve the Company's investment objective and policy*

No assurance can be given that the strategies used, or to be used, by the Investment Manager to achieve the Company's investment objective and policy will be successful under all or any market conditions. The Investment Manager is authorised to follow broad investment guidelines as set out in paragraphs 3 and 7 of Part II of this document. While the Board will periodically review the Company's investment guidelines and the Company's investments, the Board will not review each proposed investment. Transactions entered into by the Investment Manager may be difficult or impossible to unwind by the time they are reviewed by the Board. The strategies currently employed by the Investment Manager may be modified and altered from time to time, so it is possible that the strategies used by the Investment Manager to achieve the Company's investment objective and policy in the future may be different from those presently expected to be used.

*The Investment Management Agreement is subject to a fixed initial term and a long notice period*

The Investment Manager's appointment pursuant to the Investment Management Agreement is intended to be long term. The Company may terminate the Investment Management Agreement by giving the Investment Manager not less than 12 months' prior notice in writing. However, the Company may not give notice to terminate the Investment Management Agreement prior to the second anniversary of the commencement date of the Investment Management Agreement, such that the Investment Management Agreement has an initial three-year term. The Company will not be able to terminate the Investment Management Agreement at shorter notice than described above unless the Investment Manager has committed certain "cause" events, as set out in paragraph 7.2 of Part VIII of this document or it makes a payment in lieu of the Management Fees and the performance fees that the Investment Manager would have earned. Poor investment performance would not of itself constitute an event allowing the Investment Management Agreement to be terminated on short notice.

*The Investment Manager may receive a performance fee in respect of periods when the Company is unable to pay a dividend*

The Company's ability to pay dividends may be restricted as a matter of applicable law or regulation, including to the extent that dividends are not covered by income received in the relevant period from underlying investments. Accordingly, there may be periods in respect of which the Investment Manager is paid a performance fee but a dividend cannot be paid on the Ordinary Shares, for example, where, as a result of losses or expenses, there are no profits available for distribution in the period.

*The liability of the Investment Manager to the Company in respect of the Investment Manager's default is limited*

The Investment Management Agreement limits the liability of the Investment Manager and its associates (including its partners, officers and employees) to the Company to circumstances in which the Investment Manager or its associates have been negligent, in wilful default of their obligations or fraudulent. Accordingly, the rights of the Company to recover against the Investment Manager as a result of its default may be limited and any such recovery by the Company against the Investment Manager may be significantly lower than the loss that the Company has suffered.

*The Investment Manager is authorised and regulated by the FSA. If the Investment Manager fails to comply with legal and regulatory requirements, the Company and its share price may be adversely affected*

The provision of investment management services is regulated in the United Kingdom, and the Investment Manager is authorised and subject to regulation and supervision by the FSA (which has the authority to review and investigate the conduct of the Investment Manager and its employees). Changes to statutes, regulations or regulatory policies (including changes in interpretation or implementation thereof), or any failure by the Investment Manager or its employees to comply with such laws, regulations or policies could adversely impact the Investment Manager, and thereby could adversely affect the Company and its share price. Although the Investment Manager has implemented systems and controls requiring employees to comply with these laws, regulations and policies, there can be no assurance that all employees will abide by these and, if any were to fail to do so, that such failure would not have an adverse effect on the Company.

### **Risks relating to the Company and the issue**

*The Company is newly formed and there can be no assurance that it will achieve its investment objective*

At the date of this document, the Company has not commenced operations. Therefore it is difficult to evaluate the Company's future prospects and an investment in the Ordinary Shares. There can be no guarantee that the Company's investment objective will be achieved. The results of the Company's operations will depend on many factors, including, but not limited to, the availability of opportunities for the acquisition of assets, the level and volatility of interest rates, readily accessible short and long-term funding alternatives, conditions in the financial markets, general economic conditions and the performance of the Investment Manager.

*An adverse change in the Company's tax status or applicable tax legislation could have a negative effect on the Company's financial condition or prospects*

Any change in the Company's tax status or in taxation legislation in Guernsey or any other tax jurisdiction affecting the Company or any taxation legislation affecting VAT treatment accorded to the provision of investment management or other services to the Company could affect the value of the investments held by the Company or affect the Company's ability to achieve its investment objective or alter the post-tax returns to Shareholders. Any such change could adversely affect the net amount of any dividends payable to Shareholders.

In addition, if the Company were treated as having a permanent establishment, or as otherwise being engaged in a trade or business, in any country in which it invests, income attributable to, or effectively connected with, such permanent establishment or trade or business may be subject to tax on a net basis.

The Company intends to apply for exemption from Guernsey income tax. However, the exempt company regime is likely to be abolished in 2008. Whilst it is anticipated that the Company will not be subject to Guernsey income tax in 2008 and thereafter, firm proposals have yet to be published by the Guernsey authorities.

*Changes in the Company's non-UK tax residence status would adversely affect the Company*

In order to maintain its non-UK tax residence status, the Company is required to be controlled and managed outside the United Kingdom. Continued attention must be paid to ensure that major decisions by the Company (other than by the Investment Manager in connection with its services under the Investment Management Agreement) are not made in the United Kingdom, or else the Company may lose its non-UK tax residence status. The composition of the Board, the place of residence of the Board's individual members and the location(s) in which the Board makes decisions will be important in determining and maintaining the non-UK tax residence status of the Company. If the Company were to be considered a UK tax resident, it would be subject to UK corporation tax on its profits, which may negatively affect its financial and operating results.

*The Company is subject to market risk, interest rate risk and credit risk*

The Company's exposure to market risk comprises mainly movements in the value of its investments, and to the extent that the Company incurs indebtedness in the future, changes in interest rates that either increase its cost of borrowing or, in the event the Company makes any fixed interest investments in future, may decrease its interest income.

Changes in interest rates can affect the Company's net interest income and the Company's ability to acquire loans and investments, the value of its investments and the Company's ability to realise gains from the settlement of such assets.

The Company is subject to credit risk in respect to its investments. Credit risk refers to borrowers' ability to make the required interest and principal payments on the scheduled due dates.

*The Company's results may be adversely affected by movements in foreign exchange rates to the extent not hedged*

The Company's accounts will be denominated in Euros while certain investments may be made and realised in other currencies. Changes in rates of exchange may have an adverse effect on the value, price or income of such investments. A change in foreign currency exchange rates may adversely impact returns on the Company's non-Euro denominated investments to the extent that the Company does not hedge against such exchange movements. The Company's principal direct non-Euro currency exposure is expected to be the Pound Sterling.

*Future share issues could dilute the interests of existing Shareholders and lower the price of the Ordinary Shares*

The Company may issue additional shares in subsequent public offerings or private placements. The Company is not required under Guernsey law to offer any such shares to existing Shareholders on a pre-emptive basis. It may not therefore be possible for existing Shareholders to participate in such future share issues, which may dilute the existing Shareholders' interests in the Company. In addition, the issue of additional shares by the Company, or the possibility of such issue, may cause the market price of the Ordinary Shares to decline.

*There may not be a liquid market for the Ordinary Shares and the price of the Ordinary Shares may fluctuate*

There may not be a liquid market for the Ordinary Shares and any investment in the Ordinary Shares should be viewed as a long-term investment. The market price of the Ordinary Shares, and the income derived from them can fluctuate and there is no guarantee that the market price of the Ordinary Shares will reflect fully their underlying Net Asset Value. The market price of the Ordinary Shares, as well as being affected by their Net Asset Value, may also be affected by their dividend yield and prevailing interest rates and other factors beyond the Company's control. Prior to the Issue there has been no public market for the Ordinary Shares. An active public market may not develop or be sustained after Admission. As there has been no prior market valuation of the Ordinary Shares, there can be no assurance that the Issue Price will accurately reflect the market price for the Ordinary Shares following Admission.

*The Company's ability to pay dividends will depend on its ability to generate sufficient earnings as well as on certain legal and regulatory restrictions*

The Company currently intends to pay dividends quarterly to Shareholders out of investment income, but it has no obligation to do so and there can be no assurances that the Company will be able to pay dividends in the future. All dividends or other distributions will be made at the discretion of the Directors and will depend on the Company's earnings, financial condition, legal and regulatory restrictions and such factors as the Directors may deem relevant from time to time.

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Offer for Subscription opens	on 6 April 2006
Latest time and date for receipt of Application Forms and payment under the Offer for Subscription	12 noon on 18 April 2006
Latest time and date for receipt of Placing commitments	by 5.00 p.m. on 18 April 2006
Results of the Issue announced	20 April 2006
Admission and dealings commence in the Ordinary Shares on AIM and CISX	8.00 a.m. on 26 April 2006
CREST Stock Accounts credited	by 26 April 2006
Despatch of definitive share certificates (where applicable) in respect of the Ordinary Shares	by 4 May 2006

*The dates and times specified above are subject to change. References to times are to London times unless otherwise stated.*

## ISSUE STATISTICS

Issue Price	€1.00
Estimated initial Net Asset Value per Ordinary Share	€0.975
Number of Ordinary Shares in issue immediately following the Issue <sup>(1)</sup>	100,000,000
Net proceeds of the Issue <sup>(1)(2)</sup>	€97,500,000

(1) Assuming the Issue is fully subscribed.

(2) The net proceeds of the Issue must be at least €30million for the Issue to proceed.

## PART I

### THE EUROPEAN RMBS AND OTHER ABS MARKET

#### 1. Background on Residential Mortgage-backed Securities (“RMBS”) and other Asset-backed Securities (“ABS”)

RMBS and other ABS are asset-backed securities that are issued by Originators (typically corporations, financial institutions or public entities) in securitisation structures and which are typically secured by, or evidence ownership interests in, a discrete pool of assets. Securitisation is intended, amongst other things, to transfer credit risk on assets from the Originator to investors in asset-backed securities, while at the same time providing financing to the Originator on terms disconnected from its credit standing.

##### *Illustrative mechanics of a securitisation structure*

Securitisation enables Originators to pool and sell a discrete portfolio of amortising financial assets such as residential mortgage loans, which are originated in the course of their operations or otherwise acquired, to a bankruptcy-remote vehicle (“Special Purpose Vehicle” or “SPV”). The SPV in turn issues to the debt capital markets or bank markets, debt securities secured by the pool of underlying assets and serviced (or repaid) out of the cash flows generated by that pool.

The debt securities issued by the SPV are thus “backed” by the pool of assets and hence called asset-backed securities or “ABS”. The main pool of assets used in securitisations by financial institutions are mortgage loan portfolios (leading to the issuance of residential mortgage-backed securities or RMBS), commercial mortgage loans (leading to the issuance of commercial mortgage-backed securities or CMBS), consumer loans and lease receivables. Assets securitised by corporations usually include trade receivables or receivables derived from buildings, plants, inventories or other movable assets. Public entities have outsourced, through securitisation, the funding of assets such as defence contracts, hospitals, service contracts (e.g. London Underground), lottery and/or tax receipts.

The pool of assets underlying the ABS is managed by a Servicer who often is the Originator. The Servicer performs a number of tasks including, among other things, day to day operations and cash collections as well as calculating and managing delinquent or defaulted assets. In addition, securitisation structures usually provide for the appointment of an alternative Servicer (or back-up Servicer), should the primary or initial Servicer not perform its obligations.

The SPV is an entity established for the sole purpose of acquiring the assets from the Originator through a true sale (i.e. whereby the legal separation of assets from the Originator is achieved) and issuing ABS secured or collateralised by the pool of assets. Regardless of the jurisdiction or asset type, the SPV is legally independent from the Originator, with the assets and liabilities of the SPV segregated from those of the Originator, and therefore not affected by a potential bankruptcy or insolvency of the Originator. The legal separation of the assets from the Originator is a prerequisite for allowing the SPV to issue ABS of a higher credit quality than that of the Originator.

The SPV services payment of interest and repayment of principal on the ABS primarily from the cash flows generated by the financial assets contained in the underlying portfolio. It may also have recourse to other sources of funds embedded in the securitisation structure in order to ensure full and timely payment. These features, typically referred to as liquidity enhancement or credit enhancement, depending on the particular aspects of the portfolio they are intended to address, include liquidity facilities, cash reserves, letters of credit, excess collateral, subordinated loans and guarantees. Additionally, securitisations may include interest rate hedges to cover the potential mismatch between the interest rate received from the pool and the interest rate paid to the ABS holders.

##### *Typical RMBS or other ABS Capital Structure*

The capital structure of a typical securitisation involves the issue by the SPV of multiple tranches of asset-backed debt securities. The amount of each tranche or tranching is determined amongst others by the credit rating assigned by rating agencies to the securities. The rating agencies are typically appointed by the Originator for each transaction; for European securitisations, agencies would usually include one or several of the following participants: Standard & Poor’s, Moody’s Investors Services and/or Fitch. The highest rating assigned by the agencies following the typology of Standard & Poor’s and Fitch is AAA; this rating is equivalent to the credit quality of government bonds issued by the national treasuries of the strongest OECD economies such as the United States of America or Germany. Tranches rated below AAA commonly

included in RMBS capital structures are rated in declining order of credit quality: AA, A, BBB, BB, B. Ratings below BBB<sup>-</sup> are referred to as non-investment grade.

These various tranches have different rankings as to entitlement to payment of interest and principal both before and after any enforcement of the security underlying the debt obligations. Each tranche provides credit enhancement to the tranches which rank senior to it, since the holders of the senior tranches are entitled to payment before payments are made to the holders of the junior tranches. As an illustration, a BBB<sup>-</sup> rated tranche would typically provide credit enhancement to the A, AA and AAA rated tranches. In the event of a default on any of the financial assets backing the transaction, any shortfall is absorbed first by any additional credit enhancement in the transaction (such as overcollateralisation or a cash reserve) and then by the most junior tranche of the debt securities issued (in the example above, the BBB<sup>-</sup> rated tranche) to the extent of the credit enhancement provided by that tranche, and then by the next most senior tranche or tranches until the shortfall has been absorbed in its entirety.

In a typical RMBS structure of Continental European and UK mortgages, the capital structure would typically include up to 90 per cent. and occasionally up to 95 per cent. of AAA rated debt, with the remainder comprising investment grade and non-investment grade securities.

Interest and principal repayment cash flows derived from the pool of assets are allocated sequentially firstly to cover the operational and administrative costs of the SPV, secondly to the debt service of the highest ranking debt tranche (AAA in the above example), thirdly to the debt service of the next highest ranking debt tranche (AA in the above example) and so on until all obligations of the SPV have been met. This sequential cash flow allocation is usually referred to as the “payment waterfall”.

The most subordinated tranche of securities is therefore the most sensitive to defaults in relation to the underlying assets, and the most senior tranche is the least sensitive to them.

#### *Equity Tranche*

The equity tranche, otherwise referred to as the “first loss tranche” or “residual income position”, includes the most junior tranche in the RMBS or other ABS capital structure. The equity tranche is typically not rated and the first rated tranche immediately senior to the equity tranche would typically be rated from B to BBB<sup>-</sup> in RMBS structures.

The equity tranche will often be structured as a subordinated bond tranche but may also take other forms, including as a subordinated loan, mortgage early redemption certificates or as a certificate/right entitling the holder to receive any cash reserves that form part of the transaction structure at the point at which such reserves are permitted to be released (which is typically when the portfolio of financial assets has been liquidated, but prior to the final maturity of the securities).

The equity tranche captures available payments at the bottom of the payment waterfall, after operational and administrative costs of the SPV and servicing of the debt securities. Economically, it benefits from the difference between the interest received from the asset pool and the interest paid to the other ABS holders (the “excess spread”). Should a default or decrease in expected payments under a particular securitisation structure occur, that deficiency will first affect the equity tranche in that holders of that position will be the first to have their payments decreased by the deficiency.

#### *Common Types of ABS*

The most common type of ABS in the European market is RMBS, which the Directors estimate accounted for approximately 50 per cent. of total ABS issuance in 2005, or approximately €178 billion out of a total ABS issuance amount of approximately €347 billion. The Directors estimate that CMBS and collateralised debt obligations (CDO) each accounted for approximately €48 billion and approximately €59 billion respectively in primary issuance in 2005. The Directors estimate other types of ABS represented an issuance amount of approximately €63 billion in 2005.

#### *Key Features of RMBS and other ABS*

RMBS are securities secured by or evidencing ownership interests in pools of mortgage loans secured by residential properties. The underlying pool of mortgages is typically comprised of several thousand loans to individuals, each secured by a first or consecutive ranking lien on their homes. Given the high number of creditors, mortgage pools are referred to as “granular”. Granularity ensures that the delinquency of any individual mortgages has a small effect on the overall performance of the RMBS.

The yield on RMBS will depend, in part, on the timely payment of interest and principal due on the underlying mortgage loans by the borrowers. Defaults by such borrowers may ultimately result in deficiencies and defaults on the RMBS. In the event of a default, the trustee for the benefit of the holders of the RMBS will typically have recourse only to the underlying pool of mortgage loans and, if a loan is in default, to the mortgaged property securing such mortgage loan. After the trustee has exercised all of the rights of a lender under a defaulted mortgage loan and the related mortgaged property has been liquidated, typically no further remedy will be available.

The credit quality of RMBS depends primarily on the credit quality of the underlying mortgage loans, which is a function of factors such as: (i) the loan-to-value ratio (LTV), corresponding to the principal amount of the mortgage loans relative to the value of the mortgaged properties, (ii) the creditworthiness of the borrowers, (iii) the purpose of the mortgage loans such as the purchase of a property or the refinancing of an existing loan facility, (iv) the time lapsed between the origination of the mortgages and the date of issuance of the RMBS (this factor being referred to as seasoning), (v) interest level and type (fixed or floating), mortgage maturity and principal repayment terms, (vi) regional location of the mortgaged properties securing the mortgage loans, as well as (vii) national characteristics which determine the time and expected recovery rate in a foreclosure process or exhibit patterns in the behaviour of borrowers (for instance in respect of early repayment of principal).

Additionally, the availability of credit enhancement in the transaction (such as, for example, overcollateralisation or a cash reserve, subordinated loan, residual certificate, a bank letter of credit and/or any third party guarantee or any other equity tranche in the structure), can influence the credit quality of RMBS.

ABS may be backed by, among other things, consumer finance credit (such as auto loans, credit card receivables or student loans), corporate credit, (such as trade receivables or leases) and receivables from consumers. The credit quality of such ABS may depend on such factors as the diversification, or granularity, of the pool, the creditworthiness of the underlying creditors, the availability of credit enhancement, and the legal recourse available to the Originator.

## **2. Trends in the RMBS and other ABS Market**

### *Primary Issuance*

The ABS market in Continental Europe and the UK has grown substantially in the last decade and now represents a significant source of long-term funding for financial institutions and corporations in Europe. Between 2000 and 2005, the Directors estimate ABS issues in Europe increased from approximately €119 billion to approximately €347 billion, a compound annual growth rate of close to 24 per cent. Over that same period, the Directors estimate RMBS issuance in Continental Europe and the UK has grown from approximately €42 billion to approximately €178 billion, a compound annual growth rate of over 33 per cent.

The Directors believe that the new Basel II framework applicable to financial institutions (as explained below) and the introduction of IFRS for listed European groups will continue to stimulate securitisation financing, leading to a continued sustained issuance volume among all types of asset-backed debt, notably RMBS.

Additional factors which should stimulate RMBS and ABS issuance in Continental Europe and the UK include:

- an increased level of competition in the mortgage market from specialist lenders that use securitisation and the sale of equity tranches as a funding tool as well as a means to accelerate profit recognition;
- growth in mortgage demand, throughout Continental Europe and the UK;
- focus on return on capital employed and on return on equity amongst European corporations and financial institutions.

### *Basel II Framework and IFRS Accounting Standards*

The Basel Committee on Banking Supervision published the text of a new framework on 26 June 2004 under the title “Basel II: International Convergence of Capital Measurement and Capital Standards: a Revised Framework” (“Basel II”). This new framework, which will apply to all internationally active banking institutions in Europe, is planned to come into force in December 2006 and aims to encourage financial services companies to have a more risk sensitive framework for the assessment of regulatory capital.

The Directors anticipate that this new framework, which places enhanced emphasis on market discipline and sensitivity to risk, will (if implemented in its current form) make it less attractive for bank originators to retain equity tranche positions on their balance sheets as under the new framework sub-investment grade positions will attract a much higher risk weighting than under the current framework and unrated positions will attract a deduction from the bank's capital. The Directors expect that the market for equity tranche positions in the non-bank community may increase and if banks are looking to achieve regulatory capital advantages through securitisation they will be likely to seek to sell the subordinated piece to a third party which is not subject to the Basel II regime and to sell any existing subordinated pieces they hold.

Similarly, the introduction of IFRS, and the resultant requirement that financial institutions and companies be required to consolidate all of the assets and liabilities of a securitisation transaction where the equity tranche position has been retained, has led some financial institutions and companies to consider disposing of these positions either for accounting purposes and/or to realise their embedded value (thereby providing funds for further business growth). The Directors believe that the trend towards Originators transferring these positions to third party investors presents an attractive investment opportunity.

#### *Market for Equity Tranches*

Until recently, opportunities to acquire equity tranches of securitisations were few in Continental Europe and the UK, as these instruments tended to be retained by the Originators, whether financial institutions or corporations.

The Directors estimate that approximately 15 to 20 equity tranches of RMBS were sold to third party investors in Continental Europe and the UK in the year ended 2005.

The Directors believe that the investor base for such equity tranches is limited to a relatively small number of market participants and is likely to remain small given the need for securitisation expertise, specialist knowledge in analysing and valuing the instruments as well as access to investment sources.

## PART II

### DETAILS OF THE COMPANY AND ITS BUSINESS

#### 1. Introduction

The Company is a newly-established closed-ended limited liability investment company formed under the Companies Law of Guernsey. Consent under The Control of Borrowing (Bailiwick of Guernsey) Ordinances 1959 to 1989, as amended, has been obtained for the Company to raise up to €100 million by way of the Issue and for the circulation of this document in the Bailiwick of Guernsey. Neither the Guernsey Financial Services Commission nor the States of Guernsey Policy Council takes any responsibility for the financial soundness of the Company or for the correctness of any of the statements made or the opinions expressed with regard to it.

The Company's investments will be managed by Ocean Capital Associates LLP, a London-based investment management company authorised and regulated by the Financial Services Authority. Further information relating to the management of the Company and the Investment Manager is set out in Part III of this document.

The Company's investment objective is to deliver stable returns to Shareholders in the form of quarterly dividends and to preserve capital. It intends to achieve this by investing in non investment grade and equity tranches (or "first loss" positions) of RMBS and, to a limited extent, other ABS in Continental Europe and the UK. The Company will utilise leverage in order to enhance returns to Shareholders.

The Company's capital structure will consist solely of Ordinary Shares.

The Company will not have a fixed life.

#### 2. Market Opportunities

The Directors believe that RMBS offer the following market opportunities:

- RMBS give investors exposure to an asset class that may otherwise not be open to them, where the underlying portfolio of assets contains a number of exposures that are sufficiently diverse, or "granular", to ensure that the Company is not unduly exposed to any single underlying borrower.
- RMBS now represents a deep and liquid market in Continental Europe and the UK, offering broad diversity in the geographic location of Originators, Servicers and underlying asset pools. The Directors estimate that primary issuance in RMBS in Continental Europe and the UK has grown from approximately €42 billion in 2000 to approximately €178 billion in 2005.
- Growth in residential mortgage lending in Continental Europe and the UK over the short and medium term is expected by the Directors to result in a larger pool of high quality assets available for securitisation.
- Credit enhancement features embedded in securitisation structures, combined with the granular nature of RMBS, provide enhanced stability against credit shocks and adverse eventualities that could affect the asset pool. This is reflected in the high proportion of AAA rated RMBS, which typically include up to 90 per cent. (although occasionally up to 95 per cent.) of Continental European and UK issues.
- The issuance of RMBS and other ABS has become an important source of financing and diversification of funding sources as well as a capital management tool for European financial institutions. The implementation of Basel II in Europe provides a further incentive for financial institutions to securitise asset pools and sell the equity tranche positions to optimise regulatory capital and their cost of capital. Basel II is expected by the Directors to result in an increased issuance of RMBS and other ABS.

The Directors believe the equity tranche offers the following investment highlights:

- RMBS equity tranche and unrated portfolios can offer the potential for a yield in excess of that generated by investments in rated RMBS securities and/or rated fixed income products such as European sovereign and corporate bonds.
- Carefully selected equity tranches issued and backed by high quality asset portfolios can offer attractive risk and reward characteristics.
- The equity tranches are under-researched and are targeted by a small investor base. In the Directors' opinion the investor base for equity tranches will remain limited as successful investments in those

tranches requires expertise in securitisation in addition to detailed knowledge of the underlying assets and of the Originator, Servicer and national regulatory requirements.

### 3. Investment Objective and Policy

The Company's investment objective is to deliver stable returns to Shareholders in the form of quarterly dividends and to preserve capital invested.

The Company intends to achieve its investment objective by investing in both non-investment grade and equity tranches of RMBS and, to a limited extent, in the equity tranche of corporate ABS in Continental Europe and the UK. The Directors intend that no less than 75 per cent. of gross assets be invested in RMBS in Continental Europe and the UK once the net proceeds of the Issue have been fully invested and up to 25 per cent. invested in other ABS in Continental Europe and the UK. The equity tranches of the securities will, in most cases, be rated below investment grade or unrated and will, in many cases, represent the residual income typically retained by the Originator of a securitisation transaction as the 'equity tranche' or 'first loss position'. The Directors believe that this investment focus on equity tranches provides equity investors with the opportunity for exposure to an asset class that may not otherwise readily be open to them.

It is the intention of the Directors, subject to market conditions, for the net proceeds of the Issue to be fully invested in accordance with its investment policy within 12 months of Admission and thereafter at all times, although the Investment Manager may use its discretion to hold cash or cash equivalents. In the event that the Company has not made an investment as outlined above within 12 months from the date of Admission, the Directors will convene an extraordinary general meeting at which proposals will be put to Shareholders to liquidate the assets of the Company and distribute the proceeds amongst Shareholders. Pending such investment and subject to market conditions, the net proceeds will be held in cash and in short-term money market instruments.

### 4. Target Investments

The Company intends to create a geographically diverse portfolio of investments consisting of investments in Continental Europe and the UK. It will regularly monitor the extent to which the investment portfolio is concentrated in any particular country or region, or Originator or Servicer, along with any relevant risks associated with such country or region, Originator or Servicer and the Investment Manager may, when it deems it appropriate to do so and when the market conditions allow, rebalance the investment portfolio.

More specifically, the Company intends to invest in the following categories of investments:

#### *RMBS*

The Directors intend that, once the net proceeds of the Issue are fully invested, no less than 75 per cent. of the Company's gross assets will be invested in RMBS, primarily as equity tranche securities issued as part of a securitisation. The Company may also invest in non-investment grade RMBS where the rights of such class to receive principal and interest are subordinate to senior classes but senior to the rights of the equity tranche.

#### *Other ABS*

Up to 25 per cent. of the Company's investments may be in other types of asset-backed securities which are backed by other types of collateral such as trade receivables and leases where the underlying obligors are individuals or corporations, as well as potentially loans, whole business loans, aircraft loans, auto loans, credit card loans, auto leases, CBOs/CLOs and reinsurance. The majority of such investments are intended to consist of equity tranche securities issued as part of a securitisation. The Company may also invest in non-investment grade ABS where the rights of such class to receive principal and interest are subordinate to senior classes but senior to the rights of the equity tranche.

It is intended that investments in both RMBS and other ABS will only be made where the underlying portfolio of assets is granular, in the sense that it contains a number of exposures that are sufficiently diverse to ensure that the Company is not unduly exposed to any single underlying borrower.

It is intended that investments be held to maturity (or earlier redemption/repayment by the issuer/borrower) rather than be traded prior to maturity. It is intended that individual investments will generally have an expected maturity at purchase ranging between 3 and 7 years. The Company does not intend, to a significant extent, to be a dealer in investments. Further detail on the European RMBS and other ABS market is set out in Part 1 of this document.

Investments will be either purchased in the primary or secondary markets and may in certain cases include transactions structured by a third party to the Investment Manager's specifications in a primary market transaction or arising out of transactions where the Investment Manager works directly with the Originator in structuring the securitisation.

## **5. Investment Process**

The Investment Manager's investment process is set out below.

### *Asset Sourcing*

The Investment Manager will source investment opportunities primarily through:

- the Investment Manager's network of direct relationships with major commercial and investment banks, who together arrange, intermediate or otherwise trade a large proportion of securitisations in Continental Europe and the UK;
- the Investment Manager's contacts with originating banks and corporations, with whom the Investment Manager has maintained a strategic dialogue encompassing the structuring of securitisations as well as the optimisation of their cost of capital through the sale of residual equity tranche positions.

The Investment Manager believes that its network of relationships puts it at a competitive advantage in sourcing investment opportunities, whether in the primary or secondary market or in structuring securitisations, and provides it access to unrated asset-backed securities or equity tranches.

### *Initial Review*

Prior to making any investment, the Investment Manager will conduct an initial review of the potential investment opportunities encompassing the Originator and the Servicer, the underlying asset class and key characteristics of the asset pool, the macro-economic indicators relevant to the jurisdictions in which the assets are located as well as the benchmarking of the potential investment against the expected risk and reward profile of other opportunities.

Based on this initial review, the Investment Manager will determine whether the investment opportunity presents sufficiently attractive characteristics to justify conducting in-depth analysis as described below.

### *Analysis of the Asset Pool*

A key part of the investment process involves the in-depth review and quantitative as well as qualitative analysis of the pool of assets underlying the securitisation. In many cases, the Investment Manager would have access to the detailed characteristics of each individual asset composing the pool. The analysis of the asset pool usually includes the following aspects:

- stratification of the asset pool, which involves aggregating individual assets into sub-pools (according to a criteria such as the location of the mortgaged properties in RMBS) and calculating, for each sub-pool, statistical measures relating to the other key variables (such as the LTV or the amount of the loans). This analysis is essential in identifying and understanding the potential risk areas of the pool, which may not be derived from aggregate or average data on the pool;
- qualitative review of the portfolio focusing amongst others on the risk areas identified in the stratification as well as product types and features and geographic diversification of assets;
- comparison of the asset pool with underlying pools of other securitisations or with data relating to aggregate portfolios in the same jurisdictions in order to benchmark the risk profile of pool.

### *Pricing and Sensitivity*

The pricing of the investments relies on the modelling of the expected cash flows of the securities under various scenarios determined by the Investment Manager. This process usually requires the Investment Manager to build a financial model for each potential investment that simulates the performance of the underlying pool of financial assets and its impact on the cash flows available to the contemplated investment. Depending on the type of potential investment, the model will also replicate the liability structure of the related securitisation, including the particular tranche in which the Company intends to invest.

In order to price a potential investment, the Investment Manager will determine a base case scenario and run a number of sensitivities and stress case scenarios factoring in, amongst others, the following parameters:

- macro-economic environment including without limitation GDP, inflation/consumer price indices, unemployment level, interest rates and consumer and corporate indebtedness;
- in the case of RMBS, liquidity and depth of the real estate market;
- scheduled and unscheduled principal prepayments;
- arrears and default rates;
- credit environment and creditors' rights as well as duration of foreclosure or workout process in the relevant jurisdiction, expected recovery rate and foreclosure or workout cost; and
- credit enhancement, liquidity and hedging arrangements and their impact on cash flows available to the securities which the Company expects to purchase.

The assumptions underlying the base case scenario will be made by the Investment Manager by reference to available historical data on the various parameters listed above as well as their volatility over time, derived from similar portfolios of assets and aggregate data from the Originator or other relevant sources. The base case scenario assumptions will be chosen by the Investment Manager to reflect its best judgment of the expected level of these parameters over the life of the investment. Based on these assumptions, the financial model built by the Investment Manager will produce loss-adjusted base case cash flows. The Investment Manager believes that these base case cash flows will provide a conservative estimate of the future cash flows derived from the instrument.

The Investment Manager will then evaluate the sensitivity of these cash flows to positive and negative changes in the various parameters (sensitivities) and build scenarios incorporating a coherent deterioration of these parameters over time (stress scenarios). This process enables the Investment Manager to establish the minimum target Internal Rate of Return that it considers sufficient to address the inherent risk of the investment given the perceived likelihood of the stress scenarios.

The price that the Company intends to pay for an investment is that which, in the Investment Manager's opinion, results in the Investment Manager's target Internal Rate of Return under its base case assumptions to be met or exceeded and which will protect capital under stress scenarios. The price actually paid by the Company for the expected cash flows is used to determine the expected yield on the investment, offering potential for improved performance if the base case assumptions are proved to have been too conservative.

#### *Due Diligence*

The objective of the due diligence exercise is to allow the Investment Manager to decide whether a particular investment would be appropriate and attractive for the Company in light of the Company's investment objective and, where it is, to optimise the investment acquisition structure.

The due diligence would typically involve meetings with the Originator and the Servicer, conducted by the Investment Manager, in certain cases with assistance of advisers such as auditors, IT specialists and legal advisors. The due diligence will usually focus on the following aspects:

- validation of the pricing assumptions and structural features of the securitisation;
- review of the Originator's credit allocation and collection policies as well as their effective implementation on similar pools of assets;
- review of the Servicer's infrastructure and capabilities through meetings and by reference to indicators such as Servicer ratings, servicing procedures, credit, solvency, quality of information systems, strategy and core competencies;
- review of back-up servicing plans;
- evaluation of the relevant tax, accounting and structuring considerations relating to the investment by the Company.

#### *Investment Approval*

The Investment Management Team will be kept informed of the flow of opportunities and the progress made in analysing any potential investment. The unanimous vote of the Investment Management Team must be obtained prior to any investment being made.

### *On-going Monitoring*

The Investment Manager will monitor the Company's investment portfolio on an ongoing basis, based on the management reports provided by the Servicer or in certain cases on audits conducted by advisors or itself. The data collected, combined with the relevant data obtained from other sources, will be used in reviewing the diversification and risk management of the Company.

## **6. Financing Strategy**

As at the date of this document the Company has not, and will not have at Admission, incurred any indebtedness (including any guaranteed, secured, unguaranteed or unsecured debt and no indirect or contingent indebtedness). At Admission, shareholders' equity is expected to be up to €100 million (assuming the Issue is fully subscribed), comprising shares of no par value and share premium reserves of up to €100 million. Other than short-term financing to meet any short-term cash requirements the Company does not intend to incur indebtedness prior to the substantial completion of investment of the net cash proceeds of the Issue.

Thereafter, the Company intends to increase its investment portfolio in subsequent investment phases. Available funds for the subsequent investments will primarily be derived from the following sources:

- Principal repayment of investments in the portfolio — some equity tranches can have cash flow patterns in which part of the principal is repaid prior to maturity. The Investment Manager intends to apply such early principal repayments to purchase new investments.
- Debt financing — the Company may utilise leverage at the Directors' discretion for the purpose of financing its portfolio and enhancing Shareholder returns and intends to seek debt financing in the form of bank facilities secured against the whole or part of the investment portfolio and/or in the form of repurchase agreements for some investments. The Company will have unlimited power under its Articles to borrow. However, the Directors will limit borrowing to an amount equal to up to 240 per cent. of the Company's Net Asset Value, in other words, the Company could assemble a portfolio of up to €331.5 million, financed with up to €97.5 million net proceeds of the Issue and debt facilities of up to €234 million.

The types of securities in which the Company invests may be sensitive to changes in interest rates and, to the extent not Euro-denominated, changes in foreign exchange rates. The Company intends to minimise exposure to interest rate and currency fluctuation by entering into interest rate and currency hedging arrangements, see "Risk Management — Interest Rate Risk" and "Currency Risk".

As the Company intends to pay out substantially all of its net income as dividends, the Company may seek further equity funding from time to time in order to increase its investment portfolio.

## **7. Investment Restrictions**

The Board has adopted guidelines for investments as follows:

- except in the case of cash deposits awaiting investment, no more than 20 per cent. of the gross assets of the Company will be lent to or invested in any one company or group at the time the investment or loan is made;
- no more than 20 per cent. of the Company's gross assets will be invested in other listed investment companies (including listed investment trusts), except where the investment companies themselves have stated investment policies to invest no more than 20 per cent. of their gross assets in other listed investment companies (including listed investment trusts);
- no more than 20 per cent. of the Company's gross assets will be exposed to the creditworthiness or solvency of any one counterparty; and
- the Company will not take legal control or be actively involved in the management of, any companies or businesses in which it invests, except for (i) any special purpose funding vehicles it may establish and (ii) pursuant to the exercise of rights as a consequence of the Company taking steps to preserve or enforce its security in relation to a particular investment.

Shareholders will be informed in the interim and annual report and accounts of the Company of the actions taken by the Investment Manager in the event of any breach of the above investment restrictions which the Directors consider to have been material during the year in question.

The Company will alter its investment policy only with the approval of Shareholders by ordinary resolution.

Where appropriate, the Company intends to use special purpose vehicles for the acquisition of investments. Such vehicles will be accounted for in accordance with IFRS and will be consolidated in the Company's financial statements where the Company controls them for accounting purposes. Under IFRS control over a special purpose vehicle would be considered with regard to the following:

- on whose behalf are the vehicles' activities performed;
- who has decision-making powers over the entity;
- who is exposed to the risks and who obtains the rewards from the vehicles' activities or assets.

Where it does consolidate such vehicles, each such vehicle will enter into an agreement with the Investment Manager for the management of its portfolio, which will provide that the composition of the funding vehicle's portfolio be such that the Company's investment portfolio shall, overall, be in accordance with the Company's investment objective and policy and that the funding vehicle will not acquire assets other than from the Company or as directed by the Company.

The Company does not expect to consolidate any SPV formed by a third party in respect of any securitisation transaction in which it purchases an equity tranche position where it does not control such SPV for accounting purposes.

## **8. Investment Diversification**

The Company intends to diversify its investment portfolio by geographic location within Continental Europe and the UK, by Originator, by Servicer and by issuer. Such diversification is intended to reduce the risk of losses to capital.

As certain areas within the Company's geographic focus may provide more attractive investment opportunities than others, the investment portfolio may be concentrated in those geographic areas which are deemed by the Investment Manager to offer the most attractive risk/reward profile.

## **9. Risk Management**

The most important types of risks to which the Company is exposed are credit risk, market risk, interest rate risk and currency risk. In certain instances as described below, the Company will enter into derivative transactions in order to mitigate particular types of risk. Save where the Company purchases synthetic securities to gain exposure to an underlying cash asset or assets, derivative transactions will only be used for the purposes of hedging risks or for efficient portfolio management. The Company will not enter into derivative transactions for speculative purposes.

### *Credit Risk*

Credit risk refers to each individual borrower's ability to make the required interest and principal payments on the scheduled due dates. The Company will seek to mitigate credit risk by actively monitoring its portfolio of investments and the underlying credit quality of its holdings. The Company seeks to minimise credit risk further by ensuring its investment portfolio is diversified by geography, Originator, Servicer and issuer. The Company does not intend to undertake any credit hedging activities other than from time to time entering into transactions to hedge its credit exposure in relation to individual investments.

### *Market Risk*

The Company's exposure to market risk is comprised mainly of movements in the value of its investments and, to the extent that the Company utilises leverage, changes in interest rates that either increase its cost of borrowing or decrease any interest income. Several of the Company's investments will be floating rate or backed by floating rate assets and, as such, will be valued based on a market credit spread over a benchmark (such as LIBOR or EURIBOR). Increases in the credit spreads above such benchmarks may affect the Company's net equity or net income directly through their impact on unrealised gains or losses on investments within the portfolio, and therefore the Company's ability to make gains on such investments, or indirectly through their impact on the Company's ability to borrow and access capital.

### *Interest Rate Risk*

Changes in interest rates can affect the Company's net interest income, which is the difference between the interest income earned on investments and the interest expense incurred on liabilities. Changes in the level of interest rates can also affect, among other things, the Company's ability to acquire loans and investments, the value of its investments and the Company's ability to realise gains from the settlement of such assets.

The Company generally intends to reduce exposure to interest rate risk by aligning the income received on its investments with the interest the Company pays on its debt (i.e. floating rate assets will be financed by floating rate debt, and fixed rate assets will be financed with fixed rate debt). Where this is not possible or practical, the Company may enter into other hedging transactions such as dealing in gilts or treasury bonds or entering into derivative transactions such as swaps or caps to protect its investment portfolio from interest rate fluctuations. Such instruments will be used to hedge as much of the interest rate risk as the Investment Manager determines is in the best interests of the Company, given the cost of such hedges. The Company may bear a level of interest rate risk that could otherwise be hedged when the Investment Manager believes that bearing such risks is advisable.

#### *Currency Risk*

The Company's accounts will be denominated in Euros while investments are likely to be made and realised in both Euros and GBP. Changes in rates of exchange may have an adverse effect on the value, price or income of the investments. A change in foreign currency exchange rates may adversely impact returns on the Company's non-Euro-denominated investments.

The Company's policy is to hedge its currency risk on a case by case basis and also, where the Investment Manager considers appropriate, on an overall portfolio basis. The Company will seek to reduce the currency risk by financing investments in the same currency as the relevant investment where commercially practical. The Investment Manager may elect, however, to have the Company bear a level of currency risk that could otherwise be hedged where it considers that bearing such risks is acceptable.

The Company intends to hedge all or substantially all of its currency exposure.

#### **10. Dividends and Dividend Policy**

The Company's dividend policy will be to pay quarterly dividends subject to having profits or distributable reserves available for the purpose.

It is not anticipated that the Company will pay a dividend for the initial financial period ending 30 June 2006. In the absence of unforeseen circumstances, the Company is targeting gross dividends totalling €0.08 per Ordinary Share in its first financial year ending 30 June 2007 and €0.12 per Ordinary Share in subsequent 12 month financial periods. The initial quarterly dividends are expected to be lower than subsequent dividends in absolute terms until the Company fully invests the net proceeds of the Issue. These are target dividend levels and not forecasts and are based on certain assumptions (see Part VII — "Principal Bases and Assumptions relating to the Company's Target Dividends"), and there can be no assurance or guarantee that the target dividends will be realised.

The Company intends to pay quarterly dividends in respect of periods ending 31 March, 30 June, 30 September and 31 December. The Directors anticipate that the first such quarterly dividend be paid for the quarter ending 30 September 2006.

#### **11. Purchase of Ordinary Shares by the Company**

The Company is a closed-ended fund and the Ordinary Shares may trade at a discount to their Net Asset Value. Accordingly, conditional upon Admission, the Directors will have authority to buy back up to 14.99 per cent. of the Ordinary Shares in issue immediately following Admission and the Directors intend to seek renewal of this authority from Shareholders at each annual general meeting of the Company. Any buy-back of Ordinary Shares will be made subject to Guernsey law and within guidelines established from time to time by the Board (which will take into account the income and cash flow requirements of the Company) and the making and timing of any buy-backs will be at the absolute discretion of the Board. Ordinary Shares may be repurchased through a subsidiary of the Company incorporated for that purpose, which, subject to solvency, is permissible under Guernsey law.

The Directors intend that purchases will only be made pursuant to this authority through the market, for cash, at prices below the prevailing Net Asset Value per Ordinary Share where the Directors believe such purchases will result in an increase in the Net Asset Value per Ordinary Share of the remaining Ordinary Shares and to assist in narrowing any discount to Net Asset Value per Ordinary Share at which the Ordinary Shares may trade. The maximum price to be paid for Ordinary Shares will not be more than 5 per cent. above the average of the mid-market values of the Ordinary Shares for the five business days before the purchase is made. Any Ordinary Shares bought back by the Company will be cancelled.

Prior to Admission, the initial shareholders of the Company passed a shareholder resolution (conditional on Admission) that the amount standing to the credit of the Company's share premium account following

Admission be reduced to €50 million. The Directors intend to apply to the Court in Guernsey for an order confirming such cancellation of the share premium account following Admission in accordance with Guernsey law. Subject to any undertaking to be given to the Court, the reserve created on such cancellation will be available as distributable profits to be used for all purposes permitted by Guernsey law, including the buy-back of Ordinary Shares.

## **12. Life of the Company**

The Company will not have a fixed life. However, the Board considers it desirable that Shareholders should have the opportunity to review the future of the Company after an initial period of seven years. Accordingly, at the annual general meeting of the Company in 2013 and at every second annual general meeting thereafter, an ordinary resolution will be proposed that the Company should continue as presently constituted. If the resolution is not passed, the Directors will formulate proposals to be put to Shareholders to reorganise or reconstruct the Company or for the Company to be wound-up.

In the event that the Company has not made an investment, as outlined in the “Investment Objective and Policy” paragraph above, within 12 months from the date of Admission, the Directors will convene an extraordinary general meeting at which proposals will be put to Shareholders to liquidate the assets of the Company and distribute the proceeds amongst Shareholders.

## **13. Issues of New Ordinary Shares**

The Board has the authority and power to issue an unlimited number of Ordinary Shares following Admission, although the Directors do not currently intend to issue further Ordinary Shares.

Unless authorised by Shareholders, the Directors do not intend to issue further Ordinary Shares for cash at a price that is below the prevailing Net Asset Value per Ordinary Share unless the Ordinary Shares are first offered *pro rata* to existing Shareholders.

There are no mandatory provisions of Guernsey law or pursuant to the Articles providing pre-emption rights for existing Shareholders on the allotment of equity securities for cash.

## **14. Valuation Policy and Accounts**

Investments held by the Company will be valued on a quarterly basis in accordance with IFRS principles. The Company intends to monitor the value of its investments on an ongoing basis.

The Net Asset Value per Ordinary Share will be calculated by the Administrator, based on information supplied by the Investment Manager, and announced on a quarterly basis on a regulatory information service and simultaneously announced on the Channel Islands Stock Exchange, generally within fifteen business days after the quarter-end.

The Administrator will calculate the Net Asset Value of the Company, as at each calculation date, being the last business day of each quarter. Investment valuations will be reviewed by the Auditors on a quarterly basis. Such review will be the basis of the Net Asset Value per Ordinary Share as calculated by the Administrator. The Net Asset Value per Ordinary Share will be calculated in accordance with IFRS.

Investments will initially be recognised at their acquisition cost and thereafter be re-measured at fair value as follows:

- (a) Any investments which are marketable securities quoted on an investment exchange held at the calculation date will be valued at the relevant bid price at the close of business on the calculation date, provided that the market for these securities is liquid or that the market price substantially reflects the value assigned to these securities by investors.
- (b) For investments not traded on an investment exchange valuations will be based upon the average bid or last traded prices at the close of business on the calculation date supplied by two independent investment banks, securities brokers and/or Originators provided that there is sufficient liquidity in the market for there to be readily available market information to enable such independent parties to value the investments.
- (c) Where neither quoted prices nor reliable independent valuations can be obtained, the fair value of investments shall be estimated by the Investment Manager using a valuation model specifically developed for each investment by the Investment Manager.

The valuation model relies on (i) comparing the actual performance of the asset pool and the cash flows derived from the investment with the anticipated performance and cash flows used in the initial

investment valuation model and (ii) in the event of a material change, adjusting the valuation of the investment based on the revised output of the financial model.

In performing the initial evaluation of an investment that will be used to support the decision to invest, the Investment Manager will prepare such an investment valuation model. The valuation model will be based upon a discounted cash flow analysis of the expected cash flows from the investment. The key attributes and parameters that will be considered in the valuation model will include:

- the default rate;
  - loss severity;
  - scheduled and unscheduled prepayment rate (Constant Prepayment Rate or CPR);
  - the duration of foreclosure process and costs;
  - expected recovery rate after foreclosure; and
  - the interest rate environment.
- (d) Cash, cash equivalents and other liquid assets will be valued at their face value with interest accrued, where applicable, as at the close of business on the relevant calculation date.
- (e) Any value expressed otherwise than in the base currency of the Company (whether of an investment or cash) and any borrowing in a currency other than the base currency of the Company shall be converted into the base currency of the Company at the relevant quoted bid rate at close of business on the calculation date.
- (f) In the event of it being impossible or incorrect to carry out a valuation of a specific asset in accordance with the valuation rules set out in paragraphs (a) to (c) above, or if such valuation is not representative of the asset's fair market value, the Investment Manager is entitled to use other generally recognised valuation principles in order to reach a proper valuation of that specific asset, provided that any alternative method of valuation is consistent with the accounting policies used to draw up the annual audited financial statements of the Company.

The Directors do not envisage any circumstances in which valuations will be suspended.

## **15. Meetings, Reports and Accounts**

The general meetings of the Company will be held in Guernsey.

The Company's annual report and accounts will be made up to 30 June in each year commencing in 2006 and it is expected that copies will be sent to Shareholders by the end of the following October. Shareholders will also be provided with an unaudited interim report covering the period to 31 December each year and it is expected that copies will be sent to Shareholders by the end of the following March. The first report to Shareholders will be the annual report in respect of the period from incorporation to 30 June 2006.

The first annual general meeting of the Company will be held in Guernsey (or as otherwise determined by the Board) by 31 December 2006. Thereafter, the Company will hold one annual general meeting each calendar year in Guernsey with no more than 15 months between annual general meetings.

The Directors confirm that, as required by the AIM Rules, they will at each annual general meeting of the Company seek approval of the Company's investment strategy.

The accounts of the Company will be drawn up in Euros and prepared under IFRS.

The Company may change its accounting policies if it is considered necessary to do so by the Directors.

## **16. Use of Proceeds**

As described above under "Investment Objective and Policy" the Company intends to use the net proceeds of the Issue, expected to be up to €97.5 million after deduction of expenses, to acquire a diversified portfolio of securities and other investments meeting the Company's investment criteria.

## PART III

### MANAGEMENT OF THE COMPANY

#### 1. Directors

The Board of Directors is responsible for the determination of the Company's investment objective and policy as set out in paragraph 3 of Part II of this document and has overall responsibility for its activities. The Directors, all of whom are non-executive directors, are as follows:

**Robin Monro-Davies** (*Chairman*) (British resident) aged 65 has worked in the City for over 25 years and is a director of HSBC Bank plc and AXA UK plc. He was co-managing director of Fox-Pitt, Kelton Limited from 1976 and 1992 and chief executive of Fitch Ratings Limited from 1992 to 2002. He is currently also a director of Assured Guaranty Limited (Bermuda) and Mergermarket Limited as well as North American Banks Fund Limited.

**Leslie Goodman** (British resident) aged 60 has worked in the City for over 30 years and is chairman of Viatel Holdings Bermuda Limited. He qualified as a solicitor and subsequently became a director of Hill Samuel and of BZW. He was chief executive of ACE Global Markets Limited from 1994 to 1998 and Jardine Lloyds Advisers Limited from 1991 to 1994.

**John Le Prevost** (Guernsey resident) aged 54 is the Managing Director of Anson Fund Managers Limited and of Anson Registrars Limited and has over 34 years experience in investment companies during which time he was Managing Director of County NatWest Investment Management in Guernsey and Royal Bank of Canada's mutual fund company in Guernsey. He is currently a director of several investment companies including The Close Man Hedge Fund Limited, Guaranteed Investment Products 1 PCC Limited and Thai Prime Fund Limited.

**Françoise Henry** (French resident) aged 55 is currently Chief Investment Officer of Alternative Leader S.A. Ms Henry was previously the Head of alternative investment for Europe at Goldman Sachs and Head of property trading fund management at Credit Agricole.

**Tanguy Boulet** (French resident) aged 43 is a co-founder of the Investment Manager, Ocean Capital Associates LLP. He was the head of debt products origination, French Corporates and head of French Real Estate Investment Banking at Lehman Brothers from 2000 to 2004, Head of Debt products origination, French Corporates at Merrill Lynch from 1996 to 2000 and Head of Derivative linked and structured assets marketing at Merrill Lynch from 1992 to 2000.

**Juan de Dios Sanchez-Roselly Moreno** (Spanish resident) aged 38 is currently the Chief Investment Officer at Santander Asset Management. He was previously at Ahorro Corporación and Arthur Andersen.

All Directors other than Mr Boulet are independent of the Investment Manager.

#### 2. Corporate Governance

The Company intends, where practicable for a company of its size and nature to comply with the principles of the Combined Code.

For the purposes of assessing compliance with the Combined Code, the Board considers all of the Directors, except Mr Boulet, as independent of the Investment Manager and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. Mr Boulet is a partner in the Investment Manager.

John Le Prevost, a director of the Company, is also a director of Anson Fund Managers Limited, the Company's Administrator and Secretary, and Anson Registrars Limited, the Company's Registrar, Transfer Agent and Paying Agent.

The Board will establish an audit committee and a management committee upon Admission and in each case will formally adopt terms of reference for these committees.

The audit committee will be responsible for ensuring that the financial performance of the Company is properly reported on and monitored and for meeting the auditors and reviewing the reports from the auditors relating to accounts and internal control systems. The committee will be chaired by Leslie Goodman, and its other members will be the remaining Directors excluding Mr Boulet and Mr Le Prevost. Only independent Directors will serve on the audit committee and members of the committee will have no links with the Company's external auditors and will be independent of the Investment Manager. The audit

committee will meet not less than two times a year and will meet the external auditors at least once a year without the non-independent Director present.

The management committee will ensure that the Company's contracts of engagement with the Investment Manager, Administrator, and other service providers are operating satisfactorily so as to ensure the safe and accurate management and administration of the Company's affairs and business and are competitive and reasonable for the Shareholders and will make appropriate recommendations to the Board. It will be chaired by Juan de Dios Sanchez-Roselly Moreno, and its other members will be the remaining directors excluding Mr Le Prevost and Mr Bouillet. The committee will meet not less than once a year.

The identity of each of the chairmen of the committees referred to above will be reviewed on an annual basis by the Chairman. The membership of these committees and their terms of reference will be kept under review.

The performance of the chairman of the Board will be assessed by another of the independent Directors through discussions with other Directors.

Upon Admission, the Company will put in place procedures to comply with the internal control aspects of the Combined Code.

The Company has adopted the Model Code for Directors' and key employees' share dealings which is appropriate for a CISX listed and an AIM quoted company and in accordance with Rule 7.9 37 of the listing rules of the CISX and Rule 21 of the AIM Rules.

### 3. Management of the Company

The Board is responsible for the determination of the Company's investment objectives and policies as set out in this document and has responsibility for its activities. As set out in greater detail in Part VIII, the Company has, however, entered into an Investment Management Agreement with the Investment Manager under which the Investment Manager is responsible for the management of the Company's assets, subject to the overall supervision of the Directors.

#### *The Investment Manager*



The Investment Manager is a London based investment management partnership, which was incorporated as a limited liability partnership in England and Wales on 8 April 2003 with registered number OC304390. It is regulated in the conduct of its investment business in the United Kingdom by the FSA, which includes the provision of discretionary investment management and advisory services. The Investment Manager provides investment management services and structured finance advisory services, mainly where it can assist in sourcing new investment opportunities. The type of assignment undertaken typically involves a high level of expertise in the analysis of the cash flow generation chain of the Originators. The Investment Manager has approximately £120 million under discretionary management.

The activity of the Investment Manager is the investment in equity tranche of securitisation of European originators, financial institutions and large corporates. The size of this niche market is modest compared to the whole ABS market and this allows the Investment Manager to have a strong understanding and coverage of the European market.

The Investment Management Team comprises five partners in charge of investments, risks management and operations and is supported by a team of three people, all based in Central London.

The Investment Manager's five partners have collectively more than 60 years of experience in the fields of arranging and investing in asset-backed securities or advising on portfolio management and corporate finance transactions. Whilst at Ocean Capital, they have completed the acquisition of equity tranches relating to securitisations to the value of €490 million. In the course of their previous careers in investment banking, the partners have collectively been involved in the issue of over €10 billion of asset backed securities in the last 10 years, primarily in the UK, France and Spain.

The team has a strong track record in originating, structuring and/or executing high profile and innovative transactions over a wide range of assets classes. The members of the Investment Management Team have contributed to establish and develop new businesses for leading investment banks in Europe as well as built up independent financial services companies with private funding. Furthermore, the team's diversity reflects its European focus and its ability to work in different cultural environments.

### *The Investment Management Team*

#### **Dr Shamil Chandaria**

Chairman of Ocean Capital. He joined Ocean Capital in November 2005. Dr Chandaria is also a director of Pentagon Capital Management PLC, a hedge fund group with \$1.8 billion assets under management. From 1997-2004, Dr Chandaria was a managing director at Deutsche Bank AG where, initially, he was the global head of the Structured Capital Markets Group. Subsequently he ran DB Investor, a subsidiary of Deutsche Bank AG which managed Deutsche's 25 billion euro portfolio of proprietary equity holdings, reporting directly to the CEO of Deutsche Bank. Prior to Deutsche Bank, Dr. Chandaria was a director at Barclays Capital (formerly known as BZW) in the structured capital markets business.

Dr. Chandaria has a Ph.D in finance from the London School of Economics, an MA with distinction in Philosophy from University College London and a first class degree in Economics from Cambridge University, where he was a senior scholar.

#### **Tanguy Boulet**

Partner and co-founder of Ocean Capital. He joined Ocean Capital permanently in December 2003. Mr Boulet has 19 years experience in investment banking and capital markets. He graduated from Ecole Supérieure de Commerce de Paris (ESCP) in 1985 and acquired trading experience in fixed-income and derivative products at Renault and then Credit Lyonnais. He then joined Merrill Lynch in 1992 in the fixed-income division. From 1996 to 2000 he was head of debt and structured finance origination for the French Corporates. He moved for a similar position at Lehman Brothers then became head of the French Real Estate Investment Banking from 2002 until 2003. At Ocean Capital Mr Boulet is responsible for origination. He is fluent in French and English.

#### **Edouard Bridel**

Partner and co-founder of Ocean Capital. He joined Ocean Capital in September 2002. He started his career in 1994 in the mergers and acquisitions department ("M&A") of Societe Generale. In 1996, he co-founded Forum Capital International, an FSA regulated specialist investment bank focused on mergers & acquisitions, leveraged buyouts ("LBO") and balance sheet restructuring. Forum Capital has completed 46 M&A, financings and strategic advisory transactions primarily in the UK and Continental Europe, representing a combined value of in excess of €350 million. At Ocean Capital Edouard is responsible for origination, investor relations and operations. He is a board director of two SICAV (French Mutual Fund) quoted in Paris and regulated by the AMF (Autorité des Marchés Financiers): Daphne and OBC court-terme. He graduated from French business school ESLSCA. He is fluent in French and English.

#### **Pedro Errazuriz**

Partner and co-founder of Ocean Capital. He joined Ocean Capital in September 2002. He has 13 years experience in structured finance and securitisation acquired at Paribas Capital Markets, Merrill Lynch and then Goldman Sachs. Mr Errazuriz has a strong track-record of structuring and execution of award-winning structured finance transactions involving a wide range of asset classes. At Ocean Capital Mr Errazuriz is responsible for transaction execution and portfolio management. He graduated from Ecole Nationale des Ponts et Chaussées (Paris) and Escuela De Caminos Canales y puertos. He is fluent in French, English and Spanish.

#### **Hadrien Carré**

Partner of Ocean Capital. He joined Ocean Capital in May 2004. He has 10 years experience in origination and execution of advisory, M&A and LBO transactions in Europe primarily gained at Citigroup and Lehman Brothers. Key responsibilities at Ocean Capital include transaction execution and portfolio management. Hadrien has a degree from French business school HEC (Hautes Eudes Commerciales). He is fluent in French, German and English.

### *The Administrator*

Anson Fund Managers Limited has been appointed as Administrator and Secretary pursuant to the Administration Agreement, a summary of which is set out in paragraph 7.3 of Part VIII of this document. In such capacity, the Administrator will carry out the general secretarial functions required by the Companies Law and will ensure that the Company complies with its continuing obligations as a company listed on the official list of CISX. The Administrator will also carry out the Company's general administrative functions such as the calculation of Net Asset Value and the maintenance of accounting records, operating the

Company's bank accounts, convening Board meetings and taking minutes thereat, producing reports to Shareholders and generally ensuring the good corporate governance of the Company.

#### *The Registrar, Transfer Agent and Paying Agent*

Anson Registrars Limited has been appointed as Registrar, transfer agent and paying agent of the Company pursuant to the Registrar's Agreement, a summary of which is set out in paragraph 7.4 of Part VIII of this document. Anson Registrars Limited is a private limited company incorporated in Guernsey on 7 June 2000 and is a member of the same group of companies as the Administrator.

#### *The UK Transfer Agent*

Anson Administration (UK) Limited has been appointed to act as UK Transfer Agent pursuant to the UK Transfer Agency Agreement to receive notices and documents of transfer from Shareholders in the United Kingdom for onward transmission to the Registrar, transfer agent and paying agent in Guernsey. Anson Administration (UK) Limited is a member of the same group of companies as the Administrator.

#### *Custodian*

The Company has entered into a custody agreement with RBSI Trustee Services (Guernsey) Limited pursuant to which the Custodian will provide custodial services to the Company a summary of which is set out in paragraph 7.5 of Part VIII of this document. The Custodian is only responsible for the custody of those assets which the Company entrusts to it and the Company may open custody accounts with other custodians and move assets between custodians as and when considered appropriate.

## **4. Fees and Expenses**

#### *Management Fee*

Under the terms of the Investment Management Agreement, a management fee is payable to the Investment Manager at an annual rate of 1.25 per cent. of the lower of (i) the Net Asset Value of the Company immediately following Admission and (ii) the Net Asset Value of the Company on 31 March, 30 June, 30 September and 31 December (before deduction of accruals in respect of the management fee for the current period and any performance fee) (excluding current period income).

The management fee accrues daily and is payable quarterly in arrear (together with an amount equal to any relevant VAT thereon, if applicable).

#### *Performance Fee*

Under the terms of the Investment Management Agreement, the Investment Manager is entitled to receive a performance related fee in respect of each performance period which will be paid quarterly in arrear.

A performance period will comprise each successive quarter, except the first such period shall be the period from Admission to 30 June 2006.

The performance fee for each performance period will be an amount equal to 20 per cent. of the amount by which the Company's net income (as calculated for these purposes) after tax for the relevant period, before payment of any performance fee, exceeds an amount equal to a simple interest rate of two per cent. per quarter (the "quarterly hurdle") multiplied by the weighted average number of Ordinary Shares outstanding during the relevant period multiplied by the weighted average offer price of such Ordinary Shares subject to the Net Asset Value of an Ordinary Share at the end of the relevant performance period being no less than the Net Asset Value of an Ordinary Share immediately following Admission.

The performance related fee for each performance period will be calculated by reference to the amount by which A exceeds the aggregate value of B multiplied by C where:

- A = the Company's net income, before dividends, taking into account any realised or unrealised losses (but only to the extent they have not been deducted in a prior performance period) and excluding any unrealised gains from the revaluation of investments, as shown in the Company's consolidated management accounts for the relevant quarter, and before payment of the performance related fee;
- B = the weighted average number of Ordinary Shares outstanding during the relevant quarter multiplied by the weighted average offer price of such Ordinary Shares; and
- C = an amount equal to a simple interest rate equal to 2 per cent. per quarter (the quarterly hurdle).

The sum of quarterly performance fees based on the quarterly hurdle payable to the Investment Manager for any full financial period will be capped at that amount which would be payable based on 20 per cent. of the amount by which the Company's net income after tax for the relevant period (before payment of any performance fees) exceeds an amount equal to an annualised simple interest rate of eight per cent. (the "annual hurdle") multiplied by the weighted average number of Ordinary Shares outstanding during the relevant full financial period multiplied by the weighted average offer price of such Ordinary Shares.

Where the sum of quarterly performance fees paid for any financial period based on the quarterly hurdle exceeds that amount which would have been payable based on the annual hurdle, the Investment Manager shall repay to the Company any such excess.

The performance fee, if any, will be calculated on behalf of the Company by the Administrator.

Where there is a difference between the Company's net income for the relevant performance period as shown in the Company's quarterly management accounts compared to the Company's audited annual accounts, the net income for the relevant performance period as reflected in the audited accounts shall prevail. Any excess performance fee paid or any additional performance fee due in respect of any performance period attributable to any such difference will be repaid by or paid to the Investment Manager, as the case may be.

#### *Other Fees and Expenses*

The Company will also pay or reimburse the Investment Manager in respect of all out-of-pocket expenses and costs reasonably incurred by it in the performance of its duties under the Investment Management Agreement. These expenses include, but are not limited to, transaction costs incidental to the acquisition, disposition and financing of investments, legal and auditing fees and expenses, the costs associated with the establishment and maintenance of any credit facilities and other indebtedness of the Company paid by the Investment Manager.

Subject thereto, the Investment Manager will be responsible for its own overhead expenses in connection with the performance of its duties under the Investment Management Agreement, including compensation of its employees and rent for office space occupied by it.

#### *Termination of the Investment Management Agreement*

The Investment Management Agreement may be terminated by either party on giving not less than 12 months' notice in writing on or after the second anniversary of the date of Admission. It cannot therefore expire within the first 3 years following Admission. It may, however, be terminated by either party with immediate effect in certain circumstances, including if there is a material breach which is not rectified within 30 days of written notice to rectify by a party of its obligations under the Investment Management Agreement or upon the insolvency of a party.

Further details of the Investment Management Agreement are set out in paragraph 7.2 of Part VIII of this document.

## **5. Conflicts of Interest**

The Investment Manager and its officers will provide services to the Company on a non-exclusive basis. They may be involved in other financial, investment or professional activities. In particular, the Investment Manager provides investment advice and other services in relation to a number of unlisted funds and other entities that may have similar investment policies to those of the Company and will structure loans, securities or investments in which the Company and such funds and other entities may invest. These activities may on occasion give rise to potential or actual conflicts of interest involving the Company.

In providing its services to the Company, the Investment Manager will have regard to its obligations under the Investment Management Agreement and otherwise to act in the best interests of the Company, but must also have regard to its obligations to other clients, when potential or actual conflicts arise. In addition, the Investment Manager will owe fiduciary duties both to the Company and its other clients and from time to time may be required to balance these duties in the best interests of its clients as a whole.

In particular, the Investment Manager will use all reasonable efforts to ensure that the Company has the opportunity to participate in potential investments identified by the Investment Manager which fall within the Company's investment objective and policies. In this regard, the Investment Manager will use all reasonable endeavours to allocate investment opportunities between the Company and its other clients in a manner that it considers fair to all clients and without giving unfair preference to any single client or group of clients.

The Investment Manager has agreed that for a period of one year following Admission it will not sponsor another listed investment vehicle investing primarily in RMBS.

Mr Boulet is a Director of the Company and a partner of the Investment Manager.

Mr Le Prevost is a Director of the Company and the managing director of the Registrar, Paying Agent, Transfer Agent and Administrator.

## PART IV

### DETAILS OF THE ISSUE

#### 1. Summary of the Issue

Up to 100 million Ordinary Shares are being made available, in aggregate, under the Issue at the offer price of €1.00 per Ordinary Share. Certain institutional and other sophisticated investors outside the United States will be able to subscribe for Ordinary Shares under the Placing. The Offer for Subscription is being made to the public in the UK. In the event that the Issue is over subscribed, the Directors will scale back subscriptions at their discretion as between the Placing and the Offer for Subscription in consultation with Arbuthnot Securities. The Issue is expected to raise up to €97.5 million of net proceeds for the Company (after deduction of expenses payable by the Company of approximately €2.5 million) assuming it is fully subscribed.

This Issue, which is not underwritten, is conditional, *inter alia*, upon:

1. Admission;
2. the Placing Agreement not being terminated in accordance with its terms at any time prior to Admission; and
3. minimum net proceeds for the Company of €30 million being raised through the Issue.

For the purposes of the Companies Law, the minimum aggregate subscription pursuant to which the Issue may proceed is 1,000 Ordinary Shares.

The Issue cannot be revoked after dealings in the Ordinary Shares have commenced on AIM.

#### 2. The Offer for Subscription

Ordinary Shares are available to members of the public in the UK under the Offer for Subscription. The Offer for Subscription is only being made in the UK. The terms and conditions of application under the Offer for Subscription are set out in Part VI of this document and an Application Form is set out at the end of this document. These terms and conditions should be read carefully before an application is made. Investors should consult their respective stockbroker, bank manager, solicitor, accountant or other financial adviser if they are in doubt.

Application Forms, accompanied by a cheque or banker's draft payable to "Anson Registrars Limited No. 1 Acceptance Account re EET1" and crossed "A/C payee" for the appropriate amount, must be returned to the Receiving Agent at its office in Guernsey by no later than noon on 18 April 2006. The minimum application under the Offer for Subscription is for €10,000.

#### 3. The Placing

Ordinary Shares are being made available to certain institutional and other sophisticated investors outside the United States pursuant to the Placing. Commitments under the Placing must be received by Arbuthnot Securities no later than 5.00 p.m. on 18 April 2006.

#### 4. General

A maximum of 100 million Ordinary Shares are available under the Issue. In the event that commitments under the Placing and valid applications under the Offer for Subscription exceed 100 million Ordinary Shares, the Directors will after consultation with the Investment Manager and Arbuthnot Securities scale back applications at their absolute discretion with a view to achieving an appropriate mix of investors. Subject to those matters on which the Issue is conditional, the Directors may, at their discretion, close the Placing and Offer for Subscription at any level below €100 million. The Company will notify investors of the number of Ordinary Shares in respect of which their application has been successful and the results of the Issue will be announced by the Company on or around 20 April 2006 through a regulatory information services provider.

#### 5. Settlement, Dealings and CREST

Application has been made for the Ordinary Shares to be admitted to trading on AIM and to the official list of the CISX. The Ordinary Shares are not expected to trade on CISX. It is expected that the basis of allocation under the Issue will be announced on 20 April 2006 and that Admission will become effective and that unconditional dealings in the Ordinary Shares will commence on 26 April 2006. Dealings in Ordinary

Shares in advance of the crediting of the relevant CREST account or the issue of a certificate shall be at the risk of the person concerned.

The Ordinary Shares will be issued in both certificated and uncertificated form. Ordinary Shares to be held in uncertificated form will be delivered through CREST. Investors should be aware that Ordinary Shares delivered in certificated form are likely to incur, on an on-going basis, higher dealing costs than those Ordinary Shares held through CREST. Ordinary Shares initially issued in certificated form may subsequently be deposited into CREST, and vice versa, in accordance with normal CREST procedures. Certificates in respect of Ordinary Shares issued in certificated form are expected to be despatched on 4 May 2006, or as soon as practicable thereafter.

Temporary documents of title will not be issued pending the delivery of Ordinary Shares to subscribers and, during that period, transfers will be certified against the register of Shareholders.

Pursuant to the anti-money laundering laws and regulations with which the Company must comply in the UK, the Company and its agents or Arbuthnot Securities will require evidence in connection with any application for Ordinary Shares, including further identification of applicant(s), before any Ordinary Shares are issued.

Certain Directors will be allocated Ordinary Shares in the Placing totalling in aggregate 553,000 Ordinary Shares and certain partners of the Investment Manager and a vehicle indirectly controlled and wholly owned by the Investment Manager's partners will be allocated 300,000 Ordinary Shares in the Placing. Further details of Directors Interests are set out at paragraph 3 of Part VIII of this document.

## **6. Lock-in Arrangements**

The Company will enter into lock-in arrangements pursuant to the Placing Agreement preventing it from issuing Ordinary Shares, without the prior written consent of Arbuthnot Securities, during the period commencing on the date of the Placing Agreement and ending six months after Admission. The Investment Manager will enter into a lock-in deed under which it will agree not to sell, transfer or otherwise dispose of any Ordinary Shares held by it for a period of 12 months following Admission, subject to certain exceptions. Each of the Directors will also enter into lock-in arrangements. Each Director will agree not to sell, transfer or otherwise dispose of any Ordinary Shares held by him or his associates (as such term is defined in the AIM Rules) on Admission or which they may subsequently acquire following Admission for a period of 12 months from Admission, subject to certain exceptions. In addition, each partner, officer or employee of the Investment Manager who subscribes for Ordinary Shares in the Offer will also be required to enter into a lock-in deed in similar terms to the Directors.

The lock-in arrangements outlined above are expected to apply in respect of 853,000 Ordinary Shares, representing approximately 0.85 per cent. of the issued share capital of the Company on Admission assuming the Issue is fully subscribed.

## **7. Placing Agreement**

Arbuthnot Securities has agreed to use its reasonable endeavours to procure subscribers for Ordinary Shares pursuant to the Placing and the Offer for Subscription. The Company will pay Arbuthnot Securities (i) a commission of 1.5 per cent. of the product of the Issue Price and the number of Ordinary Shares in issue following Admission (exclusive of VAT) and (ii) a corporate finance fee of £200,000 (exclusive of VAT). Further details of the Placing Agreement are set out in paragraph 7.1 of Part VIII of this document.

## **8. Nominated Adviser and Broker Agreement**

The Company will enter into a nominated adviser and broker agreement prior to Admission with Arbuthnot Securities pursuant to which the Company will appoint Arbuthnot Securities to be its nominated adviser and broker for the purposes of the AIM Rules commencing with effect from Admission and continuing thereafter. Either party will be able to terminate the agreement on 30 days notice. The Company will pay Arbuthnot Securities a fee of £25,000 per annum in respect of the services provided as the Company's nominated adviser and broker.

## **9. PEPs and ISAs**

Ordinary Shares allotted under the Offer for Subscription may be eligible for direct transfer into an ISA. Ordinary Shares allotted under the Placing are not eligible for direct transfer into an ISA.

Subsequently, Ordinary Shares acquired in the secondary market may be eligible for inclusion in an ISA. Eligibility for inclusion of the Ordinary Shares in an ISA is subject to the usual subscription limits applicable (for the tax year 2006/07 an individual may invest £7,000 worth of stocks and shares in a maxi ISA or £4,000 in the stocks and shares component of a mini ISA).

Although no new PEPs may be opened and no further subscriptions made to existing PEPs, the Ordinary Shares may be qualifying investments for existing PEPs provided that the PEP manager has acquired such Ordinary Shares under the Offer for Subscription or by purchase in the market.

Ordinary Shares acquired under the Placing are not eligible for direct transfer into a PEP.

The Directors intend to manage the affairs of the Company so as to maintain the eligibility of the Ordinary Shares acquired in the secondary market for inclusion in an ISA or a PEP although this cannot be guaranteed.

#### **10. SIPPs/SSASs**

The Ordinary Shares are expected to be eligible for inclusion in Self Invested Personal Pension Schemes and Small Self Administered Schemes although this should be confirmed independently by investors with their professional tax or financial advisers before investment.

## PART V

### TAX CONSIDERATIONS

#### 1. General

The comments below are of a general and non-exhaustive nature based on the Directors' understanding of the current revenue law and practice in Guernsey and the UK, which is subject to change possibly with retrospective effect. The following summary does not therefore constitute legal or tax advice and applies only to persons holding Ordinary Shares as an investment. An investment in the Company involves a number of complex tax considerations. Changes in tax legislation in any of the countries in which the Company will have investments or in Guernsey (or in any other country in which a subsidiary of the Company through which investments are made, is located), or changes in tax treaties negotiated by those countries, could adversely affect the returns from the Company to investors.

**Prospective investors should consult their professional advisers on the potential tax consequences of subscribing for, purchasing, holding, converting or selling Ordinary Shares under the laws of their country and/or state of citizenship, domicile or residence.**

#### 2. Guernsey Taxation

##### *The Company*

The Administrator of Income Tax in Guernsey has confirmed, in his opinion, that the Company is eligible for exemption from income tax in Guernsey under the Income Tax (Exempt Bodies) (Bailiwick of Guernsey) Ordinance 1989. Under the provisions of the Ordinance, the Company will pay an annual fee which is currently fixed at £600 but will not be liable to Guernsey income tax other than on Guernsey source income (excluding Guernsey bank deposit interest). It is the intention of the Directors to conduct the affairs of the Company so as to ensure that it retains such exempt status, which is granted on an annual basis.

The exempt companies regime described above is expected to be abolished in 2008. Under current proposals for corporate tax reform, it is expected that the general rate of income tax payable by Guernsey companies will be 0 per cent. but 10 per cent. in the case of certain regulated financial services companies, the new rate in each case applying in respect of the tax year 2008 and subsequent years. It is currently anticipated that the Company will not be a regulated financial services company for these purposes and so should be able to benefit from the 0 per cent. rate.

Guernsey does not levy taxes upon capital inheritances, capital gains (with the exception of a dwellings profit tax), gifts, sales or turnover, nor are there any estate duties, save for an *ad valorem* fee for the grant of probate or letters of administration. Document duty is payable on the creation or increase of authorised share capital at the rate of one half of one per cent. of the authorised share capital of a company incorporated in Guernsey up to a maximum of £5,000 in the lifetime of a company. In the case of a Guernsey company which is a closed-ended investment company with shares of no par value, such as the Company, the document duty in respect of such shares of no par value is set at a flat rate of £2,000.

No stamp duty is chargeable in Guernsey on the issue, transfer or redemption of shares.

##### *The Shareholders*

Shareholders will not suffer any deduction of Guernsey income tax in Guernsey on any distributions of income (if any) to them whilst the Company retains its exempt status. Where the Company pays a dividend to a Shareholder showing in the Registrar of Members an address in Guernsey, the Company will after the event report to the Guernsey Administrator of Income Tax all such distributions paid. Shareholders who are Guernsey tax resident will under assessment be liable to Guernsey tax at a rate of 20 per cent. on all such distributions received.

On 3 June 2003, the European Union ("EU") Council of Economic and Finance Ministers adopted a directive on the taxation of savings income in the form of interest payments (the "EU Savings Tax Directive"). Each EU Member State is required to provide to the tax authorities of another EU Member State details of payments of interest (or other similar income) paid by a person within its jurisdiction to or for the benefit of an individual resident in that other EU Member State; however, Austria, Belgium and Luxembourg would instead apply a withholding tax system for a transitional period in relation to such payments.

Guernsey is not subject to the EU Savings Tax Directive. However, the States of Guernsey Policy Council in keeping with Guernsey's policy of constructive international engagement, has introduced a retention tax

system in respect of payments of interest, or other similar income, made to an individual beneficial owner resident in an EU Member State by a paying agent situated in Guernsey (the terms “beneficial owner” and “paying agent” are defined in the EU Savings Tax Directive).

The retention tax system will apply for a transitional period prior to the implementation of a system of automatic communication to EU Member States of information regarding such payments. During this transitional period, such an individual beneficial owner resident in an EU Member State will be entitled to request a paying agent not to retain tax from such payments but instead to apply a system by which the details of such payments are communicated to the tax authorities of the EU Member State in which the beneficial owner is resident.

In order to give effect to these measures, Guernsey has entered into bilateral agreements (the “Agreements”) with the twenty five EU member states. The Agreements will only apply to relevant interest payments when these payments are made by a paying agent situated in Guernsey.

Under the terms of the Agreements, relevant interest payments can include distributions out of certain collective investment schemes and the proceeds of the sale or redemption of shares or units in certain collective investment schemes. In respect of collective investment schemes that are established in Guernsey, such as the Company, these provisions can only apply to schemes that are equivalent to a UCITS (an undertaking for collective investment in transferable securities established in accordance with EU Directive 85/611/EEC). The States of Guernsey have issued guidance notes on the implementation of the Agreements that confirm this point and on 1 July 2005, published a supplementary note to the guidance notes that states that a collective investment scheme established in Guernsey will only be considered to be equivalent to a UCITS if it is a Class A Scheme under the Protection of Investors (Bailiwick of Guernsey) Law, 1987. The Company is not a Class A Scheme, therefore, under the current guidance, when distributions or the proceeds of redemptions are paid by a Guernsey paying agent (such as the Registrar) these payments will not be subject to retention tax or disclosure under the Agreements.

### **3. United Kingdom Taxation**

#### ***The Company***

The Directors intend to conduct the affairs of the Company in such a manner as to minimise, so far as they consider reasonably practicable, taxation suffered by the Company. This will include conducting the affairs of the Company so that it does not become resident in the UK or elsewhere for taxation purposes. Accordingly, and provided that the Company does not carry on a trade in the UK (whether or not through a permanent establishment situated therein), the Company will not be subject to UK income tax or corporation tax other than on UK source income.

#### ***The Shareholders***

##### *(i) Disposal of Ordinary Shares*

The Company is a closed-ended company incorporated in Guernsey and therefore the Company should not as at the date of the Issue be a “collective investment scheme” as defined in the FSMA. Accordingly, the provisions of sections 757 to 764 of the Income and Corporation Taxes Act 1988 (the “Taxes Act”) should not apply. For so long as the Company is not a collective investment scheme, any disposal of Ordinary Shares by a Shareholder may give rise to a chargeable gain for United Kingdom tax purposes.

##### **(a) UK resident Shareholders**

A disposal of Ordinary Shares by a Shareholder who is (at any time in the relevant United Kingdom tax year) resident or, in the case of an individual, ordinarily resident in the United Kingdom for tax purposes may give rise to a chargeable gain or an allowable loss for the purposes of United Kingdom taxation on chargeable gains (including by reference to changes in Sterling exchange rates), depending on the Shareholder’s circumstances and subject to any available exemption or relief.

##### **(b) Non-UK resident Shareholders**

An individual Shareholder who is not resident in the United Kingdom for tax purposes but who carries on a trade in the United Kingdom through a branch or agency may be subject to United Kingdom taxation on chargeable gains on assets located in the UK which are acquired for use by or for the purposes of the branch or agency. A Shareholder who is an individual who has ceased to be resident or ordinarily resident in the United Kingdom for tax purposes for a period of less than five years of assessment and who disposes of Ordinary Shares during that period may also be liable, on his return to the United Kingdom, to United Kingdom taxation on chargeable gains (subject to any available

exemption or relief). It should be noted that the UK Finance (No. 2) Act 2005 contains provisions to deal with individuals who are resident or ordinarily resident in the UK but fall to be regarded as resident in a territory outside the UK for the purposes of double taxation relief arrangements.

A corporate Shareholder which is not resident in the United Kingdom for tax purposes but who carries on a trade in the United Kingdom through a permanent establishment may be subject to United Kingdom taxation on chargeable gains on assets located in the United Kingdom which are used or held for or acquired for the use by or for the purposes of the permanent establishment (subject to any available exemption or relief).

Provided that the Ordinary Shares are not registered in the UK, or, if they are registered on more than one register, provided that the principal register is not in the UK, the Ordinary Shares will not be regarded as being located in the United Kingdom.

*(ii) Income from the Company*

According to their personal circumstances, Shareholders resident in the United Kingdom for tax purposes will be liable to income tax or corporation tax in respect of dividend or other income distributions of the Company. Where investments of the Company are distributed *in specie* to Shareholders other than by way of dividend, such distributions may represent a part-disposal of Ordinary Shares for United Kingdom tax purposes.

*(iii) Anti-avoidance*

The attention of individuals ordinarily resident in the United Kingdom is drawn to the provisions of Sections 739 to 745 of the Taxes Act. These provisions are aimed at preventing the avoidance of income tax by individuals through transactions resulting in the transfer of assets or income to persons (including companies) resident or domiciled abroad and may render them liable to taxation in respect of undistributed income and profits of the Company on an annual basis.

More generally, the attention of Shareholders is also drawn to the provisions of Sections 703 to 709 of the Taxes Act which give powers to HM Revenue & Customs to cancel tax advantages derived from certain transactions in securities.

The Taxes Act also contains provisions which subject certain United Kingdom resident companies to corporation tax on profits of companies not so resident in which they have an interest. The provisions may affect United Kingdom resident companies which are deemed to be interested (together with any connected or associated companies) in at least 25 per cent. of the profits of a non-resident company which is controlled by residents of the United Kingdom and which does not distribute substantially all of its income and is resident in a low tax jurisdiction. It is intended that the Company will distribute substantially all of its income, and therefore it is not anticipated that this legislation will have any material effect on United Kingdom resident corporate Shareholders. The legislation does not affect the taxation of chargeable gains.

It is anticipated that the shareholdings in the Company will be such as to ensure that the Company would not be a close company if resident in the United Kingdom. If, however, the Company were to be such that it would be close if resident in the United Kingdom as described, tax consequences could apply including that chargeable gains accruing to it may be apportioned to certain United Kingdom resident or, in the case of an individual, ordinarily resident Shareholders who may thereby become chargeable to capital gains tax or corporation tax on chargeable gains on the gains apportioned to them.

*(iv) UK Stamp duty and UK stamp duty reserve tax*

The following comments are intended as a guide to the general stamp duty and stamp duty reserve tax position in the United Kingdom and do not relate to persons such as market makers, brokers, dealers or intermediaries or where the Ordinary Shares are issued to a depositary or clearing system or its nominee or agent. No United Kingdom stamp duty or stamp duty reserve tax will be payable on the issue of the Ordinary Shares. No United Kingdom stamp duty will be payable on the transfer of the Ordinary Shares, provided that any instrument of transfer is not executed in the United Kingdom and does not relate to any property situated, or to any matter or thing done or to be done, in the United Kingdom. Provided that the Ordinary Shares are not registered in any register kept in the United Kingdom by or on behalf of the Company and that the Ordinary Shares are not paired with shares issued by a company incorporated in the United Kingdom, any agreement to transfer the Ordinary Shares will not be subject to United Kingdom stamp duty reserve tax.

## PART VI

### TERMS AND CONDITIONS OF THE ISSUE

#### The Placing

##### 1. Introduction

These terms and conditions apply to persons making an offer to purchase Ordinary Shares under the Placing. Each person to whom these conditions apply, as described above, who confirms his agreement to Arbuthnot Securities, the Registrar and the Company to purchase Ordinary Shares under the Placing (a "Placee") hereby agrees with each of Arbuthnot Securities, the Registrar and the Company to be bound by these terms and conditions as being the terms and conditions upon which Ordinary Shares will be allocated under the Placing.

A Placee shall, without limitation, become so bound if Arbuthnot Securities confirms to such Placee their allocation whereby the Placee will be bound to take receipt of such Ordinary Shares.

##### 2. Agreement to acquire Ordinary Shares

Conditional on, *inter alia*: (i) Admission occurring and becoming effective by 8.00 a.m. on or prior 26 April 2006 (or such later date as the Company and Arbuthnot Securities may agree (not being later than 2 June 2006)) and (ii) the Placing Agreement becoming unconditional and not being terminated by Arbuthnot Securities in accordance with its terms on or before 8.00 a.m. on 26 April 2006 (or such later date as the Company and Arbuthnot Securities may agree being no later than 2 June 2006) a Placee agrees to become a member of the Company and agrees to acquire Placing Shares at the Issue Price.

The number of Ordinary Shares allotted to such Placee under the Placing shall be in accordance with the arrangements described above. To the fullest extent permitted by law, each Placee acknowledges and agrees that it will not be entitled to exercise any remedy of rescission at any time. This does not affect any other rights such Placee may have.

##### 3. Payment for Ordinary Shares

Each Placee undertakes to pay the Issue Price for the Ordinary Shares allotted to such Placee in such manner as shall be directed by Arbuthnot Securities. In the event of any failure by a Placee to pay as so directed by Arbuthnot Securities, the relevant Placee shall be deemed hereby to have appointed Arbuthnot Securities or any nominee of Arbuthnot Securities to sell (in one or more transactions) any or all of the Ordinary Shares in respect of which payment shall not have been made as so directed and to have agreed to indemnify on demand Arbuthnot Securities in respect of any liability for stamp duty and/or SDRT or loss arising in respect of any such sale or sales.

##### 4. Representations and warranties

By receiving this document, each Placee and, in the case of paragraphs 4.4, 4.5 and 4.6 below, any person confirming his agreement to purchase Ordinary Shares on behalf of a Placee or authorising to notify a Placee's name to the Registrar, is deemed to represent and warrant, *inter alia*, to each of Arbuthnot Securities, the Registrar and the Company that:

- 4.1 if the Placee is a natural person, such Placee is not under 18 years of age on the date of such Placee's agreement to purchase Ordinary Shares under the Placing and will not be any such person on the date any such offer is accepted;
- 4.2 in agreeing to purchase Ordinary Shares under the Placing, the Placee is relying on this document or any supplementary Prospectus (as the case may be) or any regulatory announcement issued by the Company, and not on any other information or representation concerning the Company or the Placing. Such Placee agrees that neither the Company, nor Arbuthnot Securities nor any of their respective officers or directors will have any liability for any such other information or representation;
- 4.3 if the laws of any place outside the United Kingdom are applicable to the Placee's agreement to purchase Ordinary Shares and/or acceptance thereof, such Placee has complied with all such laws and none of the parties mentioned under paragraph 1 above will infringe any laws outside the United Kingdom as a result of such Placee's agreement to purchase Ordinary Shares and/or acceptance thereof or any actions arising from such Placee's rights and obligations under the Placee's agreement to purchase Ordinary Shares and/or acceptance thereof or under the Articles;

- 4.4 in the case of a person who confirms to Arbuthnot Securities on behalf of a Placee an agreement to purchase Ordinary Shares, that person represents and warrants that he has authority to do so on behalf of the Placee as provided under paragraph 1 above; and
- 4.5 in the case of a person who confirms to Arbuthnot Securities on behalf of a Placee which is an entity other than a natural person an agreement to purchase Ordinary Shares and/or who authorises the notification of such Placee's name to the Registrar, that person warrants that he has authority to do so on behalf of the Placee.

## **5. Supply and disclosure of information**

If any of Arbuthnot Securities or the Company or any of their agents request any information about a Placee's agreement to purchase Ordinary Shares, such Placee must promptly disclose it to them.

## **6. Miscellaneous**

The rights and remedies of Arbuthnot Securities and the Company under these terms and conditions are in addition to any rights and remedies which would otherwise be available to each of them and the exercise or partial exercise of one will not prevent the exercise of others. On application, each Placee may be asked to disclose, in writing or orally to Arbuthnot Securities: (a) if he is an individual, his nationality; or (b) if he is a discretionary fund manager, the jurisdiction in which the funds are managed or owned.

All documents will be sent at the Placee's risk. They may be sent by post to such Placee at an address notified to Arbuthnot Securities. Each Placee agrees to be bound by the Articles (as amended from time to time) once the Ordinary Shares which such Placee has agreed to purchase have been issued to such Placee. The contract to purchase Ordinary Shares and the appointments and authorities mentioned herein will be governed by, and construed in accordance with, the laws of England. For the exclusive benefit of the parties mentioned under paragraph 1 above, each Placee irrevocably submits to the exclusive jurisdiction of the English courts in respect of these matters. This does not prevent an action being taken against a Placee in any other jurisdiction. In the case of a joint agreement to purchase Ordinary Shares, references to a "Placee" in these terms and conditions are to each of such Placees and such Placees' liability is joint and several. Each of Arbuthnot Securities and the Company expressly reserves the right to modify the Placing at any time before allocations are determined.

## **The Offer for Subscription**

The Offer for Subscription is being made to members of the public in the UK only.

### **Introduction**

If you apply for Ordinary Shares under the Offer for Subscription, you will be agreeing with the Company and Anson Registrars Limited, New Issues Department ("Anson Registrars") (for itself and as agent for the Company) as follows:

### **Offer to acquire Ordinary Shares**

1. Applications must be made on the Application Form attached at the end of this document. By completing and delivering an Application Form, you, as the applicant, and, if you sign the Application Form on behalf of another person or a corporation, that person or corporation:
  - 1.1 offer to subscribe for such number of Ordinary Shares at €1.00 per Ordinary Share as may be purchased by the subscription amount specified in Box 1 on your Application Form on the terms, and subject to the conditions, set out in the Prospectus, including these Terms and Conditions of Application and the Memorandum and Articles of the Company;
  - 1.2 agree that, in consideration of the Company and Anson Registrars agreeing that they will not, prior to the date of Admission, offer for subscription any Ordinary Shares to any person other than by means of the procedures referred to in the Prospectus, your application may not be revoked by you and that this paragraph shall constitute a collateral contract between you and the Company which will become binding upon despatch by post to or, in the case of delivery by hand, on receipt by Anson Registrars of your Application Form;
  - 1.3 undertake to pay the subscription amount specified in Box 1 on your Application Form in full on application and warrant that the remittance accompanying your Application Form will be honoured on first presentation and agree that if such remittance is not so honoured you will not be entitled to receive a share certificate for the Ordinary Shares applied for in certificated form or

be entitled to commence dealing in Ordinary Shares applied for in uncertificated form or to enjoy or receive any rights in respect of such Ordinary Shares unless and until you make payment in cleared funds for such Ordinary Shares and such payment is accepted by Anson Registrars (which acceptance shall be in its absolute discretion and on the basis that you indemnify Anson Registrars and the Company against all costs, damages, losses, expenses and liabilities arising out of, or in connection with, the failure of your remittance to be honoured on first presentation) and the Company may (without prejudice to any other rights it may have) avoid the agreement to allot the Ordinary Shares and may allot them to some other person, in which case you will not be entitled to any refund or payment in respect thereof (other than the refund of any proceeds of the remittance which accompanied your Application Form, in accordance with paragraph 8 below);

- 1.4 agree, that where on your Application Form a request is made for Ordinary Shares to be deposited into a CREST Account, Anson Registrars may in its absolute discretion amend the form so that such Ordinary Shares may be issued in certificated form registered in the name(s) of the holder(s) specified in your Application Form (and recognise that Anson Registrars will so amend the form if there is any delay in satisfying the identity of the applicant or the owner of the CREST Account or in receiving your remittance in cleared funds or if the Participant's registered name in respect of the CREST Account is not the same as the registered name of the applicant(s) in the Application Form);
- 1.5 agree, in respect of applications for Ordinary Shares in certificated form (or where Anson Registrars exercises its discretion pursuant to paragraph 1.4 to issue Ordinary Shares in certificated form), that any share certificate to which you or, in the case of joint applicants, any of the persons specified by you in your Application Form may become entitled or pursuant to paragraph 1.4 above (and any monies returnable to you) may be retained by Anson Registrars:
  - 1.5.1 pending clearance of your remittance,
  - 1.5.2 pending investigation of any suspected breach of the warranties contained in paragraphs 9.1, 9.2, 9.6 or 9.8 below or any other suspected breach of these Terms and Conditions of Application, or
  - 1.5.3 pending any verification of identity which is, or which Anson Registrars considers may be, required for the purpose of The Criminal Justice (Proceeds of Crime) (Bailiwick of Guernsey) Law 1999, as amended and any other regulations applicable thereto,and any interest accruing on such retained monies shall accrue to and for the benefit of the Company;
- 1.6 agree, on the request of Anson Registrars, to disclose promptly in writing to them such information as Anson Registrars may request in connection with your application and authorise Anson Registrars to disclose any information relating to your application which they may consider appropriate;
- 1.7 agree that if evidence of identity satisfactory to Anson Registrars is not provided to Anson Registrars within a reasonable time (in the opinion of Anson Registrars) following a request therefor, Anson Registrars or the Company may terminate the agreement with you to allot Ordinary Shares and, in such case, the Ordinary Shares which would otherwise have been allotted to you may be reallocated or sold to some other party and the lesser of your application monies or such proceeds of sale (as the case may be, with the proceeds of any gain derived from a sale accruing to the Company) will be returned in accordance with paragraph 8 below;
- 1.8 agree that you are not applying on behalf of a person engaged in money laundering;
- 1.9 undertake to ensure that, in the case of an application signed by someone else on your behalf, the original of the relevant power of attorney (or a complete copy certified by a solicitor or notary) is enclosed with your Application Form together with full identity documents for the person so signing;
- 1.10 undertake to pay interest at the rate described in paragraph 5 below if the remittance accompanying your Application Form is not honoured on first presentation;
- 1.11 authorise Anson Registrars to procure that there be sent to you definitive certificates in respect of the number of Ordinary Shares for which your application is accepted or if you have completed section 2B on your Application Form, but subject to paragraph 1.4 above, to deliver the number

of Ordinary Shares for which your application is accepted into CREST, and/or to return any monies returnable in accordance with paragraph 8 below;

- 1.12 confirm that you have read and complied with paragraphs 15 and 16 below;
  - 1.13 agree that all subscription cheques and payments will be processed through a bank account (the "Acceptance Account") in the name of "Anson Registrars Limited No. 1 Acceptance Account re: EETI" opened with Barclays Bank Ireland plc, Dublin branch Private Clients, a wholly owned subsidiary of Barclays Bank plc, in respect of which Anson Registrars will hold all subscribers' monies in escrow (the "Escrow Agent") pending clearance with power to ensure that all payments made out of the Acceptance Account are either (a) the return of applicants' subscription monies in accordance with paragraph 8 below, or (b) paid to the Company or otherwise in accordance with the instructions of the Company; and further agree to indemnify the Escrow Agent against all costs, damages, losses, expenses and liabilities arising out of or in connection with the failure of your remittance to be honoured on first presentation or the none receipt or delayed receipt by the Escrow Agent of your subscription payment if remitted by inter-bank electronic payment or credit transfer and/or the repayment by the Escrow Agent of returnable moneys in accordance with paragraph 8 below;
  - 1.14 agree that your Application Form is addressed to the Company and Anson Registrars; and
  - 1.15 agree that if a fractional entitlement to an Ordinary Share arises on your application, the number of Ordinary Shares issued to you will be rounded down to the nearest whole number and any fractions shall be retained by the Company for its benefit.
2. Any application may be rejected in whole or in part.

#### **Acceptance of your offer**

3. Anson Registrars may, on behalf of the Company, accept your offer to subscribe (if your application is received, valid (or treated as valid), processed and not rejected) by notifying Arbuthnot Securities of the basis of allocation (in which case the acceptance will be on that basis).
4. The basis of allocation will be determined by the Company in consultation with Anson Registrars and Arbuthnot Securities. The right is reserved notwithstanding the basis as so determined to reject in whole or in part and/or scale back any application. The right is reserved to treat as valid any application not complying fully with these Terms and Conditions of Application or not in all respects completed or delivered in accordance with the instructions accompanying the Application Form. In particular, but without limitation, the Company may accept an application made otherwise than by completion of an Application Form where you have agreed with the Company in some other manner to apply in accordance with these Terms and Conditions of Application.
5. Anson Registrars will present all cheques and payment orders for payment on 18 April 2006 and will retain documents of title and surplus monies pending clearance of successful applicants' payment. Anson Registrars may, as agent of the Company, require you to pay interest or other resulting costs (or both) if the payment accompanying your application is not honoured on first presentation. If you are required to pay interest you will be obliged to pay the amount determined by Anson Registrars to be the interest on the amount of the payment from the date on which all payments in cleared funds are due to be received until the date of receipt of cleared funds. The rate of interest will be the then published bank base rate of Barclays Bank Ireland plc plus 2 per cent. per annum. The right is also reserved to reject in whole or in part, or to scale down or limit, any application.

#### **Conditions**

6. The contracts created by the acceptance of applications (in whole or in part) under the Offer for Subscription will be conditional upon:
  - 6.1 Admission occurring and becoming effective by 8.00 a.m. on or prior to 26 April 2006 (or such later time or date, not being later than 2 June 2006, as the Company and Anson Registrars and Arbuthnot Securities may agree); and
  - 6.2 the Placing Agreement referred to in paragraph 7.1 of Part VIII of this document becoming unconditional and the obligations of Anson Registrars thereunder not being terminated.

7. You will not be entitled to exercise any remedy of rescission for innocent misrepresentation (including pre-contractual representations) at any time after acceptance. This does not affect any other right you may have.

#### **Return of application monies**

8. Where application monies have been banked and/or received, if any application is not accepted in whole, or is accepted in part only, or if any contract created by acceptance does not become unconditional, the application monies or, as the case may be, the balance of the amount paid on application (once cleared) will be returned without interest by returning such monies to the applicant by cheque made payable to the bank account from which such monies were first received at your risk without interest. In the meantime, application monies will be retained by the escrow agent in a separate account.

#### **Warranties**

9. By completing an Application Form, you:
  - 9.1 warrant that, if you sign the Application Form on behalf of a corporation, you have due authority to do so on behalf of that corporation and that such corporation will be bound accordingly and will be deemed also to have given the confirmations, warranties and undertakings contained in these Terms and Conditions of Application and undertake to enclose your evidence of due authority or a complete copy thereof duly certified by a solicitor or bank;
  - 9.2 warrant, if the laws of any territory or jurisdiction outside Guernsey are applicable to your application, that you have complied with all such laws, obtained all governmental and other consents which may be required, complied with all requisite formalities and paid any issue, transfer or other taxes due in connection with your application in any territory and that you have not taken any action or omitted to take any action which will result in the Company or Anson Registrars or any of their respective officers, agents or employees acting in breach of the regulatory or legal requirements, directly or indirectly, of any territory or jurisdiction outside of Guernsey in connection with the Offer for Subscription in respect of your application;
  - 9.3 confirm that in making an application you are not relying on any information or representations in relation to the Company other than those contained in the Prospectus (on the basis of which alone your application is made) and accordingly you agree that no person responsible solely or jointly for the Prospectus or any part thereof shall have any liability for any such other information or representation;
  - 9.4 agree that, having had the opportunity to read the Prospectus, you shall be deemed to have had notice of all information and representations contained therein;
  - 9.5 acknowledge that no person is authorised in connection with the Offer for Subscription to give any information or make any representation other than as contained in the Prospectus and, if given or made, any information or representation must not be relied upon as having been authorised by the Company or Anson Registrars;
  - 9.6 warrant that you are not under the age of 18 on the date of your application;
  - 9.7 agree that all documents (including share certificates) and monies sent by post, by or on behalf of the Company or Anson Registrars will be sent at your risk and, in the case of documents and returned application cheques and payments to be sent to you, may be sent to you at your address (or, in the case of joint holders, the address of the first-named holder) as set out in your Application Form;
  - 9.8 confirm that you have reviewed the restrictions contained in paragraph 15 and 16 below and warrant, to the extent relevant, that you (and any person on whose behalf you apply) comply or have complied with the provisions therein.

#### **Money Laundering**

10. You agree that, in order to ensure compliance with The Criminal Justice (Proceeds of Crime) (Bailiwick of Guernsey) Law 1999 as amended, Anson Registrars, the Company or the Company's Administrator may respectively at its absolute discretion require verification of identity of you the holder(s) lodging an Application Form and further may request from you and you will assist in providing identification on:

10.1 the owner(s) and/or controller(s) (the “payor”) of any bank account not in the name of the holder(s) on which is drawn a payment by way of banker’s draft or cheque or money order made by way of telegraphic transfer or similar electronic means; or

10.2 where it appears to Anson Registrars that a holder or the payor is acting on behalf of some other person or persons, such person or persons.

Failure to provide the necessary evidence of identity may result in your application being rejected or delays in the despatch of documents.

11. Without prejudice to the generality of paragraph 10 above, verification of the identity of holders and payors may be required if the value of the Ordinary Shares applied for, whether in one or more applications considered to be connected, exceeds £10,000 (or its equivalent in Euro). If, in such circumstances, you use a building society cheque or banker’s draft you should ensure that the bank or building society issuing the payment enters the name, address and account number of the person whose account is being debited on the reverse of the cheque or banker’s draft and adds its stamp. If, in such circumstances, the person whose account is being debited is not a holder you may be required to provide a copy of that person’s passport or driving license certified by a solicitor or a recent original bank or building society statement and/or two utility bills in their name and showing their current address (which originals will be returned by post at the addressee’s risk) together with a signed declaration as to the relationship between the payor and you the holder.
12. For the purpose of Guernsey’s money laundering regulations a person making an application for Ordinary Shares will not be considered as forming a business relationship with either the Company or with Anson Registrars but will be considered as effecting a one-off transaction with either the Company or with Anson Registrars.
13. The person(s) submitting an application for Ordinary Shares will ordinarily be considered to be acting as principal in the transaction unless Anson Registrars determines otherwise, whereupon you may be required to provide the necessary evidence of identity of the underlying beneficial owner(s).
14. If the amount being subscribed exceeds £10,000 (or its equivalent in Euro) you should endeavour to have the declaration contained in section 6 of the Application Form signed by an appropriate firm as described in that section. If you cannot have that declaration signed and the amount being subscribed exceeds £10,000 (or its equivalent in Euro) then you must provide with the Application Form the identity documentation detailed in section 7 of the Application Form for each underlying beneficial owner.

#### **Non-United Kingdom**

15. If you receive a copy of this document or an Application Form in any territory other than the United Kingdom you may not treat it as constituting an invitation or offer to you, nor should you, in any event, use an Application Form unless, in the relevant territory, such an invitation or offer could lawfully be made to you or an Application Form could lawfully be used without contravention of any registration or other legal requirements. It is your responsibility, if you are outside the United Kingdom and wish to make an application for Ordinary Shares under the Offer for Subscription, to satisfy yourself as to full observance of the laws of any relevant territory or jurisdiction in connection with your application, including obtaining any requisite governmental or other consents, observing any other formalities requiring to be observed in such territory and paying any issue, transfer or other taxes required to be paid in such territory.
16. None of the Ordinary Shares have been or will be registered under the laws of Canada, Japan, the Republic of Ireland or Australia, nor under the United States Securities Act of 1933, as amended or with any securities regulatory authority of any state or other political subdivision of the United States, Canada, Japan, the Republic of Ireland or Australia. Accordingly, unless an exemption under such Act or laws is applicable, the Ordinary Shares may not be offered, sold or delivered, directly or indirectly, within Canada, Japan, Australia, the Republic of Ireland or the United States (as the case may be). If you subscribe for Ordinary Shares you will, unless the Company and Anson Registrars agree otherwise in writing, be deemed to represent and warrant to the Company that you are not a US Person as defined in Regulation S as promulgated by the US Securities Exchange Commission under the US Securities Act of 1933, as amended, or a resident of Canada, Japan, the Republic of Ireland or Australia or a corporation, partnership or other entity organised under the laws of the US or Canada (or any political subdivision of either) or Japan or Australia or the Republic of Ireland and that you are not subscribing for such Ordinary Shares for the account of any US Person or resident of Canada, Japan, the Republic

of Ireland or Australia and will not offer, sell, renounce, transfer or deliver, directly or indirectly, any of the Ordinary Shares in or into the United States, Canada, Japan, the Republic of Ireland or Australia or to any US Person or resident in Canada, Japan, the Republic of Ireland or Australia. No application will be accepted if it shows the applicant, payor or a holder having an address in the United States, Canada, Japan, the Republic of Ireland or Australia.

#### **The Data Protection (Bailiwick of Guernsey) Law 2001**

17. Pursuant to The Data Protection (Bailiwick of Guernsey) Law 2001, (the “DP Law”) the Company and/or the Registrar may hold personal data (as defined in the DP Law) relating to past and present shareholders.
18. Such personal data held is used by the Registrar to maintain the Company’s register of shareholders and mailing lists and this may include sharing such data with third parties in one or more of the countries mentioned below when (a) effecting the payment of dividends and redemption proceeds to shareholders and (b) filing returns of shareholders and their respective transactions in Ordinary Shares with statutory bodies and regulatory authorities. Personal data may be retained on record for a period exceeding six years after it is no longer used.
19. The countries referred to above include, but need not be limited to, those in the European Economic Area or the European Union and any of their respective dependent territories overseas, Argentina, Australia, Brazil, Canada, Hong Kong, Japan, New Zealand, Singapore, South Africa, Switzerland and the United States of America.
20. By becoming registered as a holder of Ordinary Shares in the Company a person becomes a data subject (as defined in the DP Law) and is deemed to have consented to the processing by the Company or its Registrar of any personal data relating to them in the manner described above.

#### **Miscellaneous**

21. To the extent permitted by law, all representations, warranties and conditions, express or implied and whether statutory or otherwise (including, without limitation, pre-contractual representations but excluding any fraudulent representations), are expressly excluded in relation to the Ordinary Shares and the Offer for Subscription.
22. The rights and remedies of the Company and Anson Registrars under these Terms and Conditions of Application are in addition to any rights and remedies which would otherwise be available to either of them and the exercise or partial exercise of one will not prevent the exercise of others.
23. The Company reserves the right to delay the closing time of the Offer for Subscription from 12.00 noon on 18 April 2006 by giving notice to a regulatory news service. In this event, the revised closing time will be published in such manner as Anson Registrars in consultation with the Company determine.
24. The Company may terminate the Offer for Subscription in its absolute discretion at any time prior to Admission. If such right is exercised, the Offer for Subscription will lapse and any monies will be returned as indicated without interest.
25. You agree that Anson Registrars is acting for the Company in connection with the Offer for Subscription and for no-one else and that Anson Registrars will not treat you as its customer by virtue of such application being accepted or owe you any duties concerning the price of Ordinary Shares or concerning the suitability of Ordinary Shares for you or otherwise in relation to the Offer for Subscription.
26. You authorise Anson Registrars or any person authorised by them or the Company, as your agent, to do all things necessary to effect registration of any Ordinary Shares subscribed by you into your name(s) and authorise any representatives of Anson Registrars to execute and/or complete any document required in this regard.
27. You agree that all applications, acceptances of applications and contracts resulting therefrom under the Offer for Subscription shall be governed by and construed in accordance with Guernsey law and that you submit to the jurisdiction of the Guernsey courts and agree that nothing shall limit the right of the Company to bring any action, suit or proceedings arising out of or in connection with any such applications, acceptances and contracts in any other manner permitted by law or in any court of competent jurisdiction.

28. Save where the context requires otherwise, terms used in these Terms and Conditions of Application bear the same meaning as where used in this document.

## PART VII

### PRINCIPAL BASES AND ASSUMPTIONS RELATING TO THE COMPANY'S TARGET DIVIDENDS

The information below sets out the basis for the statements in Part II under the heading "Dividends and Dividend Policy" relating to the Company's projected dividend payments. These statements do not comprise a profit of earnings forecast and there can be no assurance that these projections will be accurate or that the Company will be able to pay dividends at the projected level or at all. Investors should also have regard to the information contained in the section entitled "Risk Factors" and under the heading "Forward-looking Statements" on page 3. The principal assumptions on which these projections are based are that:

- (a) The Company issues 100,000,000 Ordinary Shares in exchange for cash pursuant to the Issue at a price of €1.00 per Ordinary Share.
- (b) The Company raises approximately €97,500,000 net of expenses pursuant to the Issue.
- (c) The Company acquires initial investments totaling €50 million by 30 June 2006, €75 million by 30 September 2006 and €97.5 million by 31 March 2007.
- (d) The weighted average expected Internal Rate of Return of these initial investments amounts to 12 per cent. over the life of the instruments.
- (e) These initial investments are funded out of the net proceeds of the Issue. No financial leverage is incurred in assembling the portfolio of initial investments.
- (f) Available cash balances are invested in short term money market instruments at 3-month Euribor, assumed to be yielding 2.5 per cent. per annum.
- (g) Total expenses for the financial year ending 30 June 2007 amount to approximately €1,800,000 and total expenses for the financial year ending 30 June 2008 amount to approximately €2,800,000.
- (h) In the financial year ending 30 June 2008, the Company enters into subsequent investments which total up to €100 million, with a weighted average expected Internal Rate of Return of 12 per cent. over the life of the instruments.
- (i) These subsequent investments are funded with a total of up to €100,000,000 in new financial debt.
- (j) The debt carries a coupon of 4.25 per cent. and is repaid on an ongoing basis with a sweep equivalent to 66 per cent. of all principal repayments received from the initial and subsequent investments.
- (k) Total expenses relating to the offering of €2,500,000 are written off against equity raised.
- (l) Income received on all assets held by the Company will not be subject to withholding tax.
- (m) The Company does not incur any liability to tax on income or gains.
- (n) The Company pays a Management Fee and a Performance Fee to the Investment Manager calculated in accordance with the formula set out in Part III.
- (o) There are no capital gains or losses (realised or unrealised) within the portfolio.
- (p) The Company pays out all of its net income, after payment of the Management Fee and Performance Fee, as dividends in periods subsequent to 30 June 2006.

## PART VIII

### ADDITIONAL INFORMATION

#### 1. The Company

- 1.1 The Company was incorporated and registered in the Island of Guernsey on 17 March 2006 under the provisions of the Companies Law, as a company with limited liability with the name European Equity Tranche Income Limited and with registered number 44552. The Company is registered and domiciled in Guernsey.
- 1.2 The Company's registered office is at Anson House, St George's Place, St George's Esplanade, St Peter Port, Guernsey GY1 2BE.
- 1.3 The Company is not part of a group and has no subsidiaries.

#### 2. Share Capital

- 2.1 The Company was incorporated with power to issue an unlimited number of Ordinary Shares of no par value. The two subscriber shares were subscribed by Ogier Nominees (Guernsey) Limited and Reigo Nominees (Guernsey) Limited, who each subscribed one share. On 20 March 2006, Reigo Nominees (Guernsey) Limited transferred its subscriber share to Anson Custody Limited and Ogier Nominees (Guernsey) Limited transferred its subscriber share to Anson Fund Manager Limited. Both subscriber shares will be transferred to Mr Boulet, conditionally upon Admission as part of the Placing. Since the date of incorporation no share or loan capital of the Company has been issued or agreed to be issued or (save for the Ordinary Shares to be offered pursuant to the Issue) is now proposed to be issued for cash or any other consideration and no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any such capital and no borrowing or contingent liabilities have been incurred.
- 2.2 The allotment of Ordinary Shares will not be made on a pre-emptive basis. There are no provisions of Guernsey law equivalent to sections 89 to 95 of the Companies Act 1985 of the United Kingdom, which confer pre-emptive rights on existing shareholders in connection with the allotment of equity securities for cash.
- 2.3 The Ordinary Shares to be issued pursuant to the Issue will rank *pari passu* in all respects with all other Ordinary Shares in issue on Admission.  
  
The Articles contain no mandatory provisions as to rights of pre-emption on either the transfer, issue or allotment of equity securities.
- 2.4 No share or loan capital of the Company is under option or is agreed conditionally or unconditionally to be put under option.
- 2.5 There are no convertible securities, exchangeable securities or securities with warrants issued by the Company.
- 2.6 As the Company will have only one class of shares, the holders of its shares will under general law be entitled to participate in any surplus assets in a winding-up in proportion to their shareholdings.
- 2.7 *Capitalisation and Indebtedness*

The share capital of the Company immediately prior to Admission and the expected share capital of the Company immediately following Admission, assuming the Issue is fully subscribed, is as follows:

	<i>Immediately prior to Admission</i>			<i>Immediately following Admission</i>		
	<i>Authorised</i>	<i>Issued</i>		<i>Authorised</i>	<i>Issued</i>	
		<i>Number</i>	<i>Nominal amount</i>		<i>Number</i>	<i>Nominal amount</i>
Ordinary Shares of no par value	Unlimited	2	nil	Unlimited	100,000,000	nil

As at the date of this document, the Company has no guaranteed, secured, unguaranteed or unsecured debt and no direct or contingent indebtedness (current or non-current). Save as disclosed above, the Company has no legal or other reserves as at the date of this document.

### 3. Directors

#### 3.1 Interests in Ordinary Shares

As at the date of this document and immediately following Admission, the interests of the Directors, both beneficial and non-beneficial, in the share capital of the Company and are expected to be as follows:

<i>Director</i>	<i>As at the date of this document</i>		<i>Following Admission</i>	
	<i>Number of Ordinary Shares</i>	<i>Percentage of issued share capital</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of issued share capital</i>
Robin Monro-Davies	—	—	500,000	0.5
Leslie Goodman	—	—	20,000	0.02
John Le Prevost	—	—	—	—
Françoise Henry	—	—	—	—
Tanguy Boulet	—	—	30,000	0.03
Juan de Dios Sanchez-Roselly Moreno	—	—	3,000	0.003

Save for the Investment Management Agreement which provides for fees to be paid by the Company to the Investment Manager (which Mr Boulet is a partner of), the Administration Agreement, the Registrar Agreement and the UK transfer agent agreement there are no other contracts entered into by the Company in which any of the Directors are interested nor are any such contracts proposed. Mr Le Prevost is the managing director of the Administrator, the Paying Agent and the Registrar.

Prior to Admission, Ocean Capital Associates LLP is beneficially interested in the existing issued share capital of two Ordinary Shares. Mr Boulet is a partner in Ocean Capital Associates LLP.

Except as set out above, none of the Directors nor any persons connected with the Directors, have an interest in Ordinary Shares of the Company.

#### 3.2 Directorships/Partnerships

The following table lists all companies and partnerships of which each Director is currently a director or partner or member of the administrative, management or supervisory body and lists those companies and partnerships of which each Director has been a director or partner or member of the administrative, management or supervisory body at any time in the five years preceding the date of this document:

<i>Name</i>	<i>Current directorships/partnerships</i>	<i>Previous directorships/partnerships</i>
Robin Monro-Davies	Assured Guaranty Limited (Bermuda) Assured Guaranty (UK) Ltd AXA Asia Pacific Holdings Limited AXA UK plc Binley Limited Biginvest Company Limited Blakeney Management Limited Forbes CP Limited HSBC Bank plc Mergermarket Limited RMD Forestry Developments Limited Thomas Murray Network Management Limited Northern American Banks Fund Limited	Fitch Ratings Ltd
Leslie Goodman	Rambler Metals & Mining plc Genco Resources Ltd. Viattel Holdings Bermuda Ltd Millspires Ltd Hirefell Ltd Adviser 177 Ltd Adviser 132 Ltd	Evenser Group Ltd

<i>Name</i>	<i>Current directorships/partnerships</i>	<i>Previous directorships/partnerships</i>
John Le Prevost	Anson Administration (UK) Limited Anson Custody Limited Anson Fund Managers Limited Anson Group Limited Anson Registrars Limited Close Enhanced Commodities Fund Limited Close European Accelerated Fund Limited Close Fund Management Portfolios II PCC Limited Close Man Guaranteed Hedge Fund II Ltd Close Man Hedge Fund Limited De-Di Investments Limited Equity Partnerships Fund Management (Guernsey) Limited Garth Heads Limited (was TAPP Hal Two Ltd) Granite CHF Investments Limited Granite CHF Properties Limited Granite Fund Management Limited Guaranteed Investment Products 1 PCC Ltd Guernsey Sailing Trust Guernsey Sailing Trust LBG Harewood Structured Investment PCC Ltd Heatherhill Property Limited Hunet New Frontier Limited ITM Fund Managers Limited Japanese Accelerated Performance Fund Limited Louvre Fiduciary Group Limited Melbourne Street Limited MSL Holdings Limited Platinum Guernsey Limited Shelco Three Limited Southgate Limited SPG Insurance Company Limited TAPP Hal Five Limited TAPP Hal Four Limited TAPP Hal Seven Limited TAPP Hal Six Limited TAPP Hal Three Limited Thai Prime Fund Limited TIPP Holdings Limited TIPP Property Limited TIPP Property Subsidiary Limited University Properties Limited	CIT Japan Recovery Limited DBS Substanzwerte Europa Ltd Equity “B” Holdings Limited Miracle Fund Limited Orange PCC Limited TAPP Hal One Limited TAPP Hemel Hempstead Limited TAPP Manchester Limited TAPP Northampton Limited TAPP Property Limited Teesland Advantage Property Income Trust Limited The Accelerated Return Fund Limited TOPP Bletchley Limited TOPP Holdings Limited TOPP Property Limited Xavex Income 1 Limited Xavex SectorLeader Limited Xavex US SectorLeader Limited Xavex US ValueGrowth Select Limited
Francoise Henry	Cross Europe Cross Credit Cross Asia SARK SWAN SWAN II MONOLITH Pragma Wales Management	CCIP Commodities Prop. Europe

<i>Name</i>	<i>Current directorships/partnerships</i>	<i>Previous directorships/partnerships</i>
Tanguy Boulet	Hydro Exploitations Ocean Capital Partners Ltd Ocean Capital Partners LLP Trium Partners LLP Ocean Capital Partners BV Capitola Investment BV Belle Ile Investments BV IMLA BV WMLA BV	—
Juan de Dios Sanchez-Roselly Moreno	—	—

3.3 Save as disclosed in paragraph 3.4 below as at the date of this document, none of the Directors has:

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

No Director, other than Mr Boulet and Mr Le Prevost, has any conflict of interest between any duties the Director owes to the Company and any private interests and/or other duties.

Mr Boulet is a partner in the Investment Manager.

Mr Le Prevost, a director of the Company, is also a director of Anson Fund Managers Limited, the Company's Administrator and Secretary, and Anson Registrars Limited, the Company's Registrar, Transfer Agent and Paying Agent.

3.4 Mr Goodman was a non-executive director of Berwick Tempo plc from 1980 until 1983. Shortly after his resignation therefrom, Berwick Tempo plc was placed into receivership. Mr Goodman was also a director of Christand and Other Underwriting Agencies Limited which was placed into liquidation in 1994. The winding up of this company concluded showing a substantial surplus.

3.5 All Directors have entered into letters of appointment with the Company in respect of their services as non-executive directors dated 6 April 2006 under which he or she is appointed as a non-executive director (or in the case of Mr Monro-Davies, as Chairman and non-executive director). Each Director (other than Mr Monro-Davies) also agrees to serve on the management committee and the audit committee of the Company. The appointment is subject to the Articles and continues (unless terminated earlier by the giving of three months notice) until his or her position as a Director ceases in accordance with the Articles, when it will terminate without notice and without entitlement to compensation (other than the balance of accrued fees and expenses). An annual fee of £15,000 (or £25,000 in the case of Mr Monro-Davies) is payable and in addition the Company agrees to reimburse the Director his or her reasonable expenses properly incurred in the performance of his or her duties except for Mr. Boulet who will not be receiving a fee. The Director is subject to a confidentiality undertaking without limitation of time. He or she must also communicate to the Board any conflict of interest or potential conflict of interest. Under the appointment letter the Company agrees to use its

reasonable endeavours to obtain appropriate directors' and officers' liability insurance for the benefit of the Director and to maintain the cover for so long as he or she is a non-executive director of the Company. There are no service contracts in existence between the Company and any of the Directors nor are any proposed.

3.6 No loans or guarantees have been made by the Company to any of the Directors.

3.7 Estimate of remuneration

The total emoluments payable and benefits in kind to be granted to the Directors by the Company in respect of the financial period ending 30 June 2006 under the arrangements in force as at the date of this document are estimated not to exceed £20,000.

#### 4. Substantial Shareholders

4.1 Save as disclosed below, the Company is not aware of any person who immediately following Admission may, directly or indirectly, be interested in three per cent. or more of the issued share capital of the Company. The table below sets out the holding of shareholders as at the date of this document.

<i>Substantial shareholders</i>	<i>Number of Ordinary Shares held prior to the Issue</i>	<i>Percentage of issued share capital held prior to the Issue %</i>	<i>Proposed number of Ordinary Shares upon completion of the Issue</i>	<i>Proposed percentage of issued share capital held upon completion of the Issue %</i>
Anson Custody Limited*	1	50	—	—
Anson Fund Managers Limited*	1	50	—	—

\* The Ordinary Shares held by Anson Custody Limited and Anson Fund Managers Limited are beneficially owned by Ocean Capital Associates LLP and will be transferred to Tanguy Boulet as part of the Placing.

4.2 As at the date of this document, the Company is not aware of any person who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company.

4.3 None of the Company's shareholders has any different voting rights from other holders of Ordinary Shares.

4.4 Save as disclosed in paragraph 4.1 above, the Company is not aware of any person who immediately following Admission may, directly or indirectly, be interested in 10 per cent. or more of the issued share capital of the Company.

4.5 Save as disclosed herein, none of the advisers to the Company listed on pages 81 and 82 has any interests in the Ordinary Shares.

#### 5. Memorandum and Articles of Association

The Company's principal objects, which are contained in its memorandum of association, include the carrying on of the business of an investment company. The objects of the Company are set out in full in clause 3 of the memorandum of association, which is available for inspection at the Company's registered address.

The articles of association of the Company (the "Articles") contain, *inter alia*, provisions to the following effect:

5.1 Share Capital

5.1.1 Power to attach rights

Subject to the rights attached to existing shares or any class of shares, new shares in the Company may be issued with, or have attached to them, such preferred, deferred or other rights or restrictions whether as to dividend, voting, return of capital or otherwise as the Company may by ordinary resolution decide, or, if no such resolution is passed or so far as any pertinent resolution does not make specific provision, as the Board may decide.

### 5.1.2 Power to redeem and purchase shares

Subject to the provisions of the Laws:

- (a) any preference shares may with the sanction either of the Board or an ordinary resolution be issued on terms that they are to be redeemed or, at the option of either the Company or the holder, are liable to be redeemed, in each case on such terms and in such manner as the Company before the issue may by ordinary resolution decide and subject to and in default of such determination as the Board may decide;
- (b) the Company may from time to time purchase, or agree to purchase in the future, its own shares (including any redeemable shares) in any manner authorised by the Laws and may make payments in respect of any such purchase otherwise than out of its distributable profits or the proceeds of a fresh issue of shares; and
- (c) the Company and any of its subsidiary companies may give financial assistance, as defined in section 2 of the Companies (Financial Assistance for Acquisition of Own Shares) Ordinance, 1998, directly or indirectly for the purposes of or in connection with the acquisition of shares in the Company or in connection with reducing or discharging any liability incurred in connection with the purchase of shares in the Company.

### 5.1.3 Variation of rights

If at any time the share capital is divided into different classes of shares the rights attached to any class (unless otherwise provided by the terms of issue) may whether or not the Company is being wound up be varied or abrogated with the consent in writing of the holders of three-fourths of the issued shares of that class or with the sanction of a special resolution of the holders of the shares of that class validly held in accordance with the Articles, but not otherwise. To any separate general meeting of a class the provisions of the Articles relating to general meetings shall apply but so that the necessary quorum shall be at least two persons present in person or by proxy holding at least one-third of the issued shares of that class and that any holder of shares of that class present in person or by proxy and entitled to vote at the meeting may demand a poll. The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not (unless otherwise expressly provided by the terms of issue of the shares of that class) be deemed to be varied by the creation, allotment or issue of further shares ranking *pari passu* therewith or by the purchase or redemption by the Company of its own shares in accordance with paragraph 5.1.2 above.

### 5.1.4 Consolidation, sub-division and cancellation

The Company may by ordinary resolution consolidate and divide all or any of its share capital into a larger number of shares or sub-divide all or any of its shares into a smaller number of shares than its existing shares (and so that the resolution whereby any share is subdivided may determine that as between the holders of the shares resulting from subdivision one or more of the shares may have such preferred deferred or other rights over the others as the Company has power to attach to unissued or new shares), or may cancel shares which at the date of the passing of the resolution have not been taken or convert all or any of its fully paid shares denominated in a particular currency into fully paid shares of a different currency. By special resolution the Company may reduce its capital.

### 5.1.5 Payment of scrip dividends

Subject to the Laws, the Board may, if authorised by an ordinary resolution, offer those holders of a particular class of shares in respect of any dividend the right to elect to receive shares by way of scrip dividend instead of cash.

### 5.1.6 Increase of share capital

The Company may by ordinary resolution increase the share capital of the Company by such sum and/or such number of shares to be divided into shares of such amount as the resolution shall prescribe.

### 5.1.7 Pre-emptive rights

Before the issue of any new shares the Board may resolve that all or some of them shall be offered to the Members (defined in the Articles as the registered holders of shares in the Company) in proportion to their existing shares at such price as the Company or the Board may fix. Such offer shall be made by notice specifying the number of shares to which the Member is entitled and limiting a time within which the offer if not accepted will be deemed to be declined. After the expiration of such period or on the receipt of an intimation from the Member that he declines, the Board may offer the same on similar terms to such of the other shareholders as they may select including the Directors or dispose of them in such manner as they think fit. For the purpose of giving effect to the relevant Article the Board shall be entitled to disregard fractions. In the absence of any determination or so far as the same shall not extend new shares may be dealt with as if they formed part of the original share capital of the Company and shall be subject to the Articles.

## 5.2 Transfer of shares

5.2.1 The Articles provide that the Directors may implement such arrangements as they may think fit in order for any class of shares to be admitted to settlement by means of the CREST UK system. If the Directors implement any such arrangement no provision of the Articles shall apply or have effect to the extent that it is in any respect inconsistent with:

- (a) the holding of shares of that class in uncertificated form;
- (b) the transfer of title to shares of that class by means of the CREST UK system; or
- (c) the CREST Guernsey Requirements.

5.2.2 Where any class of shares is for the time being admitted to settlement by means of the CREST UK system such securities may be issued in uncertificated form in accordance with and subject as provided in the CREST Guernsey Requirements. Unless the Directors otherwise determine, such securities held by the same holder or joint holder in certificated form and uncertificated form shall be treated as separate holdings. Such securities may be changed from uncertificated to certificated form and from certificated to uncertificated form in accordance with and subject as provided in the CREST Guernsey Requirements.

5.2.3 Title to such of the shares as are recorded on the register of members as being held in uncertificated form may be transferred only by means of the CREST UK system and as provided in the CREST Guernsey Requirements. Every transfer of shares from a CREST account of a CREST member to a CREST account of another CREST member shall vest in the transferee a beneficial interest in the shares transferred, notwithstanding any agreements or arrangements to the contrary however and whenever arising and however expressed.

5.2.4 Transfers of certificated shares may be effected by an instrument of transfer in writing in any usual form or in any other form approved by the Board, and the instrument shall be executed by or on behalf of the transferor and (in the case of a transfer of a share which is not fully paid) by or on behalf of the transferee. Subject to the foregoing and the CREST Guernsey Requirements, the transferor of a share is deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of it.

5.2.5 Every instrument of transfer shall be left at the registered office of the Company or such other place as the Board may prescribe with the certificate of every share to be transferred and such other evidence as the Board may reasonably require to prove the title of the transferor or his right to transfer the shares; and the transfer and certificate (if any) will remain in the custody of the Board but shall at all reasonable times be produced at the request and expense of the transferor or transferee or their respective representatives. A new certificate will be delivered free of charge to the transferee after the transfer is completed and registered on his application and when necessary a balance certificate will be delivered if required by him in writing.

5.2.6 In exceptional circumstances approved by the London Stock Exchange (for so long as the Company's Ordinary Shares remain admitted to trading on AIM), the Board may refuse to register a transfer of certificated shares provided that such refusal would not disturb the market in those shares. Subject to the requirements of the CISX and AIM Rules, the Board may, in its absolute discretion and without giving a reason, refuse to register the transfer of a certificated share which is not fully paid or the transfer of a certificated share on which the Company has a

lien. In addition, the Directors may refuse to register a transfer of a certificated share which is prohibited by the provisions described in paragraph 5.4 and may also refuse to register the transfer of a certificated share or a renunciation of a renounceable letter of allotment unless:

- (a) it is in respect of only one class of shares;
- (b) it is in favour of a single transferee or renounee or not more than four joint transferees or renounees; and
- (c) it is delivered for registration to the Company's registered office or such other place as the Board may decide, accompanied by the certificate for the shares to which it relates (except in the case of a transfer where a certificate has not been issued, or in the case of a renunciation) and such other evidence as the Board may reasonably require to prove the title of the transferor or person renouncing and the due execution by him of the transfer or renunciation or, if the transfer or renunciation is executed by some other person on his behalf, the authority of that person to do so.

5.2.7 If the Board refuses to register the transfer of a certificated share, it shall, within two months after the date on which the transfer was lodged with the Company, send notice of the refusal to the transferee.

5.2.8 The Company shall register a transfer of title to any uncertificated share in accordance with the CREST Guernsey Requirements, but so that the Board may refuse to register such a transfer in favour of more than four persons jointly or in any other circumstance permitted by the CREST Guernsey Requirements. If the Board refuses to register the transfer of an uncertificated share it shall, within two months after the date on which the transfer instruction relating to such transfer was received by the Company, send notice of the refusal to the transferee.

5.2.9 Subject to such restrictions (if any) as may be imposed by the CREST Guernsey Requirements, the registration of transfers may be suspended at such times and for such period (not exceeding 30 days in any one year) as the Board may decide and either generally or in respect of a particular class of shares.

### 5.3 Disclosure of interests in shares

5.3.1 The Directors have power by notice in writing to require any Member to disclose to the Company the identity of any person other than the Member (an interested party) who has any interest in the shares held by the Member and the nature of such interest and any documents to verify the identity of the Member and/or the interested party as the Directors deem necessary. Any such notice must require any information in response to such notice to be given in writing within such reasonable time as the Directors may determine.

5.3.2 The Directors may be required to exercise their powers as described in paragraph 5.3.1 on the requisition of Members holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up capital of the Company as carries at that date the right of voting at general meetings of the Company. The requisition must state that the requisitionists are requiring the Company to exercise its powers under Article 73 of the Articles, specify the manner which they require those powers to be exercised, and give reasonable grounds for requiring the Company to exercise those powers in the manner specified and must be signed by the requisitionists and deposited at the registered office of the Company. The requisition may consist of several documents in like form each signed by one or more requisitionists. On the deposit of a requisition complying with the Articles it is the Directors' duty to exercise their powers as described in paragraph 5.3.1 in the manner specified in the requisition.

5.3.3 A Member is obliged to notify the Company when he acquires or becomes aware that he has acquired or ceases to have or becomes aware that he has ceased to have a Notifiable Interest in shares. A Member has a "Notifiable Interest" at any time when he is the holder of 3 per cent. or more of any class of shares in the Company. A Member having a Notifiable Interest is also obliged to notify the Company when the holding of such a Member increases or decreases through any single percentage. Where an obligation to notify arises the Member must notify the Company as soon as practicable and in any case within the period of 5 days next following the day on which the obligation arises. Such notification must identify the Member to which the notification relates and specify the number of shares held by the Member at the time the

obligation of disclosure arose or, if the Member no longer has a Notifiable Interest, state that the Member no longer has that interest.

#### 5.4 Failure to disclose interests in shares

5.4.1 If any Member has been duly served with a notice given by the Directors in accordance with the requirements described in paragraph 5.3.1 and is in default for the prescribed period (being 28 days from the date of service of the notice unless the shares concerned represent 0.25 per cent. or more of the issued shares of the relevant class in which case it is 14 days) in supplying to the Company the information thereby required, then the Directors may in their absolute discretion at any time thereafter serve a notice (a “direction notice”) upon such Member.

5.4.2 A direction notice may direct that, in respect of any shares in relation to which the default occurred (all or the relevant number as appropriate of such shares being the “default shares”) and any other shares held by the Member, the Member shall not be entitled to vote at a general meeting or meeting of the holders of any class of shares of the Company either personally or by proxy or to exercise any other right conferred by membership in relation to meetings of the Company or of the holders of any class of shares of the Company, and where the default shares represent at least 0.25 per cent. of the issued shares of the class of shares concerned then the direction notice may additionally direct that in respect of the default shares (a) any dividend or part thereof or other amount which would otherwise be payable in respect of such shares shall be withheld by the Company without any liability to pay interest thereon when such money is finally paid to the Member, and the Member shall not be entitled to elect to receive shares instead of a dividend, and (b) that no transfer other than an approved transfer (as described in paragraph 5.4.6(c) below) of the default shares held by such Member may be registered unless the Member is not himself in default as regards supplying the information requested and when presented for registration the transfer is accompanied by a certificate by the Member in a form satisfactory to the Directors to the effect that after due and careful enquiry the Member is satisfied that no person in default as regards supplying such information is interested in any of the shares the subject of the transfer.

5.4.3 The Company shall send to each other person appearing to be interested in the shares the subject of any direction notice a copy of the notice, but failure or omission by the Company to do so shall not invalidate such notice.

5.4.4 If shares are issued to a Member as a result of that Member holding other shares in the Company and if the shares in respect of which the new shares are issued are default shares in respect of which the Member is for the time being subject to particular restrictions, the new shares shall on issue become subject to the same restrictions whilst held by that Member as such default shares. For this purpose, shares which the Company procures to be offered to Members *pro rata* (or *pro rata* ignoring fractional entitlements and shares not offered to certain Members by reason of legal or practical problems associated with offering shares outside the United Kingdom or Guernsey) shall be treated as shares issued as a result of a Member holding other shares in the Company.

5.4.5 Any direction notice shall have effect in accordance with its terms for as long as the default, in respect of which the direction notice was issued, continues but shall cease to have effect in relation to any shares which are transferred by such Member by means of an approved transfer (as described in paragraph 5.4.6(c) below). As soon as practical after the direction notice has ceased to have effect (and in any event within seven days thereafter) the Directors shall procure that the restrictions imposed pursuant to the provisions described in paragraphs 5.4.1, 5.4.2 and 5.4.4 above shall be removed and that dividends withheld pursuant to the provisions described in paragraph 5.4.2 above are paid to the relevant Member.

5.4.6 For the purposes of this paragraph:

- (a) a person shall be treated as appearing to be interested in any share if the Member holding such shares has given to the Company a notification which either (i) names such person as being so interested or (ii) fails to establish the identities of those interested in the shares and (after taking into account the said notification and any other relevant notification) the Company knows or has reasonable cause to believe that the person in question is or may be interested in the shares;
- (b) in relation to the Directors, any person who is connected to the director concerned shall be included amongst the person who is connected with a Member or any person appearing to

be interested in such shares. A person shall be treated as being connected with a director if that person is:

- (i) a spouse, child (under the age of eighteen) or step child (under the age of eighteen) of the director; or
  - (ii) an associated body corporate which is a company in which the director alone, or with connected persons, is directly or indirectly beneficially interested in 20 per cent. or more of the value of the equity share capital or is entitled (alone or with connected persons) to exercise or control the exercise of more than 20 per cent. of the voting power at general meetings; or
  - (iii) a trustee (acting in that capacity) of any trust, the beneficiaries of which include the director or persons falling within paragraphs (i) or (ii) above excluding trustees of an employees' share scheme or pension scheme; or
  - (iv) a partner (acting in that capacity) of the director or persons in categories (i) to (iii) above.
- (c) a transfer of shares is an approved transfer if but only if:
- (i) it is a transfer of shares to an offeror by way of or in pursuance of acceptance of a public offer made to acquire all the issued shares in the capital of the Company not already owned by the offeror or any connected person of the offeror in respect of the Company; or
  - (ii) the Directors are satisfied that the transfer is made pursuant to a sale of the whole of the beneficial ownership of the shares to a party unconnected with the Member and with other persons appearing to be interested in such shares; or
  - (iii) the transfer results from a sale made through a recognised investment exchange (as defined in the Financial Services and Markets Act 2000 of the United Kingdom) or any stock exchange outside the United Kingdom on which the Company's shares are listed or normally traded.

5.4.7 Any shareholder who has given notice of an interested party in accordance with the requirements described in paragraph 5.3.1 who subsequently ceases to have any party interested in his shares or has any other person interested in his shares must notify the Company in writing of the cessation or change in such interest and the Directors shall promptly amend the register of interested parties accordingly.

## 5.5 Compulsory transfer of shares

5.5.1 If it shall come to the notice of the Board that any shares:

- (a) are or may be owned or held directly or beneficially by any person in breach of any law or requirement of any country or by virtue of which such person is not qualified to own those shares and, in the sole and conclusive determination of the Board, such ownership or holding or continued ownership or holding of those shares (whether on its own or in conjunction with any other circumstance appearing to the Board to be relevant) would in the reasonable opinion of the Board, cause a pecuniary or tax disadvantage to the Company or any other holder of shares or other securities of the Company which it or they might not otherwise have suffered or incurred; or
- (b) are or may be owned or held directly or beneficially by any person that is a pension or other benefit plan subject to Title I of the United States Employee Retirement Income Security Act of 1974, as amended ("ERISA") and in the opinion of the Board the assets of the Company may be considered "plan assets" within the meaning of regulation adopted under ERISA; or
- (c) are or may be owned or held directly or beneficially such that the aggregate number of United States Persons (as defined in the Articles) who are holders or beneficial owners (which for these purposes shall include beneficial ownership by attribution pursuant to Section 3(c)(1)(A) of the United States Investment Company Act of 1940) of shares or other securities of the Company and who are Private Offering Holders (as defined in the Articles) is or may be more than 75; or

- (d) are or may be owned or held directly or beneficially by any person to whom a transfer of shares or whose ownership or holding of any shares might in the opinion of the Board require registration of the Company as an investment company under the United States Investment Company Act of 1940;

the Board may serve written notice (hereinafter called a “Transfer Notice”) upon the person (or any one of such persons where shares are registered in joint names) appearing in the register as the holder (the “Vendor”) of any of the shares concerned (the “Relevant Shares”) requiring the Vendor within 21 days (or such extended time as in all the circumstances the Board consider reasonable) to transfer (and/or procure the disposal of interests in) the Relevant Shares to another person who, in the sole and conclusive determination of the Board, would not fall within paragraphs (a), (b) or (d) above and whose ownership or holding of such shares would not result in the aggregate number of Private Offering Holders who are beneficial owners or holders of shares or other securities of the Company being 75 or more (such a person being hereinafter called an “Eligible Transferee”). On and after the date of such Transfer Notice, and until registration of a transfer of the Relevant Shares to which it relates pursuant to the provisions referred to in this paragraph or paragraphs 5.5.2 below, the rights and privileges attaching to the Relevant Shares will be suspended and not capable of exercise.

- 5.5.2 If within 21 days after the giving of a Transfer Notice (or such extended time as in all the circumstances the Board consider reasonable) the Transfer Notice has not been complied with to the satisfaction of the Board, the Company may sell the Relevant Shares on behalf of the holder thereof by instructing a London Stock Exchange member firm to sell them at the best price reasonably obtainable at the time of sale to any one or more Eligible Transferees. To give effect to a sale the Board may authorise in writing any officer or employee of the Company or any officer or employee of the secretary of the Company to transfer the Relevant Shares on behalf of the holder thereof (or any person who is automatically entitled to the shares by transmission or by law) or to cause the transfer of the Relevant Shares to the purchaser and in relation to an uncertificated share may require the Operator to convert the share into certificated form and an instrument of transfer executed by that person shall be as effective as if it had been executed by the holder of, or the person entitled by transmission to, the Relevant Shares. The purchaser is not bound to see to the application of the purchase money and the title of the transferee is not affected by any irregularity in or invalidity of the proceedings connected to the sale. The net proceeds of the sale of the Relevant Shares, after payment of the Company’s costs of the sale, shall be received by the Company, whose receipt shall be a good discharge for the purchase moneys, and shall belong to the Company and, upon their receipt, the Company shall become indebted to the former holder of the Relevant Shares, or the person who is automatically entitled to the Relevant Shares by transmission or by law, for an amount equal to the net proceeds of transfer, in the case of certificated shares, upon surrender by him or them of the certificate for the Relevant Shares which the Vendor shall forthwith be obliged to deliver to the Company. The Company is deemed to be a debtor and not a trustee in respect of that amount for the member or other person. No interest is payable on that amount and the Company is not required to account for money earned on it. The amount may be employed in the business of the Company or as it thinks fit. The Company may register or cause the registration of the transferee as holder of the Relevant Shares and thereupon the transferee shall become absolutely entitled thereto.
- 5.5.3 A person who becomes aware that he falls, or is likely to fall, within any of paragraphs 5.5.1(a), 5.5.1(b) or 5.5.1(d) above, or, being a Private Offering Holder and a beneficial owner or holder of shares, becomes aware that the aggregate number of Private Offering Holders who are beneficial owners or holders of shares or other securities of the Company is more than 75, shall forthwith, unless he has already received a Transfer Notice pursuant to the provisions referred to in paragraph 5.5.1 above either transfer the shares to one or more Eligible Transferees or give a request in writing to the Board for the issue of a Transfer Notice in accordance with the provisions referred to in paragraph 5.5.1 above. Every such request shall, in the case of certificated shares, be accompanied by the certificate(s) for the shares to which it relates.
- 5.5.4 Subject to the provisions of the Articles, the Board shall, unless any Director has reason to believe otherwise, be entitled to assume without enquiry that none of the shares are held in such a way as to entitle the Board to serve a Transfer Notice in respect thereof. The Board may, however, at any time and from time to time call upon any holder (or any one of joint holders or a person who is automatically entitled to the shares by transmission or by law) of shares by notice

in writing to provide such information and evidence as they require upon any matter connected with or in relation to such holder of shares. In the event of such information and evidence not being so provided within such reasonable period (not being less than 21 clear days after service of the notice requiring the same) as may be specified by the Board in the said notice, the Board may, in its absolute discretion, treat any share held by such a holder or joint holders or person who is automatically entitled to the shares by transmission or by law as being held in such a way as to entitle them to serve a Transfer Notice in respect thereof.

5.5.5 The Board will not be required to give any reasons for any decision, determination or declaration taken or made in accordance with these provisions. The exercise of the powers conferred by the provisions referred to paragraph 5.5.1 and/or 5.5.2 and/or 5.5.4 above may not be questioned or invalidated in any case on the grounds that there was insufficient evidence of direct or beneficial ownership or holding of shares by any person or that the true direct or beneficial owner or holder of any shares was otherwise than as appeared to the Board at the relevant date provided that the said powers have been exercised in good faith.

## 5.6 Meetings of Shareholders

5.6.1 The first general meeting of the Company should be held as required by law being within 18 months of 17 March 2006 (being the date of incorporation of the Company) and thereafter annual general meetings shall be held at least once in each subsequent calendar year (provided that not more than 15 months shall elapse between one annual general meeting and the next) and shall be convened by the Board at such time and place as it thinks fit.

5.6.2 The Board may convene an extraordinary general meeting whenever it thinks fit. General meetings shall be held in Guernsey or otherwise as determined by the Board. The Board must on the requisition in writing of one or more holders representing not less than one-tenth of the issued share capital of the Company upon which all calls or other sums then due have been paid forthwith proceed to convene an extraordinary general meeting. The requisition shall be dated and shall state the object of the meeting and shall be signed by the requisitionists and deposited at the registered office of the Company and may consist of several documents in like form each signed by one or more of the requisitionists. If the Board does not proceed to cause a meeting to be held within twenty-one days from the date of the requisition being so deposited the requisitionists or a majority of them in value may within a period of three months beginning on that date themselves convene the meeting. Any meeting convened by requisitionists shall be convened in the same manner (as nearly as possible) as that in which meetings are convened by the Board. At a meeting convened on a requisition or by requisitionists no business may be transacted except that stated by the requisition or proposed by the Board.

5.6.3 A general meeting shall be called by not less than 14 clear days' notice. Although called by shorter notice than this, or at no notice, a general meeting is deemed to have been duly called if it is so agreed in writing by all the Members entitled to attend and vote at the meeting. The notice of meeting shall be given to all the Members in accordance with the Articles. The notice of meeting may also specify a time (which shall not be more than 48 hours before the time fixed for the meeting) by which a person must be entered on the register of members in order to have the right to attend or vote at the meeting. Changes to entries on such register after the time so specified in the notice shall be disregarded in determining the rights of any person to so attend or vote.

5.6.4 The quorum for a general meeting is two Members present in person or by proxy and entitled to vote.

## 5.7 Voting rights

5.7.1 Subject as described in paragraph 5.4 and to any special rights or restrictions as to voting attached to any class of shares, at a general meeting every Member present in person has on a show of hands one vote and every Member present in person or by proxy has on a poll one vote for every share of which he is the holder. Unless the Board otherwise decides, no Member is entitled in respect of a share held by him to be present or to vote, either in person or by proxy, or to exercise other rights conferred by membership in relation to the meeting or poll, if a call or other amount due and payable in respect of the share is unpaid. This restriction ceases on payment of the amount outstanding and all costs, charges and expenses incurred by the Company by reason of the non-payment. No Member will be entitled to vote in respect of any shares unless he has been registered as their holder within the time set out in the relevant notice of the meeting.

5.7.2 Any body corporate which is a Member may by resolution of its own directors or other governing body appoint such one or more persons as it thinks fit to act as its representatives at any meeting of the Company or of any class of Members of the Company and to approve any resolution submitted in writing. Each representative appointed will be entitled to exercise on behalf of the body corporate which he represents (in respect of that part of the body corporate's holding of shares to which the authorisation relates) those powers that the body corporate could exercise if it were an individual Member, including power to vote on a show of hands or on a poll and to demand or concur in demanding a poll. The body corporate shall for the purposes of the Articles be deemed to be present in person at a meeting if a representative is present.

## 5.8 Directors

### 5.8.1 Appointment

Directors may be appointed by an ordinary resolution of the Company or by the Board. Any Director appointed by the Directors will hold office only until the next annual general meeting and will then be eligible for re-election. He is not required, and is not taken into account in determining the number of Directors who are, to retire by rotation at the meeting. Unless the subscribers appoint a sole Director and until otherwise determined by the Board the number of Directors shall not be less than two. At no time shall a majority of Directors be resident in the United Kingdom. A Director need not be a Member of the Company.

No person other than a Director retiring (by rotation or otherwise) may be appointed or reappointed a Director at a general meeting unless he is recommended by the Board, or not less than seven nor more than 42 days before the date fixed for the meeting, there has been left at the registered office of the Company notice in writing signed by a Member (other than the person to be proposed) duly qualified to attend and vote at the meeting of his intention to propose that person for appointment or reappointment together with notice in writing signed by that person of his willingness to be appointed or reappointed.

The Board may appoint one or more of its body to hold employment or executive office with the Company for such term and on such other terms and conditions as the Board thinks fit. The Board may revoke or terminate an appointment, without prejudice to a claim for damages for breach of the contract of service between the Director and the Company or otherwise. The salary or other remuneration of a Director appointed to hold employment or executive office may be a fixed sum of money, or wholly or in part governed by business done or profits made, or as otherwise decided by the Board, and may be in addition to or instead of a fee payable to him for his services as Director.

The Board may enter into an agreement or arrangement with any Director for the provision of any services outside the scope of the ordinary duties of a Director. Any such agreement or arrangement may be made on such terms and conditions as the Board thinks fit and it may remunerate any such Director for his services as it thinks fit (whether by way of salary, percentage of profits or otherwise and either in addition to or in substitution for any other remuneration which he may be entitled to receive).

### 5.8.2 Retirement by Rotation

At each annual general meeting when any one or more of the Directors who are subject to retirement by rotation (i) were last appointed or reappointed three years or more prior to the meeting or, (ii) were last appointed or reappointed at the third immediately preceding annual general meeting, he or they shall retire from office. If the number of Directors required above to retire at any annual general meeting is less than one third of the number of Directors who are subject to retirement by rotation (rounded down if not a whole number), additional such Directors shall retire from office so that the total number of such Directors retiring by rotation at that annual general meeting is at least equal to one third of the number of Directors who are subject to retirement by rotation (rounded down if not a whole number), provided that if there are fewer than three Directors who are subject to retirement by rotation, at least one shall retire from office. Without prejudice to the foregoing sentence, and in addition to any Directors retiring pursuant to such sentence, any Director required to be subject to annual re-election by shareholders shall retire from office at each annual general meeting and shall not be treated as subject to retirement by rotation for the purposes of determining the number or identity of the Directors required to retire by rotation at that annual general meeting.

Subject to the above, the Directors to retire by rotation at an annual general meeting include any Director who wishes to retire and those who have been longest in office since their last appointment or reappointment. As between two or more who have been in office an equal length of time, the Director to retire will be determined by agreement between them or by lot.

The Directors are not subject to a mandatory retirement age.

#### 5.8.3 Removal of Directors

The Company may by ordinary resolution remove a Director before the expiry of his period of office.

Without prejudice to the provisions for retirement (by rotation or otherwise) contained in the Articles, the office of a Director is vacated if: (i) he resigns by notice sent to or deposited at the registered office or tendered at a Board meeting; (ii) where he has been appointed for a fixed term, which has expired; (iii) he ceases to be a Director by virtue of the Laws, is removed pursuant to the Articles or becomes prohibited by law from being a Director; (iv) he becomes bankrupt, insolvent, suspends payment or compounds with his creditors generally; (v) he is or has been suffering from mental ill health; (vi) both he and his alternate director (if any) are absent, without the permission of the Board, from Board meetings for six consecutive months; (vii) he is removed from office by notice addressed to him at his last-known address and signed by all his co-Directors; or (viii) he becomes resident in the United Kingdom and, as a result thereof, a majority of the Directors are resident in the United Kingdom.

#### 5.8.4 Remuneration expenses and pensions

Unless otherwise decided by the Company by ordinary resolution, the Company shall pay to the Directors (but not alternate directors) for their services as Directors out of the funds of the Company by way of fees such sums as the Board decides (not exceeding £200,000 per annum in aggregate or such larger amount as the Company may by ordinary resolution decide. The aggregate fees will be divided among the Directors in such proportions as the Board decides or, if no decision is made, equally.

A Director who, at the request of the Board, goes or resides in any country not his usual place of residence, makes a special journey or performs a special service on behalf of the Company may receive such sum as the Board may think fit and be paid such reasonable additional remuneration (whether by way of salary, percentage of profits or otherwise) as the Board may decide either in addition to or in substitution for any other remuneration which he may be entitled to receive.

A Director is entitled to be repaid all reasonable travelling, hotel and other expenses properly incurred by him in the performance of his duties as Director including, without limitation, expenses incurred in attending meetings of the Board or of committees of the Board or general meetings or separate meetings of the holders of a class of shares or debentures.

The fee payable to an alternate director is payable out of the fee payable to his appointor and an alternate director is not entitled to a fee from the Company for his services as an alternate director. The Company shall, however, repay to an alternate director expenses incurred by him in the performance of his duties if the Company would have been required to repay the expenses to him had he been a Director.

#### 5.8.5 Directors' interests

Provided he has disclosed to the Board the nature and extent of any material interest of his (or any person with whom he is connected), a Director, notwithstanding his office:

- (a) may enter into or otherwise be interested in a contract, arrangement, transaction or proposal with the Company or in which the Company is otherwise interested either in connection with his tenure of an office or place of profit or as seller, buyer or otherwise;
- (b) may hold another office or place of profit with the Company (except that of auditor or auditor of a subsidiary of the Company) in conjunction with the office of Director and may act by himself or through his firm in a professional capacity to the Company, and in that case on such terms as to remuneration and otherwise as the Board may decide either in addition to or instead of remuneration provided for in the Articles;

- (c) may be a director or other officer of, or employed by, or a party to a contract, transaction, arrangement or proposal with or otherwise interested in, a company promoted by the Company or in which the Company is otherwise interested or as regards which the company has a power of appointment; and
- (d) is not liable to account to the Company for a profit, remuneration or other benefit realised by such contract, arrangement, transaction, proposal, office or employment and no such contract, arrangement, transaction or proposal is avoided on the grounds of any such interest or benefit.

5.8.6 A Director may not vote or be counted in the quorum in relation to a resolution of the Board or of a committee of the Board concerning a contract, arrangement, transaction or proposal to which the Company is or is to be a party and in which he has an interest which is, to his knowledge, a material interest (otherwise than by virtue of his interest in shares or debentures or other securities of or otherwise in or through the Company), but this prohibition does not apply to a resolution concerning any of the following matters:

- (a) the giving of a guarantee, security 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 subsidiary undertakings;
- (b) the giving of a guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part, either alone or jointly with others, under a guarantee or indemnity or by the giving of security;
- (c) a contract, arrangement, transaction or proposal concerning an offer of shares, debentures or other securities of the Company or any of its subsidiary undertakings for subscription or purchase, in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate;
- (d) a contract, arrangement, transaction or proposal to which the Company is or is to be a party concerning another company (including a subsidiary undertaking of the Company) in which he is interested (directly or indirectly) whether as an officer, shareholder, creditor or otherwise (a “relevant company”), if he does not to his knowledge hold an interest in shares representing one per cent. or more of either any class of the equity share capital of or the voting rights in the relevant company;
- (e) a contract, arrangement, transaction or proposal for the benefit of the employees of the Company or any of its subsidiary undertakings (including any pension fund or retirement, death or disability scheme) which does not award him a privilege or benefit not generally awarded to the employees to whom it relates; and
- (f) a contract, arrangement, transaction or proposal concerning the purchase or maintenance of any insurance policy for the benefit of directors or for the benefit of persons including directors.

5.8.7 A Director may not vote on but may be counted in the quorum in relation to a resolution of the Board or committee of the Board concerning his own appointment (including, without limitation, fixing or varying the terms of his appointment or its termination) as the holder of an office or place of profit with the Company or any company in which the Company is interested. Where proposals are under consideration concerning the appointment (including, without limitation, fixing or varying the terms of appointment or its termination) of two or more Directors to offices or places of profit with the Company or a company in which the Company is interested, such proposals will be divided and a separate resolution considered in relation to each Director. In that case each of the Directors concerned (if not otherwise debarred from voting under the Articles) is entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment. If a question arises at a meeting as to the materiality of a Director’s interest (other than the interest of the chairman of the meeting) or as to the entitlement of a Director (other than the chairman) to vote or be counted in a quorum and the question is not resolved by his voluntarily agreeing to abstain from voting or being counted in the quorum, the question shall be referred to the chairman and his ruling in relation to the Director concerned is conclusive and binding on all concerned.

5.8.8 For the purposes of determining Directors' interests, a person is connected with a Director if he is:

- (a) a spouse, child or step child (under 18); or
- (b) an associated body corporate which is a company in which the Director alone or with connected persons, is directly or indirectly beneficially interested in 20 per cent. or more of the value of the equity share capital or is entitled to (alone or with connected persons) to exercise or control the exercise of more than 20 per cent. of the voting power at general meetings; or
- (c) is a trustee of any trust, the beneficiaries of which include the Director or person under 5.8.8(a) or 5.8.8(b); or
- (d) a partner of the Director or persons in 5.8.8(a), 5.8.8(b) or 5.8.8(c).

5.8.9 The Company may by ordinary resolution suspend or relax the provisions described in paragraphs 5.8.5 to 5.8.8 (inclusive).

## 5.9 Borrowing powers

5.9.1 The Board may exercise all the powers of the Company to borrow or raise money and to give guarantees, mortgage, hypothecate, pledge or charge all or part of its undertaking property or assets (present or future) and uncalled capital and to issue debentures and other securities, whether outright or as collateral security for a debt, liability or obligation of the Company or of a third party.

5.9.2 The Articles do not contain any restriction or limit on the powers of the Directors referred to in paragraph 5.9.1.

## 5.10 Dividends

5.10.1 The Company may by ordinary resolution declare a dividend to be paid to Members according to their respective rights and interests but no dividend shall exceed the amount recommended by the Board.

5.10.2 No dividend shall be paid otherwise than out of the profits of the Company and in accordance with the provisions of the Laws or in excess of the amount recommended by the Board but so that capital profits and surpluses arising from the realisation of investments shall not be regarded or treated as profit of the Company available for distribution as dividend or otherwise applied to paying dividends on shares in the Company's capital.

5.10.3 The Board may declare and pay such interim dividends as appear justified by the profits of the Company available for distribution. No interim dividend shall be declared or paid on shares which do not confer preferred rights with regard to dividend if, at the time of declaration, any dividend on shares which do confer a right to a preferred dividend is in arrears.

5.10.4 Except as otherwise provided by the rights attached to shares, a dividend will be declared and paid according to the amounts paid up on the shares in respect of which the dividend is declared and paid, but no amount paid up on a share in advance of a call may be treated for these purposes as paid up on the shares. Except as otherwise so provided, dividends will be apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid.

5.10.5 Dividends unclaimed for a period of 12 years after having been declared or become due for payment are forfeited and cease to remain owing by the Company.

5.10.6 The Company is not obliged to send or transfer a dividend to a person until he notifies the Company of an address or account to that purpose where:

- (a) The cheque is left uncashed or the bank transfer is not accepted and reasonable enquiries have failed to establish another address or account; or
- (b) The cheque is left uncashed or transfer not accepted on two consecutive occasions.

## 5.11 Capital reserve

5.11.1 The Directors may establish a non-distributable reserve to be called the “capital reserve” and may either carry to the credit of such reserve from time to time, or apply in providing for depreciation or contingencies, all capital profits arising on the sale, transfer, conversion, payment off or realisation of any investments or other capital assets of the Company in excess of the book value thereof, all other capital profits and all unrealised appreciation of investments or other assets representing or in the nature of accretion to capital assets. Any losses realised on the sale, transfer, conversion, payment off or realisation of any investments or other capital assets and provisions in respect of the diminution in value or depreciation in the value of capital assets may be carried to the debit of the capital reserve except in so far as the Directors may in their discretion decide to make good the same out of other funds of the Company.

5.11.2 Subject to the Laws where any asset, business or property is bought by the Company as from a past date whether such date be before or after the incorporation of the Company profits and losses as from such date may at the discretion of the Directors in whole or in part be carried to revenue account and treated for all purposes as profits and losses of the Company. Subject as aforesaid if any shares or securities are purchased cum dividend or interest such dividend or interest may at the discretion of the Directors be treated as revenue and it will not be obligatory to capitalise all or part of the same.

5.11.3 The Directors may determine whether any amount received by the Company is to be dealt with as income or capital or partly one and partly the other, and whether any cost, liability or expense (including any costs incurred or sums expended in connection with the management of the assets of the Company and any finance costs (including, without limitation, any interest payable by the Company in respect of its borrowings)) is to be treated as a cost, liability or expenses chargeable to capital or to revenue or partly one and partly the other, and to the extent the Directors determine that any such cost liability or expense should be appointed to capital the Directors may debit or charge the same to the capital reserve.

5.11.4 Any reserves or other sums arising on the reduction or cancellation of any share premium account or capital redemption reserve of the Company will not be treated as capital for the purposes of the Articles and will not be carried to the credit of the capital reserve.

5.11.5 All sums carried and standing to the capital reserve may be applied for any of the purposes to which sums standing to any revenue reserve are applicable except and provided that no part of the capital reserve or any other moneys in the nature of accretion to capital may in any event be transferred to revenue account or be regarded or treated as profits of the Company available for distribution as dividend or otherwise applied in paying dividends on any shares in the Company.

5.11.6 Notwithstanding any provision of the Articles, the Company is not prohibited from redeeming or purchasing its own shares out of its capital profits or other amounts standing to the capital reserve.

## 5.12 Capitalisation of reserves

The Board may, with the authority of an ordinary resolution of the Company resolve to capitalise any undistributed profits of the Company or any part of the amount for the time being standing to the credit of any of the Company’s reserve accounts whether or not available for distributions, appropriate the sum resolved to be capitalised to the Members who, in the case of any amount capable of being distributed by way of dividend, would have been entitled thereto if so distributed or, in the case of any amount not so capable, to the Members who would have been entitled thereto on a winding-up of the Company and in either case in the same proportions and apply that sum on their behalf in paying up amounts unpaid on shares held by them or paying up in full unissued shares or debentures of a nominal amount equal to that sum and allot the shares or debentures, credited as fully paid, to the Members (or as they may direct) in those proportions, or partly in one way and partly in the other, but the share premium account and the capital redemption reserve fund may, for these purposes, only be applied in paying up unissued shares to be allotted to Members credited as fully paid and the Directors may make any arrangements they think fit to resolve a difficulty arising in the distributions of a capitalised reserve.

### 5.13 Duration of the Company

The Board shall procure that there is proposed at the annual general meeting of the Company falling in 2013, and if passed, at each second annual general meeting convened by the Board thereafter an ordinary resolution to the effect that the Company should continue as an investment company. If any such resolution is not passed, the Board shall draw up proposals for the future of the Company (which may include the voluntary liquidation, unitisation or other reorganisation of the Company) for submission to the Members of the Company at an extraordinary general meeting to be convened by the Board for a date not more than three months after the date at which such ordinary resolution was not passed. Implementation of the proposals will require the approval of the Members by special resolution.

### 5.14 Distribution of assets other than out of cash

5.14.1 On a voluntary winding-up the liquidator may on obtaining any sanction of a special resolution, divide among the Members in kind the whole or any part of the assets of the Company. For this purpose, the liquidator may set the value he deems fair on a class or classes of property, and may determine on the basis of that valuation and in accordance with the then existing rights of Members how the division is to be carried out or vest the whole or any part of the assets in trustees. The liquidator may not distribute to a Member without his consent an asset to which there is attached a liability or potential liability for the owner.

5.14.2 If thought expedient subject to the obtaining of any necessary consents or sanctions any such division may be otherwise than in accordance with the then existing rights of the Members and in particular any class may be given preferential or special rights or may be excluded altogether or in part but in default of any such provision the assets shall subject to the rights of the holders of shares issued with special rights or privileges or on special conditions be distributed rateably according to the amount paid up on the shares.

5.14.3 Where the Company is proposed to be or is in the course of being wound up and the whole or part of its business or property is proposed to be transferred or sold to another company (the "Transferee") the liquidator of the Company may, with the sanction of an ordinary resolution, conferring either a general authority on the liquidator or an authority in respect of any particular arrangement, receive in compensation or part compensation for the transfer or sale, shares, policies or other like interests in the Transferee for distribution among the Members of the Company or may enter into any other arrangement whereby the Members of the Company may, in lieu of receiving cash, shares, policies or other like interests, or in addition thereto, participate in the profits of or receive any other benefits from the Transferee.

5.14.4 The Company may, subject to the provisions of the Companies Law and of these Articles, issue warrants or grant options to subscribe for shares in the Company. Such warrants or options shall be issued upon such terms and subject to such conditions as may be resolved upon by the Board including, without prejudice to the generality of the foregoing, terms and conditions which provide that, on a winding up of the Company, a holder of warrants or grantee of options may be entitled to receive out of the assets of the Company available in the liquidation *pari passu* with the holders of shares of the same class as the shares in respect of which the subscription rights conferred by the warrants or the options can be exercised such a sum as he would have received had he exercised the subscription rights conferred by his warrants or the options prior to the winding up but after deduction of the price (if any) payable on exercise of such subscription rights.

### 5.15 Untraced Shareholders

The Company may, after advertising its intention in the manner and for such period as is prescribed in the Articles, sell any shares if the shares have been in issue for at least 12 years and during that period at least three cash dividends have become payable on them, no cheque or warrant or money order sent to the Member has been presented, no payment made by the Company has been claimed or accepted and, so far as any Director of the Company at the end of the relevant period is then aware, the Company has not received any communication during the relevant period from the Member or the person entitled to them by transmission. Upon such sale, the Company will become indebted to the former holder of the shares or the person entitled to them by transmission for an amount equal to the net proceeds of sale.

## 5.16 Indemnity

Without prejudice to any indemnity to which he may otherwise be entitled, every person who is or was a Director, alternate director or secretary of the Company and their respective heirs and executors shall be fully indemnified out of the assets and profits of the Company from and against all actions expenses and liabilities which they or their respective heirs or executors may incur by reason of any contract entered into or any act in or about the execution of their respective offices or trusts except such (if any) as they may incur by or through their own wilful act neglect or default respectively and none of them shall be answerable for the acts receipt neglects or defaults of the others of them or for joining in any receipt for the sake of conformity or for any bankers or other person with whom any moneys or assets of the Company may be lodged or deposited for safe custody or for any bankers or other persons into whose hands any money or assets of the Company may come or for any defects of title of the Company to any property purchased or for insufficiency or deficiency of or defect in title of the Company to any security upon which any moneys of the Company shall be placed, put or invested or for any loss, misfortune or damage resulting from any such cause as aforesaid or which may happen in or about the execution of their respective offices or trusts except should the same happen by or through their own wilful act neglect or default.

## 6. Working Capital

The Company is of the opinion that, after taking into account the minimum net proceeds to be raised under the Issue, the Company has sufficient working capital available to it for its present requirements, that is for at least 12 months from the date of this document. The Issue will not proceed unless the minimum net proceeds raised are at least €30 million.

## 7. Material Contracts

The following contracts, not being contracts in the ordinary course of business, have been entered into by the Company since incorporation or are expected to be entered into prior to Admission and are, or may be, material and there are no other contracts entered into by the Company which include an obligation or entitlement which is material to the Company as at the date of this document:

### 7.1 Placing Agreement:

Under the Placing Agreement dated 6 April 2006, entered into by the Company, the Investment Manager and Arbuthnot Securities, Arbuthnot Securities has agreed, subject to certain conditions, to procure Investors for the Issue at the Issue Price and the Company has agreed to issue Ordinary Shares to Investors.

Arbuthnot Securities will deduct from the proceeds of the Issue (a) a corporate finance fee of £200,000 and (b) a commission of 1.5 per cent. of the product of the Issue Price and the number of Ordinary Shares in issue following Admission, together, in each case, with any applicable VAT thereon.

The obligations of the Company to issue Ordinary Shares and Arbuthnot Securities to procure Investors for the Ordinary Shares are subject to certain conditions including, amongst other things, that Admission occurs not later than 8.00 a.m. on 26 April 2006 or such later time and/or date as Arbuthnot Securities may agree with the Company not being later than 2 June 2006. In addition, Arbuthnot Securities may, prior to Admission, terminate the Placing Agreement in certain specified circumstances that are typical for an agreement of this nature.

The Company has agreed to pay Arbuthnot Securities' costs, charges, fees and expenses incurred in connection with, or incidental to, the Issue (together with any related value added tax).

The Company has given customary representations, warranties and undertakings to Arbuthnot Securities, and the Company and the Investment Manager have given customary indemnities to Arbuthnot Securities.

### 7.2 Investment Management Agreement

The Company is party to an Investment Management Agreement with Ocean Capital Associates LLP dated 6 April 2006, pursuant to which conditional on Admission, the Company has appointed the Investment Manager to manage the assets of the Company on a day-to-day basis in accordance with, *inter alia*, the investment objective and policy of the Company, subject to the overall supervision and direction of the Board.

The Investment Management Agreement provides that if the Investment Manager acts as investment manager of, or investment adviser to, a subsidiary or SPV, the Investment Manager will be required to procure, to the extent that it is able to do so, that the investments of the relevant subsidiary or SPV are made such that the Company's investment portfolio shall, overall, be in accordance with the investment restrictions applicable to the Company.

The Investment Manager gives no warranty or undertaking as to the performance or profitability of the Company's investment portfolio or any part of it. Nothing in the Investment Management Agreement excludes any liability of the Investment Manager under the FSMA or the rules of the Financial Services Authority.

The Company has agreed to indemnify the Investment Manager with respect to all costs, losses, claims and expenses incurred by it except in the case of negligence, bad faith, recklessness, wilful default or fraud on the part of Investment Manager. The Investment Manager has agreed to indemnify the Company, against all costs, losses, claims and expenses incurred by it as a result of negligence, bad faith, recklessness, wilful default or fraud of the Investment Manager.

The Company may terminate the Investment Management Agreement at any time by giving the Investment Manager not less than 12 months' prior notice in writing. The Company may not give notice to terminate prior to the second anniversary of the effective date of the Investment Management Agreement meaning that the Investment Management Agreement has a minimum term of three years.

The Company may terminate forthwith the Investment Management Agreement for cause by giving the Investment Manager written notice if the Investment Manager commits any material breach with respect to its obligations under the Investment Management Agreement (and fails to make good such breach within 30 days of receipt of written notice from the Company requiring it to do so) or if the Investment Manager is liquidated or dissolved or unable to pay its debts or commits any act of bankruptcy or if a receiver is appointed over any of its assets or ceases to be authorised by the FSA.

The Investment Manager may resign its appointment at any time by giving the Company not less than 12 months' prior notice in writing, provided that such termination shall not take effect until the second anniversary of the effective date of the Investment Management Agreement. The Investment Manager may resign its appointment forthwith by giving the Company notice in writing if the Company commits any material breach with respect to its obligations under this Agreement and fails to make good any breach within 30 days of receipt of written notice from the Investment Manager requiring it to do so.

The Investment Manager may resign its appointment by giving notice in writing to the Company, effective forthwith, if the Company is liquidated or dissolved or is unable to pay its debts or commits any act of bankruptcy or if a receiver is appointed over any of its assets or if it ceases to be listed on AIM.

The Company will pay to the Investment Manager a Management Fee, an Incentive Fee and certain expenses as described in "Part III—Management of the Company—Investment Manager's Fees and Expenses".

The Investment Manager may at any time delegate certain duties under the Investment Management Agreement to any associate of the Investment Manager. The Investment Manager's liability to the Company for all matters so delegated shall not be affected thereby and the Investment Manager shall remain liable in respect of losses to the Company resulting from the acts or omissions of any such delegate.

The Investment Manager has agreed that it, shall not sponsor another listed investment vehicle which targets as its primary investment category investments in RMBS.

The Investment Management Agreement is governed by English law.

### 7.3 Administration Agreement

The Company is party to an Administration Agreement with Anson Fund Managers Limited dated 6 April 2006, pursuant to which the Administrator provides for the day-to-day administration of the Company, including maintenance of accounts and provision of a company secretary.

For the provision of services under the Administration Agreement, the Administrator will receive from the Company a set-up fee of £6,000 upon Admission and an annual fee, accruing monthly in arrears at a rate of one-twelfth of the annual fee and payable on the last business day of each month in each

calendar year. The annual fee is at the rate of £27,000 plus £1,000 for each whole multiple of £10 million by which the gross assets of the Company (being the Net Asset Value excluding borrowings and debt finance) exceeds £60 million as determined on Admission and thereafter as at the previous quarter end date. In addition to the fees payable, the Company will reimburse the Administrator for all reasonable expenses properly incurred by the Administrator in connection with the performance of its services under the Administration Agreement.

In addition, the Administrator shall receive such further fees as agreed in advance and from time to time between the Company and the Administrator for any additional services. The Administration Agreement shall be terminated if Admission has not taken place by close of business on 2 June 2006 or upon expiry of at least three months' notice given not earlier than six months from the date of the Administration Agreement by either party to the other. The Administration Agreement may also be terminated immediately upon one party giving notice to the other in the event of, inter alia, the Administrator ceasing to be the holder of a licence under the Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended, the other party becoming insolvent or the other party committing a material breach of the Administration Agreement and fails (if such breach is capable of remedy) to make good such breach within thirty days of receiving a notice requiring remedy.

The Administrator shall not be liable for any loss, cost, charge, expense, payment, interest, demand, claim, damages or legal fees ("Losses") suffered or incurred by the Company arising out of any act or omission on the part of the Administrator in connection with its duties under the Administration Agreement unless such Losses arise from its bad faith, negligence, wilful misconduct or fraud. The Company has indemnified the Administrator and its directors, officers and employees, against all Losses, which may be suffered or incurred by the Administrator or its directors or other persons referred to above in connection with the performance or non-performance of the Administrator's duties save where such Losses arise from the bad faith, negligence, wilful misconduct or fraud of the Administrator.

The Administration Agreement is governed by Guernsey law.

#### 7.4 Registrar Agreement

The Company is party to a registrar agreement with Anson Registrars Limited (the "Registrar") dated 6 April 2006 (the "Registrar Agreement"), conditional on Admission, pursuant to which the Registrar will provide registration services to the Company which will entail, among other things, the Registrar having responsibility for the transfer of Ordinary Shares, maintenance of the share register and acting as transfer and paying agent.

For provision of the registrar services, the Registrar is entitled to receive a basic fee based on the number of Shareholder accounts subject to an annual minimum charge of £3,600. In addition to this basic fee, the Registrar is entitled to receive additional fees for specific actions. In addition to the fees payable, the Company will reimburse the Registrar for all reasonable out of pocket disbursements incurred by the Registrar in connection with the performance of its services under the Registrar Agreement.

The Registrar Agreement shall be terminated upon at least 90 days' written notice by either party to the other provided that such notice shall not be effective within six months of the date of the Registrar Agreement. The Registrar Agreement may be terminated immediately by either party if inter alia, the Registrar ceases to be a holder of a licence under the Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended, the other party goes into liquidation or the other party commits a material breach of the Registrar Agreement and fails (in the case of a breach capable of being remedied) to remedy such breach within 30 days of receiving a written notice requiring it to do so.

Except in the case of the fraud, the aggregate liability of the Registrar arising out of or in connection with the Registrar Agreement will be limited to the lesser of £1,000,000 or an amount equal to ten times the total annual fee payable to the Registrar and neither party shall be liable to the other in connection with the Registrar Agreement for indirect or consequential loss or damage, loss of profit, revenue, actual or anticipated savings or goodwill, in all cases (whether caused by negligence or otherwise).

The Company has indemnified the Registrar against all claims and demands which may be made against the Registrar in respect of any loss or damage sustained or suffered or incurred by any third party in connection with the performance or non-performance of the Registrar's duties under the Registrar Agreement otherwise than by reason of the negligence, wilful default, wilful misconduct, fraud or the breach by the Registrar of the terms of the Registrar Agreement. In addition, the

Company has indemnified the Registrar against all claims and demands in respect of or incidental to any breach by the Company of the CREST Rules.

The Registrar Agreement is governed by Guernsey law.

The Registrar has appointed Anson Administrators (UK) Limited (the “UK Transfer Agent”) to provide transfer agent services to the Company, for which it will receive a fee payable by the Registrar. The Registrar will remain liable to the Company for the activities of the UK Transfer Agent.

#### 7.5 Custody Agreement

The Company is party to a Custody Agreement with RBSI Trustee Services (Guernsey) Limited dated 6 April 2006, pursuant to which the Custodian will be responsible for providing custodial services which include being global custodian of such of the investments and property of the Company of a type agreed with the Custodian and which the Company deposits with the Custodian (“Property”), the safekeeping of such property for the Company and the settlement of transactions relating to such property. Under the Custody Agreement, a fee is payable to the Custodian of 0.03 per cent. of the assets of the Company held by the Custodian subject to a minimum annual charge of £5,000. In addition to this fee, the Company will reimburse the Custodian for reasonable out of pocket expenses incurred for the benefit of the Company.

The Custody Agreement may be terminated upon at least 90 days’ written notice by either party to the other and immediately by either party if, inter alia, the Custodian ceases to be a holder of a licence under the Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended, the other party goes into liquidation or the other party commits a material breach of the Custody Agreement and fails (in the case of a breach capable of being remedied) to remedy such breach within 30 days of receiving a written notice requiring it to do so.

Under the terms of the Custody Agreement, the Custodian will not be responsible and will not incur any liability in respect of any loss, damage, cost or expense incurred or suffered by the Company in connection with, including among others, any errors in the giving of authorised instructions, any delay in obtaining clarification of an authorised instruction or any negligence or other failure of the Investment Manager or any clearing house. In addition, the aggregate liability of the Custodian for loss or non-availability of Property is limited for securities or certificates to their market value and for currency to its face value. The Custodian will not be responsible for or incur any liability for any indirect or consequential loss. The Company has agreed to indemnify the Custodian, any sub-custodian or any of their respective agents or nominees against all costs, charges, expenses, damages, liabilities, losses, penalties and claims incurred or suffered by the Custodian, any sub-custodian or any of their respective agents or nominees in the lawful and proper exercise of its duties under the Custody Agreement.

The Custody Agreement is governed by Guernsey law.

#### 7.6 Lock-in Arrangements

Each of the Directors, the Investment Manager and each partner, director or employee of the Investment Manager have entered into lock-in arrangements with Arbuthnot as follows:

Each of the Directors, the Investment Manager and each partner, director or employee of the Investment Manager have agreed, save for certain exempted transactions including the acceptance of a general offer for the Ordinary Shares made in accordance with the City Code and the provision of an irrevocable undertaking to accept such an offer, for a period of 12 months from Admission not to offer, pledge, sell, contract to sell or pledge, issue options, rights or warrants in respect of or otherwise dispose of, directly or indirectly any Ordinary Shares or any securities of the Company that are substantially similar to the Ordinary Shares, including but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, Ordinary Shares or any such substantially similar securities, or do anything with the same economic effect as any of the foregoing, without the prior written consent of Arbuthnot Securities.

#### 7.7 The Nominated Adviser and Broker Agreement

The Company is party to the Nominated Adviser and Broker Agreement with Arbuthnot Securities dated 6 April 2006, pursuant to which the Company has appointed Arbuthnot Securities as the nominated adviser and broker to the Company for the purposes of the AIM Rules. The agreement contains certain undertakings by the Company and an annual fee payable quarterly in advance (subject

to annual review) of £25,000 (plus expenses and VAT where applicable) payable to Arbuthnot Securities for its services.

Pursuant to the Nominated Adviser and Broker Agreement, the Company has agreed for a period of six months from Admission not to, and to procure that no member of its Group will, issue, offer, pledge, sell, issue or grant options, rights or warrants in respect of, contract to issue, pledge or sell, or otherwise dispose of, directly or indirectly, any Ordinary Shares or any securities of the Company that are substantially similar to the Ordinary Shares, including but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, Ordinary Shares or any such substantially similar securities or do anything with the same economic effect as any of the foregoing, without the prior written consent of Arbuthnot Securities.

The Company has agreed to indemnify and hold harmless Arbuthnot Securities, for its own account and as trustee for its connected persons, from and against any losses, claims, demands, damages, costs, charges, expenses or liabilities which the indemnified person may suffer relating to or arising directly out of Arbuthnot Securities' provision of services or breach by the Company of its obligations under the terms of the Nominated Adviser and Broker Agreement.

The Company will not, however, be responsible for any losses, claims, demands, damages, costs, charges, expenses or liabilities incurred by the indemnified party to the extent that they result from actions taken or omitted to be taken by that indemnified person that is finally judicially determined to be in bad faith or to arise from negligence of that indemnified person or to arise from a material breach of the agreement.

#### 7.8 Sponsor Agreement

The Company is party to an engagement letter with Ogier Corporate Finance Limited dated 6 April 2006, pursuant to which the Company has appointed Ogier Corporate Finance Limited as its sponsor to the Channel Islands Stock Exchange.

The Company has agreed to indemnify and hold harmless Ogier Corporate Finance Limited, for its own account and as trustee for its connected persons (each an "indemnified party"), from and against any losses, claims, demands, damages, costs, charges, expenses, fines or liabilities which the indemnified party may suffer incur or which may be made against the indemnified party relating to or arising directly or indirectly out of Ogier Corporate Finance Limited's provision of services under the engagement letter or which otherwise results directly or indirectly from the publication of any Prospectus, circular, or other document or announcement by the Company (or any employee, director or agent of the Company).

The Company will not, however, be responsible for any losses, claims, demands, damages, costs, charges, expenses, or liabilities incurred by an indemnified party to the extent that they result from actions taken or omitted to be taken by that indemnified party in bad faith or arising directly from the negligence, wilful default or fraud of that indemnified party.

The agreement contains certain undertakings by the Company and a fee of up to £10,000 payable to Ogier Corporate Finance Limited for its services.

### 8. Litigation

The Company is not, nor has it been since its incorporation, involved in any governmental, legal or arbitration proceedings nor, so far as the Company is aware, are there any governmental, legal or arbitration proceedings, pending or threatened by or against, the Company which may have or have had since the Company's incorporation a significant effect on the Company's financial position or profitability.

### 9. Significant Change

There has been no significant change in the financial or trading position of the Company since its incorporation. The Company has not commenced operations and has prepared no financial statements since incorporation.

### 10. City Code on Takeovers and Mergers

The City Code on Takeovers and Mergers (the "City Code") has not, and does not seek to have, the force of law. It has, however, been acknowledged by both the UK government and other UK regulatory authorities that those who seek to take advantage of the securities markets in the UK should conduct themselves in matters relating to takeovers in accordance with best business standards and so according to the City Code.

The City Code is issued and administered by the Panel. It applies to all takeover and merger transactions, however effected, where the offeree company is, *inter alia*, a listed or unlisted public company considered by the Panel resident in the UK, the Isle of Man or the Channel Islands and to certain categories of private limited companies.

Under Rule 9 of the City Code, any person who acquires shares which, when taken together with shares already held or acquired by persons acting in concert with that person, carry 30 per cent. or more of the voting rights of a company to which the City Code applies, or any person who, together with persons acting in concert with that person, holds not less than 30 per cent. but not more than 50 per cent. of the voting rights of such a company and acquires additional shares is normally required by the Panel to make a general offer to shareholders of that company to acquire their shares. An offer under Rule 9 must be in cash and at the highest price paid within the preceding 12 months for any shares in the company by the person required to make the offer or any persons acting in concert with him.

## **11. Other Information**

- 11.1 No person has been authorised to give any information or to make any representations other than those contained in this document, and, if given or made, such information or representations must not be relied upon as having been authorised by the Company, the Directors or Arbutnot Securities. This document does not constitute an offer to sell or the solicitation of an offer to buy any securities in any circumstances in which such offer or solicitation is unlawful.
- 11.2 The Company does not have and does not expect that it will have, nor has it had since its incorporation, any employees and it neither owns nor occupies any premises.
- 11.3 The Company has not issued any debt securities, granted any guarantees or contingent liabilities, entered into any terms loans, nor are there any other borrowings or indebtedness.
- 11.4 The accounting reference date of the Company is 30 June.
- 11.5 The total costs and expenses relating to the Offer and Admission, payable by the Company, are estimated to amount to approximately €2.5 million (excluding VAT). The net proceeds of the Offer will be €97.5 million.
- 11.6 The Ordinary Shares are not currently admitted to dealings on a recognised investment exchange and, other than the Company's application for the Ordinary Shares to be admitted to trading on AIM and to the official list of CISX, no applications for such admission have been made.
- 11.7 No person (excluding professional advisers otherwise disclosed in this document and trade suppliers) has received, directly or indirectly, from the Company within the 12 months preceding the date of application for Admission, or entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Admission: fees totaling £10,000 or more; securities in the Company with a value of £10,000 or more calculated by reference to the Issue Price; or any other benefit with a value of £10,000 or more as at the date of Admission.
- 11.8 Chandlers and Mazars LLP have been the joint auditors of the Company since incorporation.
- 11.9 The ISIN Number for the Ordinary Shares is GB00B0ZZ4X05 and the AIM Symbol is EET.
- 11.10 The net proceeds of the Issue must be at least €30 million for the Issue to proceed.

## **12. Documents on Display**

Copies of the following documents will be available for inspection during normal business hours on any week day (Saturdays, Sundays and public holidays excepted) at the Company's registered office and at the offices of Arbutnot Securities, the Registrar and the UK Transfer Agent from the date of this document for a period of one month after Admission:

- 12.1 the memorandum and articles of association of the Company;
- 12.2 the letters of appointment referred to in paragraph 3.5 of Part VIII of this document;
- 12.3 the material contracts referred to in paragraph 7 of Part VIII of this document; and
- 12.4 this document.

The statutory records of the Company are kept at the registered office of the Company.

6 April 2006

## GLOSSARY AND DEFINITIONS

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

“ABS”	asset-backed securities which are debt securities which have their interest and principal repayments sourced principally from a generic group of income producing assets
“Administration Agreement”	the administration agreement, dated 6 April 2006, between the Company and the Administrator, details of which are set out in paragraph 7.3 of Part VIII of this document
“Administrator”	Anson Fund Managers Limited
“Admission”	the admission of the entire issued share capital of the Company issued and to be issued pursuant to the Issue to trading on AIM becoming effective in accordance with the AIM Rules and to the official list of the CISX in accordance with the listing rules of the CISX
“AIM”	AIM, a market operated by the London Stock Exchange
“AIM Rules”	the rules of AIM as set out in the publication entitled “AIM Rules for Companies” published by the London Stock Exchange from time to time
“Arbuthnot Securities”	Arbuthnot Securities Limited, the Company’s nominated adviser and broker
“Articles”	the articles of association of the Company
“Basel II”	a new framework published by The Basel Committee on Banking Supervision on 26 June 2004 under the title “ <i>Basel II: International Convergence of Capital Measurement and Capital Standards: a Revised Framework</i> ”
“Board”	the board of directors of the Company or the Directors present at a duly convened meeting of the Directors at which a quorum is present, including any duly constituted committee
“CBO”	collateralised bond obligation
“CDO”	collateralised debt obligation, which is a debt obligation issued in multiple classes secured by an underlying portfolio of investments
“CISX”	the Channel Islands Stock Exchange, LBG
“City Code”	the City Code on Takeovers and Mergers
“CLO”	collateralised loan obligation
“CMBS”	commercial mortgage-backed securities, being interests in or obligations secured by a commercial mortgage loan or a pool of commercial mortgage loans
“Combined Code”	the Combined Code (Principles of Good Governance and the Code of Best Practice) as set out in the Listing Rules of the UKLA
“Companies Law”	Companies (Guernsey) Law 1994 (as amended)
“Company”	European Equity Tranche Income Limited
“Continental Europe”	means Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, The Netherlands, Norway, Portugal, Spain and Sweden
“CREST”	the computerised settlement system (as defined in the CREST Regulations) operated by CRESTCo which facilitates the transfer of title to shares in uncertificated form
“CRESTCo”	CRESTCo Limited

<i>“CREST Regulations”</i>	the Uncertificated Securities Regulations 2001 (SI 2001/3755)
<i>“Custody Agreement”</i>	the custody agreement, dated 6 April 2006, between the Company and the Custodian, details of which are set out in paragraph 7.5 of Part VIII of this document
<i>“Custodian”</i>	RBSI Trustee Services (Guernsey) Limited
<i>“Directors”</i>	the directors of the Company, whose names are set out on page 81 of this document
<i>“Euro” or “€”</i>	the lawful single currency of member states of the European Communities that adopt or have adopted the Euro as their currency in accordance with the legislation of the European Union relating to European Monetary Union
<i>“FSA”</i>	the Financial Services Authority
<i>“FSMA”</i>	Financial Services and Markets Act 2000, as amended
<i>“GBP” or “Pound Sterling”</i>	the lawful currency of the United Kingdom
<i>“Initial Net Asset Value”</i>	the Net Asset Value of the Company immediately following Admission
<i>“Internal Rate of Return”</i>	the discount or interest rate at which the net present value of an investment is equal to zero. Represents the average rate earned by each and every unit of currency invested during the period
<i>“Investment Manager” or “Ocean Capital”</i>	Ocean Capital Associates LLP
<i>“Investment Management Team”</i>	as at the date of this document is comprised of Dr. Shamil Chandaria, Tanguy Boulet, Edouard Bridel, Pedro Errazuriz and Hadrien Carré
<i>“Investment Management Agreement”</i>	the investment management agreement, dated 6 April 2006, between the Company and the Investment Manager, details of which are set out in paragraph 7.2 of Part VIII of this document
<i>“Investor”</i>	a subscriber of Ordinary Shares pursuant to the Issue
<i>“ISA”</i>	individual savings account
<i>“Issue”</i>	the Placing and the Offer for Subscription
<i>“Issue Price”</i>	€1.00 per Ordinary Share
<i>“Laws”</i>	means every Act, Order in Council, Ordinance or Statutory Instrument for the time being in force concerning companies registered in Guernsey and affecting the Company (including, for the avoidance of doubt, the Companies Law), in each case as amended, extended or replaced and any ordinance, statutory instrument or regulation made thereunder
<i>“London Stock Exchange”</i>	The London Stock Exchange plc
<i>“LTV”</i>	the loan-to-value ratio, corresponding to the principal amount of the loans relative to the value of the collateral
<i>“Management Fee”</i>	the management fee payable by the Company to the Investment Manager in accordance with the terms of the Investment Management Agreement
<i>“Net Asset Value”</i>	the value of the Company’s assets minus the value of the Company’s liabilities determined in accordance with the Company’s accounting policies from time to time
<i>“Nominated Adviser and Broker Agreement”</i>	the nominated adviser and broker agreement dated 6 April 2006 between the Company and Arbuthnot Securities details of which are set out in paragraph 7.7 of Part VIII of this document

<i>“Offer for Subscription”</i>	the offer for subscription to the public in the UK of Ordinary Shares on the terms and subject to the conditions of this document and the Application Form
<i>“Official List”</i>	the Official List of the UKLA
<i>“Ordinary Shares”</i>	Ordinary Shares of no par value each in the capital of the Company
<i>“Originator”</i>	a corporate, financial institution or public entity offering debt subject to securitisation
<i>“Panel”</i>	The Panel on Takeovers and Mergers
<i>“PEP”</i>	personal equity plan
<i>“Placing”</i>	the placing of Ordinary Shares to clients of Arbuthnot Securities pursuant to the terms of the Placing Agreement as described in this document
<i>“Placing Agreement”</i>	the placing agreement between the Company, the Investment Manager and Arbuthnot Securities, relating to the Issue, details of which are set out in paragraph 7.1 of Part VIII of this document
<i>“Prospectus Directive”</i>	Directive 2003/71/EC and any relevant implementing measure in each relevant member state
<i>“Rated”</i>	credit rating as determined by an internationally recognised rating agency
<i>“Registrar”</i>	Anson Registrars Limited
<i>“Registrar Agreement”</i>	the registrar agreement dated 6 April 2006 between the Company and the Registrar further details of which are set out at paragraph 7.4 of Part VIII of this document
<i>“relevant implementation date”</i>	the date on which the Prospectus Directive is implemented in a relevant member state
<i>“relevant member state”</i>	any member state of the European Economic Area which has implemented the Prospectus Directive
<i>“RMBS”</i>	residential mortgage-backed securities, being interests in or obligations secured by pools of residential mortgage loans
<i>“SDRT”</i>	stamp duty reserve tax
<i>“Servicer”</i>	the entity that manages the underlying ABS
<i>“Shareholders”</i>	holders of Ordinary Shares
<i>“SIPP” or “Self Invested Personal Pension Scheme”</i>	a self invested personal pension scheme as defined in Regulation 3 of the Retirement Benefits Schemes (Restriction on Discretion to Approve) (Permitted Investments) Regulations 2001
<i>“Sponsor Agreement”</i>	the sponsor agreement dated 6 April 2006 between the Company and Ogier Corporate Finance Limited further details of which are set out at paragraph 7.8 of Part VIII of this document
<i>“SPV”</i>	special purpose vehicle
<i>“SSAS” or “Small Self Administered Scheme”</i>	a small self administered scheme as defined in Regulation 2 of the Retirement Benefits Schemes (Restriction on Discretion to Approve) (Small Self Administered Schemes) Regulation 1991
<i>“UK” or “United Kingdom”</i>	United Kingdom of Great Britain and Northern Ireland
<i>“\$” or “US\$” or “US dollars”</i>	the lawful currency of the United States
<i>“US GAAP”</i>	Generally Accepted Accounting Principles in the United States
<i>“US” or “United States”</i>	the United States of America

## DIRECTORS, SECRETARY AND ADVISERS

### Directors

Anthony Robin Dominic Monro-Davies (*Chairman*)  
Leslie David Goodman  
John Reginald Le Prevost  
Francoise Adeline Henry  
Tanguy Patrice Marie Dominique Boullet  
Juan de Dios Sanchez-Roselly Moreno

All of:

### Registered office and telephone number of the Company

Anson House  
St George's Place  
St George's Esplanade  
St Peter Port  
Guernsey GY1 2BE

Tel: 01481 722 260  
Fax: 01481 729 829

### Administrator and Company Secretary

Anson Fund Managers Limited  
PO Box 405  
Anson House  
St George's Place  
St George's Esplanade  
St Peter Port  
Guernsey GY1 3GF

### Investment Manager and telephone number

Ocean Capital Associates LLP  
47 Curzon Street  
London W1J 7UJ

Tel: 020 7307 0880

### Nominated Adviser and Broker

Arbuthnot Securities Limited  
Arbuthnot House  
20 Ropemaker Street  
London EC2Y 9AR

### Legal Advisers to the Company as to English law

McDermott Will & Emery UK LLP  
7 Bishopsgate  
London EC2N 3AR

### Legal Advisers to the Company and the Investment Manager as to Guernsey law

Ogier  
Coutts House  
Le Truchot  
St Peter Port  
Guernsey GY1 1WD

### Legal Advisers to the Investment Manager as to English Law

Mayer, Brown, Rowe & Maw LLP  
11 Pilgrim Street  
London EC4V 6RW

<b>Legal Advisers to the Nominated Adviser and Broker as to English Law</b>	Dechert LLP 160 Queen Victoria Street London EC4V 4QQ	
<b>Reporting Accountants</b>	Mazars LLP 24 Bevis Marks London EC3A 7NR	
<b>Joint Auditors</b>	Mazars LLP 24 Bevis Marks London EC3A 7NR	
	Chandlers Limited PO Box 313 Anson Court La Route des Camps St Martin Guernsey GY1 3TF	
<b>Sponsor to CISX Listing</b>	Ogier Corporate Finance Limited Whiteley Chambers Don Street St Helier Jersey JE4 9WG	
<b>Principal Bankers</b>	Royal Bank of Scotland International Limited Guernsey Branch PO Box 62 Royal Bank Place 1 Glategny Esplanade St Peter Port Guernsey GY1 4BQ	
<b>Registrar, Transfer Agent, Paying Agent and Receiving Agent</b>	Anson Registrars Limited PO Box 426 Anson House St George's Place St George's Esplanade St Peter Port Guernsey GY1 3WX	
<b>UK Transfer Agent and Paying Agents</b>	Anson Administration (UK) Limited Enterprise House Ocean Village Southampton Hampshire SO14 3XB England	
<b>Custodian</b>	RBSI Trustee Services (Guernsey) Limited PO Box 62 Royal Bank Place 1 Glateany Esplanade St Peter Port Guernsey GY1 4BQ	

## NOTES ON HOW TO COMPLETE THE APPLICATION FORM

Applications should be returned so as to be received by 12.00 noon on 18 April 2006.

**HELP DESK:** If you have a query concerning completion of this Application Form please call Anson Registrars Limited's Help Desk on 01481 722260/711301 or from outside the UK and the Channel Islands +44 1481 722260/711301. Please note that no investment advice can be given.

### Applicant's reference number and confirmations

To facilitate application enquiries, applicants should select and insert their unique Applicant's Reference Number of up to 12 numbers in the box at the top of the first page of the application form. We suggest this might be the direct telephone number of the person completing the form. If you wish to obtain confirmation that your application has been received, call Anson Registrars Limited's Help Desk on the number shown above, quoting your unique Applicant's Reference Number. No other acknowledgement of receipt of this application form will be issued. No contract note will be issued. Where the Ordinary Shares are to be issued in certificated form, the certificate will be sent by post to the first named holder specified at section 2A at the holder's risk.

### 1. Application

Fill in (in figures) in Box 1 the amount of money being subscribed for Ordinary Shares. The amount being subscribed must be for a minimum of €10,000.

### 2A. Holder Details

Fill in (in block capitals) the full name and address of each holder, which must be a legal entity. In the case of joint holders only the first named may bear a designation reference, which may be up to 8 characters in length. A maximum of four joint holders is permitted.

All holders named must sign the Application Form at section 3.

### 2B. CREST

If you wish your Ordinary Shares to be deposited in a CREST Account, enter in section 2B the details of that CREST Account, the Participant's name of which must be the same as the name(s) of the holder(s) shown in section 2A. If the names are not the same, your Ordinary Shares will not be deposited in the CREST Account and you will instead be issued Ordinary Shares in certificated form. In the case of joint holders, your share certificate will be sent to the first named holder in the Application Form.

Where it is requested that Ordinary Shares be deposited into a CREST Account please note that payment for such Ordinary Shares must be made prior to the day such Ordinary Shares might be allotted and issued. It is not possible for an applicant under the Offer for Subscription to request that Ordinary Shares be deposited in their CREST Account on an against payment basis. Any Application Form received containing such a request will be rejected.

### 3. Signature

**All holders named in section 2A must sign section 3 and insert the date.**

The Application Form must be signed by each holder. Persons signing on behalf of a holder by an attorney or other agent must produce documented evidence of their authority to so sign.

A corporation should sign under the hand of a duly authorised official whose representative capacity should be stated.

### 4. Cheque/Banker's Draft, Payment Details

Payment may be made by a cheque or banker's draft accompanying your application or by interbank electronic transfer (SWIFT).

If payment is by cheque or banker's draft such payment must accompany your Application Form and be for the exact amount shown in Box 1 in section 1 of your Application Form.

Your cheque or banker's draft must be made payable to Anson Registrars Limited No. 1 Acceptance Account re EETI and crossed "A/C Payee".

If you use a banker's draft or a building society cheque you should ensure that the bank or building society issuing the payment enters the name, address and account number of the person whose account is being debited on the reverse of the banker's draft or cheque and adds its stamp.

Your cheque or banker's draft must be drawn in Euros on an account at a branch of a domestic clearing bank in an EU member state which has adopted the Euro as its currency.

Where an application is accompanied by a cheque or banker's draft drawn by someone other than the holder(s), any monies returned will be sent by the Escrow Agent to the account on which the cheque or payment was drawn.

For applicants sending subscription monies by electronic bank transfer (SWIFT), payment must be made for value by 12.00 noon on 18 April 2006 to re Barclays Bank Ireland plc, Dublin branch for the account of Anson Registrars Limited No. 1 Acceptance Account re EETI account number 42576105 IBAN: IE22 BARC 99021242576105. Details of the bank being instructed to make such electronic transfer must be entered in the boxes provided at section 4 of the Application Form.

Your payment must relate solely to this application. No receipt will be issued.

## 5. Contact Details

To ensure the efficient and timely processing of your Application Form, please provide contact details of a person Anson Registrars may contact with all enquiries concerning your application. If no details are provided here, any delay in obtaining any additional information required may result in your application being rejected or revoked.

## 6. Reliable Introducer Declaration

Applications with a value greater than €15,000 will be subject to Guernsey's verification of identity requirements. This will involve you providing the verification of identity documents listed in section 7 of the Application Form UNLESS you can have the declaration provided at section 6 of the Application Form given and signed by a firm acceptable to Anson Registrars.

Section 6 of the Application Form details those firms acceptable to Anson Registrars for signing the declaration.

In order to ensure your application is processed timely and efficiently **all applicants are strongly advised to have the declaration provided in section 6 of the Application Form completed and signed by a suitable firm.**

## 7. Identity Information

Applicants need only consider section 7 of the Application Form if the declaration in section 6 cannot be completed.

Notwithstanding that the declaration in section 6 has been completed and signed Anson Registrars reserves the right to request of you the identity documents listed in section 7 and/or to seek verification of identity of each holder and payor (if necessary) from you or their bankers or from another reputable institution, agency or professional adviser in the applicable country of residence.

If satisfactory evidence of identity has not been obtained within a reasonable time your application might be rejected or revoked.

Where certified copies of documents are requested in section 7, such copy documents should be certified by a senior signatory of a firm which is either a governmental approved bank, stockbroker or investment firm, financial services firm or an established law firm or accountancy firm which is itself subject to regulation in the conduct of its business in its own country of operation **and the name of the firm should be clearly identified on each document certified.**

## INSTRUCTIONS FOR DELIVERY OF COMPLETED APPLICATION FORMS

**Completed Application Forms should be returned**, by post or by hand, to Anson Registrars, New Issues Department, PO Box 426, Anson House, St George's Place, St George's Esplanade, St Peter Port, Guernsey, Channel Islands, GY1 3WX **so as to be received by no later than 12.00 noon on 18 April 2006**, together in each case with payment in full in respect of the application. If you post your Application Form, you are recommended to use first class post and to allow at least two days for delivery. Application Forms received after this date may be returned.

Applicant's Reference Number:

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**APPLICATION FORM**

Please send the completed form by post or by hand to Anson Registrars Limited, New Issues Department, P.O. Box 426, Anson House, St George's Place, St George's Esplanade, St Peter Port, Guernsey, Channel Islands, GY1 3WX, so as to be received no later than 12.00 noon on 18 April 2006.

**Important — before completing this form, you should read the accompanying notes.**

**TO: European Equity Tranche Income Limited (the "Company") and Anson Registrars Limited**

**1. APPLICATION**

I/We the person(s) detailed in section 3A below offer to subscribe the amount shown in Box 1 for Ordinary Shares subject to the Terms and Conditions set out in Part V of the Prospectus dated 6 April 2006 (a copy of which we confirm having read and fully understood) and subject to the Memorandum and Articles of Association of the Company.

Box 1 (minimum of €10,000  €
------------------------------------

**2A. DETAILS OF HOLDER(S) IN WHOSE NAME(S) ORDINARY SHARES WILL BE ISSUED (BLOCK CAPITALS)**

1. Mr, Mrs, Miss or Title	Forenames (in full)																			
Surname/Company name:																				
Address (in full):																				
Post Code:	Designation (if any):																			
2. Mr, Mrs, Miss or Title	Forenames (in full)																			
Surname/Company name:																				
Address (in full):																				
															Post Code					
3. Mr, Mrs, Miss or Title	Forenames (in full)																			
Surname/Company name:																				
Address (in full):																				
															Post Code					
4. Mr, Mrs, Miss or Title	Forenames (in full)																			
Surname/Company name:																				
Address (in full):																				
															Post Code					

**2B. HOLDER CREST DETAILS** — Only complete this section if Shares allotted are to be deposited in a CREST Account. The Participant's registered name for the CREST Account must be the same as the registered name of the holder(s) given in section 2A. If the names are not the same, I/we agree that the Shares may be issued to me/us in certificated form.

CREST Participant ID:																			
CREST Member Account ID:																			



### 3. SIGNATURE(S) — ALL HOLDERS MUST SIGN

First holder signature:	Second holder signature:
Third holder signature:	Fourth holder signature:
Dated: 2006	

### 4. CHEQUE/BANKER'S DRAFT DETAILS

Pin or staple to this form your cheque or banker's draft for the exact amount shown in box 1 at section 1 made payable to "Anson Registrars Limited No 1 Acceptance Account re EETI" and crossed "A/C Payee". Cheques and banker's payments must be drawn in Euros on an account at a branch of a domestic Clearing Bank in an EU member state which has adopted the Euro as its currency.

For applicants sending subscription monies by electronic bank transfer (SWIFT) pay to re Barclays Bank Ireland plc, Dublin branch IBAN: IE22 BARC 99021242576105 for the account of Anson Registrars Limited No 1 Acceptance Account re: EETI, account number 42576105 and enter below the IBAN number of the bank and branch you will be instructing to make such payment for value by 12.00 noon on 18 April 2006 together with the name and number of the account to be debited with such payment and the branch contact details.

IBAN number:	Account name:
Account number:	Contact name at branch and telephone no:

### 5. CONTACT DETAILS

To ensure the efficient and timely processing of this application please enter below the contact details of a person Anson Registrars may contact with all enquiries concerning this application. If no details are provided here, any delay in obtaining any additional information required may result in your application being rejected or revoked.

Contact name:	Telephone no:
Contact address:	Fax no: E-mail address:

**6. RELIABLE INTRODUCER DECLARATION**

Completion and signing of this declaration by a suitable person or institution may avoid presentation being requested of the identity documents detailed in section 7 of this form.

The declaration below may only be signed by a person or institution (such as a governmental approved bank, stockbroker or investment firm, financial services firm or an established law firm or accountancy firm) (the “firm”) which is itself subject in its own country to operation of “know your customer” and anti-money laundering regulations no less stringent than those which prevail in Guernsey. Acceptable countries include Austria, Belgium, Canada, Denmark, Finland, France, Germany, Gibraltar, Greece, Hong Kong, Iceland, Ireland, Isle of Man, Italy, Japan, Jersey, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Singapore, South Africa, Spain, Sweden, Switzerland, the United Kingdom and the United States of America.

**DECLARATION:** To the Company and Anson Registrars

With reference to the holder(s) detailed in section 2A, all persons signing at section 3 and the payor identified in section 4 if not also a holder (collectively the “subjects”) WE HEREBY DECLARE:

1. we operate in one of the above mentioned countries and our firm is subject to money laundering regulations under the laws of that country which, to the best of our knowledge, are no less stringent than those which prevail in Guernsey;
2. we are regulated in the conduct of our business and in the prevention of money laundering by the regulatory authority identified below;
3. each of the subjects are known to us in a business capacity and we hold valid identity documentation on each of them and we undertake to immediately provide to you copies thereof on demand;
4. we confirm the accuracy of the names and residential/business address(es) of the holder(s) given at section 2A and if a CREST Account is cited at section 2B that the owner thereof is named in section 2A;
5. having regard to all local money laundering regulations we are, after enquiry, satisfied as to the source and legitimacy of the monies being used to subscribe for the Shares mentioned; and
6. where the payor and holder(s) are different persons we are satisfied as to the relationship between them and reason for the payor being different to the holder(s).

The above information is given in strict confidence for your own use only and without any guarantee, responsibility or liability on the part of this firm or its officials.

SIGNED.....  
by

Name: .....

Position: .....

having authority to bind the firm

Stamp of firm giving full name and business address:
Telephone number:

Name of regulatory authority:
Firm’s licence no:
Website address or telephone number of regulatory authority:



**7. IDENTITY INFORMATION**

**Only complete this section if the declaration in section 6 cannot be signed.**

In accordance with internationally recognised standards for the prevention of money laundering the undermentioned documents and information must be provided.

**Tick here for documents provided=**

		Payor				
Holder						
A.	For each holder being an individual enclose:					
(1)	a certified clear photocopy of one of the following identification documents which bear both a photograph and the signature of the person: current passport — Government or Armed Forces identity card — driving license; and					
(2)	certified copies of at least two of the following documents which purport to confirm that the address given in section 2A is that person’s residential address: a recent gas, electricity, water or telephone (not mobile) bill — a recent bank statement — a council rates bill — or similar document issued by a recognised authority; and					
(3)	if none of the above documents show their date and place of birth, enclose a note of such information; and					
(4)	details of the name and address of their personal bankers from which Anson Registrars may request a reference, if necessary.					
B.	For each holder being a company (a “holder company”) enclose:					
(1)	a certified copy of the certificate of incorporation of the holder company; and					
(2)	the name and address of the holder company’s principal bankers from which Anson Registrars may request a reference, if necessary; and					
(3)	a statement as to the nature of the holder company’s business, signed by a director; and					
(4)	a list of the names and residential addresses of each director of the holder company; and					
(5)	for each director provide documents and information similar to that mentioned in A above; and					
(6)	a copy of the authorised signatory list for the holder company; and					
(7)	a list of the names and residential/registered addresses of each ultimate beneficial owner interested in more than 5 per cent. of the issued share capital of the holder company and, where a person is named, also complete C below and, if another company is named (hereinafter a “beneficiary company”), also complete D below. If the beneficial owner(s) named do not directly own the holder company but do so indirectly via nominee(s) or intermediary entities, provide details of the relationship between the beneficial owner(s) and the holder company.					
C.	For each person named in B(7) as a beneficial owner of a holder company enclose for each such person documents and information similar to that mentioned in A(1) to (4).					
D.	For each beneficiary company named in B(7) as a beneficial owner of a holder company enclose:					
(1)	a certified copy of the certificate of incorporation of that beneficiary company;					
(2)	a statement as to the nature of that beneficiary company’s business signed by a director;					
(3)	the name and address of that beneficiary company’s principal bankers from which Anson Registrars may request a reference, if necessary; and					
(4)	enclose a list of the names and residential/registered address of each beneficial owner owning more than 5 per cent. of the issued share capital of that beneficiary company.					
E.	If the payor is not a holder and is not a bank providing its own cheque or banker’s payment on the reverse of which is shown details of the account being debited with such payment (see note 5 on how to complete this form) enclose:					
(1)	if the payor is a person, for that person the documents mentioned in A(1) to (4); or					
(2)	if the payor is a company, for that person the documents mentioned in B(1) to (7); and					
(3)	an explanation of the relationship between the payor and the holder(s).					

Anson Registrars reserves the right to ask for additional documents and information.

