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A copy of this Prospectus, which comprises a prospectus relating to The Cayenne Trust plc (the "Company") prepared in accordance with the Prospectus Rules and made pursuant to section 73A of FSMA, has been filed with the FSA.

The Directors of the Company, whose names appear on page 13 of this Prospectus, and the Company itself accept responsibility for the information contained in this Prospectus. 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 Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Winterflood Securities Limited, which is authorised and regulated in the United Kingdom by the Financial Services Authority, acting through its division Winterflood Investment Trusts, is acting solely for the Company and for no one else in connection with the Placing or any other matter referred to in this document and will not be responsible to anyone other than the Company for providing the protections afforded to clients of Winterflood Securities Limited or for affording advice in relation to the Placing or any other matter referred to in this document.

The information contained in the Prospectus was obtained from the Company but no assurance can be given by the Trustee as to the accuracy or completeness of such information. The Trustee makes no representation, express or implied, and does not accept any responsibility, with respect to the accuracy or completeness of any of the information contained or incorporated in the Prospectus. The Trustee accepts no liability in relation to the information contained or incorporated by reference in the Prospectus or any other information provided by the Company in connection with the Placing. Neither the Prospectus nor any other information supplied in connection with the Placing or any CULS should be considered as a recommendation by the Trustee that any recipient of the Prospectus or any other information supplied in connection with the Placing or any CULS should invest in any CULS. Each investor contemplating purchasing any CULS should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Company. Neither the Prospectus nor any other information supplied in connection with the Placing constitutes an offer or invitation by or on behalf of the Trustee to any person to subscribe for or to purchase any CULS. The Trustee expressly does not undertake to review the financial condition or affairs of the Company or to advise any investor in the CULS of any information coming to its attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into the Prospectus when deciding whether or not to purchase any CULS, and seek their own independent financial advice.

THE CAYENNE TRUST PLC

*(Incorporated in England and Wales under the Companies Act 1985 with registered number 2774914)
(An investment company under section 833 of the Companies Act 2006)*

PLACING OF UP TO £10 MILLION IN NOMINAL AMOUNT OF 3.25 PER CENT. CONVERTIBLE UNSECURED LOAN STOCK 2016 AT 100P PER £1 NOMINAL UNIT

Financial Adviser and Placing Agent

Winterflood Investment Trusts

Application will be made to the UK Listing Authority for the CULS to be issued pursuant to the Placing to be admitted to the standard listing segment of the Official List and to the London Stock Exchange for the CULS to be admitted to trading on its Main Market, which is a regulated market for the purposes of Directive 2004/39/EC (the "Markets in Financial Instruments Directive"). It is expected that Admission in respect of the CULS will occur, and that dealings in the CULS will commence, at 8.00 a.m. on or around 28 January 2011.

This document does not constitute, and may not be used for the purposes of, any offer or invitation to sell or issue or the solicitation of any offer to purchase or subscribe for the CULS to anyone in any jurisdiction in which such offer, invitation or solicitation is unlawful or to any person to whom it is unlawful to make such offer or invitation or undertake such solicitation. This document is not for distribution in or into the United States, Australia, Canada, Japan, New Zealand or the Republic of South Africa. The CULS and the Ordinary Shares which result from the conversion thereof have not been and will not be registered under the US Securities Act, or under the applicable state securities laws of the United States or under the applicable securities laws of Australia, Canada, Japan, New Zealand or under the Republic of South Africa and, subject to certain exemptions, may not be offered or sold directly or indirectly in or into the United States, Australia, Canada, Japan, New Zealand or the Republic of South Africa or to or for the account or benefit of any US Person, or any person resident in Australia, Canada, Japan, New Zealand or the Republic of South Africa.

In addition, the Company has not been and will not be registered under the Investment Company Act. The distribution of this document and the offering of the CULS in any jurisdiction other than the United Kingdom may be restricted by law and, accordingly, persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with any such restrictions may constitute a violation of the securities laws of the jurisdiction concerned. The Company will not incur any liabilities for its own failure or the failure of any other person or persons to comply with the provisions of any such restrictions. No person receiving a copy of this document in any territory other than the United Kingdom may treat the same as constituting an offer or invitation to him to purchase the CULS. Any person outside the United Kingdom wishing to purchase CULS should satisfy himself that, in doing so, he complies with the laws of any relevant territory, and that he obtains any requisite governmental or other consents and observes any other applicable formalities.

This document is to be read in conjunction with all documents which are deemed to be incorporated by reference and should be read in its entirety before making any investment decision. In particular, the attention of potential investors is drawn to the section headed "Risk Factors" on pages 6 to 9 of this document.

Dated: 25 January 2011

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SUMMARY

This summary should be read as an introduction to the full text of this document. When making any decision to invest in any transferable securities in the Company, Shareholders should consider the full text of this document as a whole and not solely this summarised information. Where a claim relating to the information contained in this document is brought before a court, a plaintiff investor may, under the national legislation of an EEA State, have to bear the costs of translating this document before legal proceedings are initiated. Civil liability attaches to the Company and its Directors 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 the other parts of the Prospectus.

The Company and each of its Directors, whose names appear on page 13 of this document, accept responsibility for the information contained in the Prospectus. To the best of the knowledge of the Company and each of its Directors (who have taken all reasonable care to ensure that such is the case), the information contained in the Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

1. The Company

The Company is a UK investment trust established in 1992.

Since 2006, when Cayenne became investment manager of the Company, the objective of the Company has been to achieve consistent positive absolute returns.

The Articles provide for the Directors to propose an ordinary resolution at the AGM to be held in 2016 and every year thereafter that the Company continues as an investment trust.

2. Summary of investment policy

In order to achieve its investment objective the Company will invest principally in the securities of UK investment trust companies and other closed-ended funds. Up to 15 per cent. of the Company's assets, at the time of investment, may be invested in Apollo, an open-ended offshore fund managed by Cayenne. The Company will seek to ensure preservation of capital by the use of derivative and similar instruments. Please note that this is a summary only and does not represent the definitive text of the investment policy of the Company.

3. Investment approach

The Company invests with the objective of spreading investment risk in accordance with its published investment policy. In seeking to achieve the investment objective, the Manager seeks to invest in securities that it believes to be undervalued; value in this context is relative as well as absolute. Relative value may exist where certain securities appear to be mispriced, compared with other securities that exhibit similar characteristics.

The Manager believes that the sector in which it specialises, namely UK investment trust companies and other closed-ended funds, is subject to pricing inefficiencies. The Manager utilises a quantitative and qualitative screening process to seek to identify value opportunities.

4. Investment opportunity

The Manager believes that the current investment environment for equities is largely positive with accommodative monetary policy and high levels of merger and acquisition activity. In addition, corporate restructuring continues apace. Outsourcing to emerging markets allows for cost reduction in global production which partially offsets pricing pressure from rising commodity costs. However, consumer debt, property price inflation and geopolitical factors remain a threat to global stability.

The investment trust sector is going through a period of evolution with many products being launched which allow access to high quality specialist management. In addition, discounts have narrowed in response to arbitrage activity and the consequent corporate restructuring process. Investment trust boards have become more proactive with the introduction of discount control mechanisms and the requirement for regular manager assessments. The Manager believes that there are still many pricing inefficiencies within the investment trust industry due to over-simplified analysis and lack of quality research, and that, as a result, many undervalued opportunities exist and in-depth analysis of complex structures reveals interesting anomalies.

With this benign investment outlook and the specific opportunities available within the Company's investment sector, the Manager believes that the Company is well positioned to take advantage of continued asset price appreciation. However, the Manager will normally keep in place hedging arrangements with a view to mitigating against potential losses due to any adverse stock market performance.

5. Investment manager

Cayenne, which is authorised and regulated by the FSA in the conduct of its investment business, is an independent fund management company which specialises in the management of funds invested in the securities of investment trusts and other closed-ended funds. Cayenne was established in July 2004. It has managed the Company since February 2006. As at 31 December 2010, Cayenne had total assets under management of £90.3 million.

6. CULS and CULS terms

As at the date of this document, the only gearing in the Company is provided by the CULS. Currently £9,167,100 of the CULS are in issue, and following the Placing, if fully subscribed, £15 million of the CULS will be in issue. Under the terms of the CULS, any CULS not converted into Ordinary Shares will be redeemed by the Company at par on 8 August 2016.

Interest on the CULS is payable by equal quarterly instalments on 30 April, 31 July, 31 October and 31 January in each year. CULS may also be converted quarterly on 30 April, 31 July, 31 October and 31 January in each year.

The Conversion Rate, being the number of Shares into which £100 nominal of CULS will convert, is 67.74.

7. The Placing

The Placing consists of a placing for up to a maximum nominal amount of £10 million of CULS. For the avoidance of doubt, the maximum aggregate amount of CULS in issue will not exceed £15 million. Winterflood Investment Trusts has conditionally placed £5,832,900 nominal of CULS at 100p per £1 nominal unit, which would result in the maximum of £15 million being reached.

The Placing will give the Company access to additional funds. Further, there is potential for the CULS to convert into Ordinary Shares and thereby increase the permanent capital base of the Company over the longer term.

8. Costs

The costs and expenses of the Placing and the admission of the CULS to trading are estimated, assuming the Placing results in a total nominal amount of £15 million of CULS (including the CULS currently outstanding), to be approximately £250,000 which equates to 1.67 per cent. of the nominal amount of the CULS in issue.

9. Proceeds

The Directors intend to invest the net proceeds of the Placing in accordance with the Company's investment objective and policy.

10. Risk Factors

The principal risk factors affecting the Company and the CULS to be issued under the Placing include the risk factors set out below. If any or a combination of these risks occurs, the financial condition, prospects and share price of the Company could be materially and adversely affected and each risk factor should be read accordingly. These risk factors are given for your protection and should be read and carefully noted. They are not set out in any order of importance or priority.

Investment objective and policy

There can be no guarantee that any appreciation in the value of the Company's investments will occur or that the investment objective of the Company will be achieved. The value of an investment in the Company, and the income derived from it, if any, may go down as well as up and an investor may not get back the amount invested.

The Company's investment policy is to use derivatives and similar instruments to hedge against volatility in the NAV per Share. As a consequence of the use of derivative instruments to seek to hedge market risk, the Company's investment policy is likely to give rise to lower volatility in the NAV per Share than would be the case if the Company did not hedge market risk. Prospective investors should be aware that the NAV per Share is unlikely in rising equity markets to be as high as would be the case if the market risk was unhedged, but conversely the NAV per Share in falling equity markets is likely to be higher than would be the case if market risk was unhedged.

The investment approach utilised by the Company seeks to generate returns by investing in securities Cayenne believe to be undervalued. However, there can be no guarantee that the perceived value in the Company's portfolio will be released through a narrowing of discounts on the underlying investments or through relative outperformance by such investments.

CULS

The market value of the CULS will be influenced by a number of factors, including the supply and demand for the CULS, the price, NAV and dividend yield of the Shares into which the CULS is convertible, prevailing interest rates, market conditions and general investor sentiment. There can be no guarantee that the market value of the CULS will fully reflect any value inherent in their convertibility into Shares.

The Trust Deed constituting the CULS does not contain any restriction on borrowings by, the disposal of assets by, charges created by, or changes in the nature of the business of, the Company. In addition, the Trust Deed does not contain any provision giving Stockholders any right to redemption on a take-over of the Company or on a demerger (although in each case Stockholders will have a right in such circumstances to exercise their conversion rights). The CULS are unsecured and the rights and remedies available to the Trustee and Stockholders may be limited by applicable winding-up, insolvency, re-organisation, moratorium or similar provisions relating to or affecting creditors' rights generally.

If the NAV per Ordinary Share, for at least 20 dealing days during any period of 30 consecutive dealing days ending on or after 31 January 2012, is at least 30 per cent. or more above the Conversion Price prevailing at the end of such period, the Company will be able to require Stockholders to exercise or redeem their CULS. In this situation, Stockholders would not be able to hold their CULS until the final maturity date of the CULS of 31 July 2016.

Borrowings

Prospective investors should be aware that, whilst the use of borrowings within the limits prescribed by the Board (including through the CULS) should enhance the NAV per Share where the value of the Company's underlying assets is rising at a rate greater than the interest rate on the borrowings, it will have the opposite effect where the underlying asset value is falling or is rising at a rate lower than the interest rate on the borrowings. This may increase the volatility of the NAV per Share.

Key Individuals

The Company is substantially dependent on the services of the members of the Cayenne management team identified in this document and the loss of their services could have an adverse effect on the Company's performance. The Company has the right, subject to certain conditions, to terminate the Management Agreement in the event that the services of Len Gayler, Cayenne's chief executive, are not available to Cayenne.

RISK FACTORS

In addition to the other information set out in this document, the risks described below should be carefully considered by investors prior to making any investment decision relating to the CULS. The risks set out below are the material risks relating to the Company, an investment in the CULS and the Ordinary Shares which result from the conversion thereof and the material risks of investment in the investment companies sector known to the Company as at the date of this document, but should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. No assurance can be given that investors will realise a profit on their investment. Additional risks and uncertainties which are not presently known to the Directors or that the Directors currently consider to be immaterial, may also have an adverse effect on the Company's business, financial condition, performance, prospects, operating results and/or share price of the Company.

Investors may lose a substantial proportion or even all of their investment in the Company. If investors are in any doubt as to the consequences of their acquiring, holding or exercising of CULS, or whether an investment in the Company is suitable for them in the light of information in, or incorporated by reference into, this document or their personal circumstances including the financial resources available to them, they should consult their stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act or, in the case of investors outside the United Kingdom, another appropriately authorised independent financial adviser.

1. The Company

The Company is an investment trust. Investment trusts aim to generate returns for shareholders by investing in other companies. As an investment trust may invest in a range of different companies and sectors, it may represent a method for investors to gain a diversified investment exposure. However, prospective investors should be aware of certain factors which apply to the Company and to investment trusts generally:

- 1.1 there can be no guarantee that any appreciation in the value of the Company's investments will occur or that the investment objective of the Company will be achieved. The value of an investment in the Company, and the income derived from it, if any, may go down as well as up and an investor may not get back the amount invested;
- 1.2 the investment approach utilised by the Company seeks to generate returns by investing in securities Cayenne believe to be undervalued. However, there can be no guarantee that the perceived value in the Company's portfolio will be released through a narrowing of discounts on the underlying investments or through relative outperformance by such investments;
- 1.3 the Company's investment policy permits the use of derivatives and similar instruments to hedge against volatility in the NAV per Share. As a consequence of the use of derivative instruments to seek to hedge market risk, the Company's investment policy is likely to give rise to lower volatility in the NAV per Share than would be the case if the Company did not hedge market risk. Prospective investors should be aware that the NAV per Share is unlikely in rising equity markets to be as high as would be the case if the market risk was unhedged, but conversely the NAV per Share in falling equity markets is likely to be higher than would be the case if market risk was unhedged; and
- 1.4 in respect of trades in derivative instruments and similar instruments, the Company will be exposed to credit risk on the counterparties with which it trades. The Company will seek to transact only with major established counterparties. The Company will also bear the risk of settlement default by clearing houses and exchanges. Any default by a counterparty or on settlement could have a material adverse effect on the Company.

2. Ordinary Shares

- 2.1 The price of the Shares will be influenced by the interaction of supply and demand in the market as well as the NAV per Share. Irrespective of hedging, the market price of the Shares is therefore likely to fluctuate and may represent either a discount or premium to the NAV per Share. The rating of the Shares is itself variable as conditions for supply and demand change. This means that the Share price may go down as well as up and the Share price can fall when the NAV per Share rises, or vice versa.
- 2.2 The Company's portfolio is construed without reference to any stock market index. It is therefore likely that there will be periods when its performance will be unlike that of any index and there can be no assurance that such divergence will be to the Company's advantage. The Ordinary Shares are an unsuitable investment for those who seek investments that are in some way correlated to a stock market index.
- 2.3 Income return will not be sought by the Company for its own sake and accordingly future dividends payable by the Company are likely to fluctuate. It may not be possible to grow or even to maintain the level of dividend paid on the Shares in future years.
- 2.4 If the NAV per Ordinary Share at the time any CULS is converted is greater than the issue price of the new Ordinary Shares issued as a result of such conversion, then such conversion of CULS will be dilutive to the interests of existing Ordinary Shareholders. However, given the proposed quantum and terms of the issue of the CULS (including the Company's right to compulsorily redeem the CULS), the Company does not believe that the potential dilutive effect of the issue of CULS is material.

3. General Investment Risks

- 3.1 Changes in economic conditions (including, for example, interest rates and rates of inflation), industry conditions, competition, political and diplomatic events and trends and tax laws, environmental laws and other factors can substantially and either adversely or favourably affect the Company's prospects and the value of the Company's investment portfolio.
- 3.2 To the extent that the Company may invest in securities listed on recognised stock exchanges such investments will be subject to normal market fluctuations and the risks inherent in the purchase, holding or selling of securities, and there can be no assurance that appreciation in the value of those investments will occur. Investment in certain asset classes in which the Company may invest may involve a greater degree of risk than that usually associated with investment in equity securities markets.
- 3.3 Investment in higher yielding securities may provide greater total return than investment in higher-rated, interest-bearing securities, but it also entails greater risk. In addition, market prices of higher yielding securities generally fluctuate more than market prices of higher-rated, interest-bearing securities. There is often limited market liquidity in higher yielding securities, which means that it may not be possible to realise such investments quickly and there is no guarantee that such investments can be realised at their stated bid prices.

4. Foreign Exchange Risks

Certain of the Company's investments will be in securities which are not denominated or quoted in Sterling, the base currency of the Company. The movement of exchange rates between Sterling and any other currencies in which the Company's investments are denominated may have a separate effect, unfavourable as well as favourable, on the return otherwise experienced on the investments made by the Company. Any active currency hedging arrangements relating to foreign currency, returns and exposures may or may not have the desired effect.

5. CULS

- 5.1 The market value of the CULS will be influenced by a number of factors, including the supply and demand for the CULS, the price, NAV and dividend yield of the Shares into which the CULS is convertible, prevailing interest rates, market conditions and general investor sentiment. There can be no guarantee that the market value of the CULS will fully reflect any value inherent in their convertibility into Shares.
- 5.2 The nominal amount of the outstanding CULS is unsecured and on a liquidation of the Company the CULS will rank equally with other unsecured creditors of the Company, but ahead of the Ordinary Shares. As at 24 January 2011 (being the latest practicable date prior to the publication of this document), and assuming the Placing is fully subscribed, the total assets of the Company exceed the nominal value of the CULS by 4.9 times.
- 5.3 The Trust Deed constituting the CULS does not contain any restriction on borrowings by, the disposal of assets by, charges created by, or changes in the nature of the business of, the Company. In addition, the Trust Deed does not contain any provision giving Stockholders any right to redemption on a take-over of the Company or on a demerger (although in each case Stockholders will have a right in such circumstances to exercise their conversion rights). The CULS are unsecured and the rights and remedies available to the Trustee and Stockholders may be limited by applicable winding-up, insolvency, re-organisation, moratorium or similar provisions relating to or affecting creditors' rights generally.
- 5.4 The Placing would not result in any initial dilution of the NAV per Ordinary Share. The Placing has the potential, depending on the Company's future performance, to dilute the interests of existing Shareholders. However, given the proposed quantum and terms of the issue of the CULS (including the Company's right to redeem the CULS), the Company does not believe that the potential dilutive effect of the placing of CULS is material.
- 5.5 Market liquidity in the shares of investment trusts is frequently inferior to the market liquidity of shares issued by larger companies traded on the London Stock Exchange. It is intended that the CULS will be traded on the London Stock Exchange's Main Market, but it is possible that there may not be a liquid market in the CULS and investors may have difficulty in selling such securities.

6. Borrowings

Prospective investors should be aware that, whilst the use of borrowings (including through the CULS) should enhance the NAV per Share where the value of the Company's underlying assets is rising at a rate greater than the interest rate on the borrowings, it will have the opposite effect where the underlying asset value is falling or is rising at a rate lower than the interest rate on the borrowings. This may increase the volatility of the NAV per Share.

7. Key Individuals

The Company is substantially dependent on the services of the members of the Cayenne management team identified in this document and the loss of their services could have an adverse effect on the Company's performance. The Company has the right, subject to certain conditions further details of which are set out at paragraph 9.1.1 of Part 5 of this document, to terminate the Management Agreement in the event that the services of Len Gayler, Cayenne's chief executive, are not available to Cayenne.

8. Taxation

- 8.1 In order to qualify as an investment trust, the Company must comply with sections 1158 and 1159 of the CTA 2010. A breach of Section 1158 and/or 1159 of CTA 2010 may cause the Company to lose investment trust status and, as a consequence, any realised capital gains of the Company may be subject to tax.
- 8.2 Any change in the Company's tax status or in taxation legislation (including the tax treatment of dividends or other investment income received by the Company) could affect the value of the investments held by the Company and the Company's ability to provide returns to Shareholders or alter the post-tax returns to Shareholders.

- 8.3 The Company may purchase investments that may be subject to exchange controls or withholding taxes in the relevant jurisdiction. In the event that exchange controls or withholding taxes are imposed with respect to any of the Company's investments, the effect will generally be to reduce the income received by the Company from its investments and/or the capital value of the affected investments. Any change in the capital gains tax regime, operated in the United Kingdom may adversely affect Shareholders upon a disposal of their interest in the Company.
- 8.4 The levels of, and reliefs from, taxation may change. The tax reliefs referred to in this document are those currently available and their value depends on the individual circumstances of investors. Investors should have regard to the information in relation to the terms and conditions of the Placing and the information in relation to taxation set out in Paragraph 11 of Part 5 and should seek their own advice on their tax position.
- 8.5 The levels of, and reliefs from, taxation may change. The tax reliefs referred to in this document are those currently available and their value depends on the individual circumstances of investors.
- 8.6 Investors should take their own tax advice as to the consequences of owning CULS or Shares as well as receiving returns from them. In particular, investors should be aware that ownership of the CULS and or Shares may be treated in different ways in different jurisdictions.

9. Accounts

The Company prepares its accounts in accordance with UK GAAP and the AIC Guidelines. Both UK GAAP and the AIC Guidelines are subject to change and this may have an affect on the Company's calculation of NAV. The Company has a policy of charging 80 per cent. of the periodic management fee and interest on the CULS, and the entirety of any performance fee earned under the terms of the Management Agreement, to capital. Such charges will reduce the NAV per Share. Changes in the Company's accounting policies could adversely affect Shareholders.

10. Legal and Regulatory

The EU Alternative Investment Fund Managers Directive (the "**Directive**") is due to be implemented on 1 January 2013. Investment Companies, including investment trusts, will constitute alternative investment funds for the purposes of the Directive, which will regulate, *inter alia*, the management of the Company by the Manager and marketing of the Company's securities. Requirements of the Directive include increased disclosure obligations on the Company, ensuring that the Company has an appropriately authorised institution acting as its "depository", the requirement to have independent portfolio valuations and ensuring that any delegate of the Manager is agreed to by the FSA. Whilst certain provisions of the Directive may benefit the Company (such as the increased ability to market the Company's securities to professional investors throughout the EU), some of these changes may have significant consequences for the Company (and all similar investment companies) and might materially increase compliance and regulatory costs.

11. General

The past performance of the Company and of investments which are referred to in this document are for illustrative purposes only and should not be interpreted as an indication, or as a guarantee, of future performance.

CHECKLIST OF DOCUMENTATION INCORPORATED BY REFERENCE

The published annual reports and accounts of the Company for the three financial years ended 31 January 2010, and the published unaudited interim reports of the Company for the 6 months ended 31 July 2009 and 31 July 2010, on the pages specified in the table below are incorporated by reference into this document.

Information incorporated by reference

	Document Reference		
	<i>Annual Report and Accounts for Year Ended 31 January</i>		
	<i>2010 Page No(s)</i>	<i>2009 Page No(s)</i>	<i>2008 Page No(s)</i>
Chairman's statement	5	5	5
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		<i>Interim Report for six months ended 31 July</i>	
		<i>2010 Page No(s)</i>	<i>2009 Page No(s)</i>
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Reconciliation of movements in shareholders' funds		8	8
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The documents incorporated by reference can be obtained from the Company's website, www.thecayennetrust.com and as set out in paragraph 16 of Part 5 of this document.

PRESENTATION OF FINANCIAL INFORMATION AND GENERAL INFORMATION

Presentation of Financial Information

Unless otherwise indicated, financial information for the Company in this document has been extracted without material adjustment from the annual report and accounts for year ended 31 January 2010, 31 January 2009 and 31 January 2008 respectively and the interim report and accounts for the 6 month periods to 31 July 2010 and 31 July 2009 respectively, in each case prepared in accordance with UK GAAP. For further information, see “Basis of Accounting” on page 31 of the Company’s Annual Report and Accounts 2010 or “Accounting Policies” on note 1 on page 11 of the interim report and accounts for the 6 month period ended 31 July 2010, in each case, such page being incorporated into this document by reference.

No Profit Forecast

No statement in, or incorporated by reference into, this document is intended to constitute a profit forecast or profit estimate for any period, nor should any statement be interpreted to mean that earnings or earnings per share will necessarily be greater or lesser than those for the relevant preceding financial periods for the Company.

Rounding

Certain figures included in this document and in the information incorporated by reference into this document have been subject to rounding adjustments. Accordingly, discrepancies in tables between the totals and the sums of the relevant amounts may be due to rounding.

Websites

Neither the content of the Company’s website (or any other website) nor the content of any website accessible from hyperlinks on the Company’s website (or any other website) is incorporated into, or forms part of, the Prospectus.

Time

All references in this document to times are to UK time unless otherwise stated.

Forward looking statements

This document includes statements that are, or may be deemed to be, “forward-looking statements”. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “plans”, “projects”, “anticipates”, “expects”, “intends”, “may”, “will”, or “should” or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include matters that are not historical facts and include statements regarding the Company’s intentions, beliefs or current expectations.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that may or may not occur. A number of factors could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements including, without limitation, the facts described in the risk factors section of the document.

Forward-looking statements may and often do differ materially from actual results. Any forward-looking statements in this document reflect the Company’s view with respect to future events as at the date of this document and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Company’s operations and strategy. Save as required by applicable law, or any UK or EU regulatory requirements (including the Prospectus Rules, the Listing Rules and the Disclosure Rules and Transparency Rules) which may oblige the Company to update the information contained in this document the Company is under no obligation publicly to release the results of any revisions to any forward-looking statements in this document that may occur due to any change in its expectations or to reflect events or circumstances after the date of this document.

Notwithstanding the foregoing, nothing contained in this document shall in any way be taken to qualify the working capital statement contained in paragraph 8 of Part 3 of this document.

EXPECTED TIMETABLE

<i>Event</i>	<i>Time and/or Date</i>
	2011
Result of Placing announced	25 January
Admission of the CULS to the Official List and dealings in the CULS commence	8:00 a.m. on 28 January
Settlement of Placing proceeds and CREST accounts credited in respect of CULS issued in uncertificated form	28 January
Certificates despatched in respect of CULS issued in certificated form	week commencing 31 January

DEALING CODES

The dealing codes for the CULS will continue to be as follows:

ISIN: GB00B11H1Q91

Ticker: TCTL

DIRECTORS, SECRETARY, MANAGER AND ADVISERS

Directors

Jonathan Geoffrey William Agnew (*Chairman*)
Christopher Jones
Sir Laurence Henry Philip Magnus

all non-executive and of Springfield Lodge, Colchester Road, Chelmsford, Essex CM2 5PW

Investment Manager

Cayenne Asset Management Limited
23 Buckingham Gate
London SW1E 6LB

Secretary and Registered Office

Phoenix Administration Services Limited
Springfield Lodge
Colchester Road
Chelmsford
Essex CM2 5PW
Telephone number: +44 (0) 1245 398 950

Corporate Broker, Financial Adviser and Placing Agent

Winterflood Investment Trusts
The Atrium Building
Cannon Bridge
25 Dowgate Hill
London EC4R 2GA

Solicitors to the Company

Maclay Murray & Spens LLP
One London Wall
London EC2Y 5AB

Auditors

BDO LLP
55 Baker Street
London W1U 7EU

Registrars

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
West Yorkshire HD8 0GA

Trustee to the CULS

The Law Debenture Trust Corporation p.l.c.
100 Wood Street
London EC2V 7EX

Solicitors to the Trustee

Allen & Overy LLP
One Bishops Square
London E1 6AD

PART 1

INFORMATION ON THE COMPANY

Investment Objective, Policy and Approach

Investment Objective

The Company's investment objective is to achieve consistent positive absolute returns.

Investment Policy

The Company invests principally in the securities of UK investment trust companies and other closed-ended funds. The Company also has the flexibility to invest in listed or unlisted open-ended funds and may invest in any security issued by any exchange traded fund, investment fund, investment company, holding company or similar collective investment scheme. In order to seek to achieve consistent positive absolute returns, the Company may occasionally hold positions in other equities, bonds or money-market instruments.

Up to 15 per cent. of the Company's assets, at the time of investment, may be invested in Apollo. Apollo is an open-ended offshore fund, managed by Cayenne with an investment objective of achieving higher rates of return than can generally be achieved by traditional long term stock market investment by maintaining investments which are thought to be significantly undervalued and are likely to have limited liquidity.

The Company will seek to ensure preservation of capital by the use of derivative and similar instruments to the extent permissible within the regulations governing investment trust companies and the Listing Rules.

In selecting investments, the Manager is not constrained by any limits on geographical or sectoral distribution of investments by the funds in which the Company invests. As a fund of funds the portfolio is diversified through investment in a wide range of asset classes, geographical regions and currencies.

The Company may invest up to 100 per cent. of its assets in equities which are not investment entities, bonds or money market instruments.

Borrowings are restricted to twice the aggregate of the paid up nominal capital plus the capital and revenue reserves of the Company.

Investment Approach

The Company invests with the objective of spreading investment risk in accordance with its published investment policy. In seeking to achieve the investment objective, the Manager seeks to invest in securities that it believes to be undervalued; value in this context is relative as well as absolute. Relative value may exist where certain securities appear to be mispriced, compared with other securities that exhibit similar characteristics.

The Manager believes that the sector in which it specialises, namely UK investment trust companies and other closed-ended funds, is subject to pricing inefficiencies. The Manager utilises a quantitative and qualitative screening process to seek to identify value opportunities.

The Manager utilises an efficient portfolio management strategy through the use of derivative and similar instruments to seek to preserve and minimise the volatility of the Company's capital. This efficient portfolio management strategy typically involves an exposure to Index Put Options and/or Index Futures on major stock market indices with a view to mitigating against absolute falls in the value of the portfolio.

The Company does not conduct any significant trading activity, as required by the regulations governing investment trust companies and the Listing Rules.

Investment Opportunity

The Manager believes that the current investment environment for equities is largely positive with accommodative monetary policy and high levels of merger and acquisition activity. In addition, corporate restructuring continues apace. Outsourcing to the emerging markets allows for cost reduction in global production which partially offsets pricing pressure from rising commodity costs. However, consumer debt, property price inflation and geopolitical instability remain a threat to global stability.

The investment trust sector is going through a period of evolution with many products being launched which allow access to high quality specialist management. In addition, discounts have narrowed in response to arbitrage activity and the consequent corporate restructuring process. Investment trust boards have become more proactive with the introduction of discount control mechanisms and the requirement for regular manager assessments. The Manager believes that there are still many pricing inefficiencies within the investment trust industry due to over-simplified analysis and lack of quality research, and that, as a result, many undervalued opportunities exist and in-depth analysis of complex structures reveals interesting anomalies.

With this benign investment outlook and the specific opportunities available within the Company's investment sector, the Manager believes that the Company is well positioned to take advantage of continued asset price appreciation. However, as set out above, the Manager will normally keep in place hedging arrangements with a view to mitigating against potential losses due to any adverse stock market performance.

Details of the Company's portfolio

As at the date of this document, the Company's portfolio comprised £5.2 million of cash/cash equivalents and a portfolio of 52 investments with an aggregate value, at their closing bid market prices on that date, of £67.7 million. In accordance with the Company's investment policy, the portfolio investments comprised securities issued by UK investment trusts and other closed-ended funds; an investment in Apollo; and derivative and similar instruments including securities representing derivative instruments.

Unless otherwise indicated, the information set out below is unaudited, has been extracted from internal management accounting records maintained by the Administrator on behalf of the Company and is consistent with the Company's accounting policies.

The following table shows the composition of the Company's portfolio as at the date of this document:

	<i>% of the Company's portfolio</i>
UK investment trusts/closed-ended funds	85.7
Apollo	5.5
Derivative and similar instruments	1.1
Cash	7.7
Total	<u>100.0</u>

The following table shows the Company's portfolio by number of investments as at the date of this document:

	<i>% of the Company's portfolio</i>
Ten largest investments	42.7
Next ten investments	28.0
Balance of portfolio	29.3
Total	<u>100.0</u>

The following table shows the estimated geographical distribution of the assets underlying the Company's portfolio as at the date of this document:

<i>Region</i>	<i>% of Company's portfolio</i>
UK	26.6
Asia (including Japan)	24.1
Continental Europe	23.9
North America	9.8
Other	6.2
Cash	9.4
Total	<u>100.0</u>

The Company's exposure to derivative and similar instruments as at the date of this document was in futures and puts on the FTSE 100, Eurostoxx and S&P500 and was equivalent to -40 per cent. of the Company's portfolio, on a delta-adjusted basis. Net gearing was 107 per cent.

As at the date of this document, the Company's largest investments by value which together represented more than 50 per cent. of the unaudited assets of the Company as at that date were as follows:

<i>Investee company</i>	<i>Class of security</i>	<i>Market value, £m</i>	<i>% of Company's portfolio</i>
Electric & General Investment Trust plc	Ordinary shares	4.0	5.8
Apollo Fund plc	Ordinary shares	3.7	5.5
The Law Debenture Corporation plc	Ordinary shares	3.6	5.3
Anglo & Overseas plc	Ordinary shares	3.0	4.5
Gartmore Irish Growth Fund plc	Ordinary shares	2.9	4.3
3i Group plc	Convertible unsecured loan stock	2.5	3.7
British Empire Securities and General Trust plc	Ordinary shares	2.5	3.7
The European Investment Trust plc	Ordinary shares	2.3	3.4
Pantheon International Participations plc	Ordinary shares	2.2	3.3
Treasury China Trust	Ordinary shares	2.1	3.2
Utilico Investments Limited	Ordinary shares	2.1	3.1
F&C Private Equity Trust plc	Ordinary shares	2.1	3.1
Terra Catalyst Fund	Ordinary shares	2.1	3.1
Total		<u>35.1</u>	<u>52.0</u>

The following table shows the composition of the Company's portfolio as at the date of this document:

<i>Currency</i>	<i>% of Company's portfolio</i>
Sterling	94.0
Singapore Dollar	3.2
US Dollar	2.5
Euro	0.4
Total	<u>100.0</u>

The above holdings may not be the same holdings into which the net proceeds of the Placing are invested.

Net Asset Value is currently communicated to the market daily and the Company anticipates continuing with this practice following the Placing. The Company does not anticipate any circumstances in which valuation will be suspended.

Directors

The Board has overall responsibility for the Company's activities, notwithstanding the delegation of the management of the Company's investment portfolio to the Manager and the accounting, taxation, secretarial and administrative functions to the Administrator.

At the date of this document, the Board comprises the following individuals, all of whom are non-executive:

Jonathan Agnew (Chairman)

Age: 69

Experience: Jonathan Agnew is also chairman of Beazley Group plc and Ashmore Global Opportunities Limited and a senior independent director of Rightmove plc. During his career he has been a managing director of Morgan Stanley and group chief executive of Kleinwort Benson. He has also been chairman of Nationwide Building Society, Limit plc, Gerrard Group plc, Henderson Geared Income & Growth Trust plc and LMS Capital plc.

Length of Service: He was appointed a Director and Chairman on 30 January 2006

Other connection with the Manager: None

Shared directorships with any other Directors: None

Christopher Jones

Age: 70

Experience: Christopher Jones MSI has over 30 years' investment experience and was Head of Investments at Merchant Investors Assurance Co Ltd from 1985 until his retirement in December 2003. From 1971 to 1985 he was the Fixed Interest and Money Manager for Property Growth Assurance Co Ltd (a subsidiary of Royal & Sun Alliance Insurance Group plc). He is a non-executive director of Schroder UK Mid and Small Cap Fund plc, Ecofin Water & Power Opportunities plc, EW&PO Finance plc and Montanaro European Smaller Companies Ltd (Dublin registered).

Length of Service: He was appointed a Director on 30 January 2006

Other connection with the Manager: None

Shared directorships with any other Directors: None

Sir Laurence Magnus

Age: 55

Experience: Sir Laurence Magnus is currently Chairman of Lexicon Partners. He has been involved in the corporate advisory business for over 30 years, initially at Samuel Montagu and subsequently at Phoenix Securities, Donaldson Lufkin & Jenrette and Credit Suisse First Boston. He specialises in the financial institutions sector. Sir Laurence is non-executive Chairman of JPMorgan Income & Capital Trust plc. He is a non-executive director of Fidelity Japanese Values plc, Deputy Chairman of the National Trust and an elected member of its Council, Chairman of The Eating Disorders Association, Deputy Chairman of the Windsor Leadership Trust and a member of The UK Listing Authority Advisory Committee.

Length of Service: He was appointed a Director on 13 February 2006

Other connection with the Manager: None

Shared directorships with any other Directors: None

Further details of the Directors are set out in paragraph 6 of Part 5 of this document.

Investment Management and Administration

Introduction

The Directors are responsible for the determination of the Company's investment policy but the Company delegates day-to-day investment management of the Company to Cayenne under the terms of the Management Agreement and day-to-day administration of the Company to the Administrator under the terms of the Administration Agreement.

Investment Manager

Cayenne, which is authorised and regulated by the FSA in the conduct of its investment business, is an independent fund management company which specialises in the management of funds invested in the securities of investment trusts and other closed-ended funds. Cayenne was established in July 2004. It has managed the Company since January 2006. As at 31 December 2010, Cayenne had total assets under management of £90.3 million.

The management team primarily responsible for the Company's portfolio consists of:

- *Len Gayler – Chief Executive*

Len Gayler has over 35 years' experience trading in international markets. He worked at Hambros Bank from 1969 to 1981 where he became manager in charge of Eurobond trading and sales. From 1981 to 1984 he worked for Morgan Guaranty Limited ("MGL") as risk manager for the international capital markets trading business in London. In 1984 Len and three colleagues from MGL established International Financial Markets Trading Limited ("IFM") with a share capital of US\$25 million. By 1991, when he left IFM, it had developed into a successful specialist fund management operation in London, managing over US\$300 million. As part of this transition, he spent two years in North America, investing in risk arbitrage, junk bonds and bankruptcy situations. In 1991 he returned to J.P. Morgan as managing director responsible for European equity trading. From 1993 to mid-1997 he was managing director of J.G.W. Agnew & Co. Limited where he originally established Apollo, then moved to Hamilton Lunn Asset Management Limited until July 2004 when the contract to manage Apollo was transferred to Cayenne.

- *James Hart – Fund Manager*

After graduating from The University of Exeter in 1992, he joined Olliff & Partners; a stockbroker specialising in closed-ended funds. In 1996, James joined Bank Julius Baer, to develop the bank's emerging market funds trading and advisory desk. In 2000, James moved to Julius Baer Investments Ltd where he managed a portfolio of closed-ended funds. In 2002, he joined Hamilton Lunn Asset Management to assist in managing Apollo and other discretionary portfolios. James then moved to Cayenne Asset Management Ltd on its establishment in 2004, where he is one of three individuals responsible for the management of Apollo and the Company.

- *John Tappenden – Fund Manager*

John has over 30 years of investment experience. He started his career in 1978 with Grieveson Grant & Co (later taken over by Kleinwort Benson) as a portfolio manager in the Private Banking Division, responsible for portfolio management (including international equities and bonds). In 1985, he joined the Kleinwort Benson Investment Funds Division and in 1986 became the director in charge of the team, responsible for sales, market making, research, and new issues. In 1989, John then joined SG Warburg Investment Funds Division (later to become a part of UBS AG) as a director specialising in institutional sales of closed-end funds. In 2002, within UBS he became the director of investment funds responsible for the proprietary trading of investment trusts, US closed-ended funds, offshore funds and unit trusts. During this period, he developed hedging techniques using traditional options, over the counter derivatives, futures and currencies. John joined Cayenne in 2005.

Further information on the Manager is set out in paragraph 9.1 of Part 5 of this document.

Management Agreement

Under the Management Agreement the Manager is entitled to receive an annual management fee of 1 per cent. of NAV (excluding any investment in Apollo) payable quarterly in arrears, and an annual performance fee equivalent to 10 per cent. of the out performance of a hurdle rate of 5 per cent. per annum increase in NAV per Share on a total return basis compounded over the accounting periods since a performance fee was last paid. Since the Management Agreement was entered into on 30 January 2006 no performance fee has been paid. For the year ended 31 January 2010, the high water mark (“HWM”) was 134.16p and for the year to 31 January 2011 the HWM will be 140.87p. As discussed in paragraph 6.5 of Part 5 of this document, an amendment was made to the HWM to reflect the exercise of the Subscription Shares.

The Management Agreement is terminable by either party on 6 months’ notice or by the Company immediately on the occurrence of certain events including the insolvency of, or a material breach of contract by, the Manager or the loss by Cayenne of the services of Len Gayler, Cayenne’s chief executive, for a period of more than 30 days (if in the latter case Cayenne has failed to provide the Company with satisfactory alternative proposals within a further 60 day period).

Further details of the Management Agreement are set out in paragraph 9.1 of Part 5 of this document.

Company Secretary, Administrator and Administration Agreement

Under the Administration Agreement, the Administrator has agreed to provide accounting, taxation, company secretarial and administrative services to the Company, for which it receives an annual fee of £90,000 (plus VAT), subject to annual review. The Administration Agreement may be terminated by the Company on 6 month’s written notice to the Administrator and vice versa.

Further details of the Administration Agreement are set out in paragraph 9.2 of Part 5 of this document.

Capital Structure

The Company’s capital structure currently consists of Ordinary Shares and CULS.

Ordinary Shares

The Ordinary Shares are entitled to the Company’s net income after deducting such interest, management, secretarial and administration fees and other expenses as are charged to the revenue account. On a winding up of the Company, the Ordinary Shares are entitled to receive capital available for distribution after the capital entitlements of the CULS have been satisfied and after deducting any liquidation expenses and other liabilities of the Company. The Ordinary Shares are in registered form and are admitted to trading on the Official List and to trading on the London Stock Exchange’s Main Market. As at the date of this document, there were 43,602,910 Ordinary Shares in issue.

CULS

As at date of this document, there were £9,167,100 nominal of CULS in issue. The interest rate on the CULS is 3.25 per cent. per annum and is paid, subject to any deduction or withholding required by law, quarterly in arrears on 31 January, 30 April, 31 July and 31 October in each year. The first payment in respect of the CULS issued under the Placing will be made on 30 April 2011, covering the period from the date on which the CULS issued pursuant to the Placing are admitted to trading on the Main Market of the London Stock Exchange (expected to be 28 January 2011) to 30 April 2011. Under current law and practice, no deductions or withholdings are made.

From 24 January 2011, the rate of conversion is 67.74 Ordinary Shares per £100 nominal value of CULS which represents a Conversion Price of 147.63p per Ordinary Share. Under the terms of the CULS, any CULS not converted into Ordinary Shares will be redeemed by the Company at par on 8 August 2016.

Holders of the CULS may elect to convert their CULS into Ordinary Shares during the months of January, April, July and October in each year throughout the life of the CULS, commencing 30 April 2011 in respect of the CULS issued under the Placing. The Company will not (except in very limited instances) be required to issue a notice to the Stockholders reminding them of their conversion rights in relation to their CULS.

Stockholders who exercise their conversion right will accrue interest to the relevant conversion date. Ordinary Shares allotted on conversion of the CULS will be credited as fully paid and will rank *pari passu* in all respects and form one class with the Ordinary Shares already in issue on the date of conversion except that they will not rank for any dividends and other distributions declared, made or paid on such Ordinary Shares by reference to a record date falling prior to the relevant date of conversion. Stockholders have no rights of pre-emption in respect of the Placing or an issue of further CULS.

If the NAV per Ordinary Share for at least 20 dealing days (on the Main Market) during any period of 30 consecutive dealing days ending on or after 31 January 2012 is 30 per cent. or more above the nominal amount of CULS required for conversion into one Ordinary Share, the Company may, no later than 30 days after the end of such period, serve notice on the Stockholders requiring compulsory redemption of the CULS at par. If notice of compulsory redemption is served, Stockholders will have a final opportunity to convert their CULS into Ordinary Shares on the basis described above.

The CULS rank as unsecured debt of the Company and would therefore, on a liquidation of the Company, be subordinated to the claims of creditors in respect of the Company's secured borrowings and rank for repayment equally with the Company's unsecured creditors but in priority to the capital entitlement of the Shares.

Any CULS not converted will be redeemed by the Company on 8 August 2016 at par together with interest accrued and unpaid up to and including the date of redemption.

The CULS to be issued pursuant to the Placing will rank *pari passu* in all respects so that they can be consolidated and form a single series with the existing CULS.

A more detailed summary of the terms of the CULS is contained in Part 4 of this document.

The Placing

The Placing consists of a placing for up to a maximum nominal amount of £10 million of CULS. For the avoidance of doubt, the maximum aggregate amount of CULS in issue will not exceed £15 million. Winterflood Investment Trusts has conditionally placed £5,832,900 nominal of CULS at 100p per £1 nominal unit, which would result in the maximum of £15 million being reached.

The Placing will give the Company access to additional funds. Further, there is potential for the CULS to convert into Ordinary Shares and thereby increase the permanent capital base of the Company over the longer term.

Further details of the placing arrangements are set out in Part 2 of this document.

Dividend Policy

The Company's investment objective is to achieve consistent positive absolute returns. Income return will not be sought for its own sake and accordingly dividends payable by the Company are likely to fluctuate. The Board intends that the Company will distribute as a dividend substantially all of the Company's net income by way of a final dividend payable subject to Shareholder approval at each annual general meeting.

Current Gearing Policy

It is the Board's intention that maximum net gearing will be 130 per cent. of the Company's net assets. In calculating the maximum net gearing level, cash and short term cash equivalents are offset against borrowings (which include the CULS). As at the date of this document, the only gearing in the Company is provided by the CULS. Currently £9,167,100 of the CULS are in issue, and following the Placing, if fully subscribed, £15 million of the CULS will be in issue.

The Company's NAV as at 24 January 2011 (being the latest practicable date prior to the publication of this document) is £58.2 million or 133.59p per Share. The Company's net gearing is currently 107 per cent. of the Company's net assets. If the Placing is fully subscribed, and assuming the net proceeds are invested (otherwise than in cash or short term cash equivalents), the net gearing would be 117 per cent. of the Company's net assets.

The Trust Deed provides that so long as any of the CULS remain outstanding no additional loan capital of the Company shall be paid up in whole or in part by way of capitalisation of profits or reserves or be issued by way of collateral security.

Taxation

Information concerning the tax status of the Company and the taxation of Shareholders and Stockholders resident in the UK is contained in paragraph 11 of Part 5 of this document.

Duration of the Company

The Company is currently obliged to hold a continuation vote at the annual general meeting in 2016 to coincide with the maturity of the existing CULS and at every annual general meeting of the Company thereafter providing that the Company should continue as an investment trust.

If an ordinary resolution for continuation is not put or is not passed at such an annual general meeting, the Directors are obliged to convene, within 3 months thereafter, a general meeting to propose a special resolution for the voluntary winding-up of the Company.

Reports to Shareholders and Stockholders

The annual report and accounts are made up to 31 January in each year and it is expected that copies will be sent to Shareholders and Stockholders by the following May. Shareholders and Stockholders will also receive the unaudited interim report covering the 6 months to 31 July each year.

Further information about the Company

Further information about the Company can be found on its website, www.thecayennetrust.com, including information about the past and further performance of the Ordinary Shares.

PART 2

PLACING ARRANGEMENTS

Introduction

The Placing consists of a placing for up to a maximum nominal amount of £10 million of CULS. For the avoidance of doubt, the maximum aggregate nominal amount of CULS in issue will not exceed £15 million. The CULS are being offered and issued at 100p per £1 nominal unit.

Reasons for the Placing

The Placing will give the Company access to additional funds. Further, there is potential for the CULS to convert into Ordinary Shares and thereby increase the permanent capital base of the Company over the longer term. The Directors intend to invest the net proceeds of the Placing in accordance with the Company's investment objective and policy (as described in Part 1 of this document).

The Placing

Winterflood Investment Trusts has agreed to use its reasonable endeavours to procure commitments to subscribe for CULS pursuant to the Placing on the terms and subject to the conditions set out in the Placing Agreement and has to date conditionally placed £5,832,900 million nominal of CULS with institutional investors at 100p per £1 nominal unit. The Placing is not being underwritten and no commissions are payable to placees.

Except with the consent of Winterflood Investment Trusts, applications under the Placing must be for a minimum subscription amount of £50,000.

Details of the Placing Agreement are set out in paragraph 9 of Part 5 of this document.

ISAs and Registered Pension Schemes

CULS (provided it has a remaining term of at least 5 years at the time of acquisition) are eligible to be held in a stocks and shares ISA, subject to applicable annual subscription limits (£10,200 for the 2010-2011 tax year). CULS acquired through the Placing (and CULS acquired in the market) can be included in an ISA. Investments held in an ISA will be free of UK tax on both capital gains and income. The opportunity to invest in an ISA is restricted to certain UK resident individuals aged 18 or over. Individuals wishing to invest through an ISA should consult their professional advisers regarding their eligibility. In addition, CULS will constitute permitted investments for SIPP.

Dealings and Settlement

Applications will be made to the UK Listing Authority for the CULS to be issued pursuant to the Placing to be admitted to the standard listing segment of the Official List and to the London Stock Exchange for such CULS to be admitted to trading on the Main Market of the London Stock Exchange. It is expected that Admission of the £5,832,900 nominal of CULS, referred to above, will occur, and that dealings will commence, at 8 a.m. on 28 January 2011. The existing CULS are already admitted to the standard listing segment of the Official List and to trading on the Main Market of the London Stock Exchange. Applications for Admission of the Ordinary Shares arising on conversion of the CULS to the premium listing segment of the Official List and to trading on the London Stock Exchange's Main Market will be made in due course.

The CULS will be issued with effect from the date of Admission, fully paid and in registered form, and may be delivered into CREST or in certificated form. Temporary documents of title will not be issued pending the despatch of definitive certificates for CULS issued in certificated form, which is expected to take place in the week commencing 31 January 2011. Dealings in CULS in advance of the crediting of the relevant CREST accounts or the issue of certificates will be at the risk of the persons concerned.

Any Ordinary Shares arising on the conversion of the CULS will be issued in registered form and may be delivered into CREST or in certificated form according to how the CULS were held.

Announcement regarding the Placing

The result of the Placing is expected to be announced by the Company via a Regulatory Information Service on 25 January 2011 and, in any event, prior to Admission. Dealings in the CULS issued pursuant to the Placing will not be permitted prior to Admission.

Conditions to the Placing

The Placing is conditional upon the Placing Agreement becoming wholly unconditional (save as to Admission) and not being terminated in accordance with its terms at any time prior to Admission, and Admission occurring by 8.00 a.m. on 28 January 2011 (or such later date as the Company, the Manager and Winterflood Investment Trusts may agree, being in any event not later than 8.00 a.m. on 28 February 2011).

The Placing cannot be revoked after dealings in the CULS have commenced on the London Stock Exchange. In the event that any of the above conditions are not satisfied, the Placing will not proceed and monies received will be returned without interest at the risk of the applicant.

Costs of the Placing

The costs and expenses of the Placing and the admission of the CULS to trading are estimated, assuming the Placing results in a total nominal amount of £15 million of CULS (including the CULS currently outstanding), to be approximately £250,000 which equates to 1.67 per cent. of the nominal amount of the CULS in issue.

Scaling Back

The maximum size of the Placing has been fixed for up to £10 million. The Company has to date conditionally placed £5,832,900 million of CULS, which would result in the maximum issue size of £15 million. For the avoidance of doubt, the aggregate amount of CULS in issue shall not exceed £15 million.

Fractions of £1 nominal units of CULS will not be issued. To the extent that the fixed sum specified in relation to any application for CULS through the Placing exceeds the aggregate value (at the Placing Price) of the CULS issued pursuant to such application, the balance of such sum will be returned by CREST or cheque to the placee or applicant concerned without interest, provided that amounts not returned by CREST that are otherwise returnable, of £5 or less will be retained for the benefit of the Company.

PART 3

FINANCIAL INFORMATION CONCERNING THE COMPANY

1. Introduction

- 1.1 The Company's auditors are BDO LLP of 55 Baker Street, London W1U 7EU. BDO LLP is registered to carry on audit work by the Institute of Chartered Accountants in England and Wales ("ICAEW").
- 1.2 Save for the historical information for the three financial years ended 31 January 2010 set out, or incorporated by reference in paragraph 3 of this Part 3, none of the information in this document has been audited. Unless otherwise indicated, all unaudited financial information relating to the Company contained in this document has been sourced, without material adjustment, from the internal accounting records of the Company which are maintained by the Administrator on the Company's behalf on a basis consistent with the Company's accounting policies.

2. Statutory Accounts for the Three Financial Years Ended 31 January 2010

Statutory accounts for the Company for the three financial years ended 31 January 2010 (prepared in accordance with UK GAAP and the Statement of Recommended Practice ("SORP") issued by the AIC, in respect of which BDO LLP issued unqualified reports under section 235 of the 1985 Act in respect of the year ended 31 January 2008 and section 495 of the Act in respect of the years ended 31 January 2009 and 31 January 2010, have been delivered to the Registrar of Companies in England and Wales and such reports did not contain any statements under section 237(2) or (3) of the 1985 Act or section 498(2) or (3) of the Act as applicable.

3. Published Annual Report and Accounts for Three Financial Years Ended 31 January 2010

3.1 *Historical Financial Information*

The published annual report and audited accounts of the Company prepared under UK GAAP for the three financial years ended 31 January 2010 included, on the pages specified in the table below, the following information intended to enable investors to identify easily specific items of information which are relevant to the Placing:

<i>Nature of Information</i>	<i>Annual Report and Accounts for Year Ended 31 January</i>		
	<i>2010</i>	<i>2009</i>	<i>2008</i>
	<i>Page No(s)</i>	<i>Page No(s)</i>	<i>Page No(s)</i>
Income Statement (incorporating revenue account)	27	27	27
Reconciliation of movements in Shareholders' funds	28	28	28
Balance sheet	29	29	29
Cash flow statement	30	30	30
Accounting policies	31-33	31-32	31-32
Notes to the financial statements	31-49	31-48	31-48
Audit report	25-26	25-26	25-26

The information referred to above is incorporated in this document by reference.

3.2 *Selected Financial Information*

The key audited figures that summarise the financial condition of the Company in respect of the three financial years ended 31 January 2010, which have been extracted directly from the historical financial information referred to in paragraph 3.1 of this Part 3 (unless otherwise indicated in the notes below the following table), are set out in the following table.

	<i>Year Ended 31 January</i>		
	<i>2010</i>	<i>2009</i>	<i>2008</i>
<i>Capital</i>			
Total assets (£m)	52.34	38.83	65.59
Total fixed assets (investments) (£m)	47.22	37.21	48.53
Total assets less current liabilities (£m)	51.77	38.51	56.45
NAV (£m)	42.94	29.88	47.25
NAV per Share (p)			
Basic	121.46	88.23	122.72
Diluted	119.09	88.23	122.72

	<i>Year Ended 31 January</i>		
	<i>2010</i>	<i>2009</i>	<i>2008</i>
<i>Revenue Earnings and Dividends</i>			
Revenue Earnings per Share (p)	2.61	1.76	1.13
Dividends per Share (p)	2.2	1.40	1.00
Dividend cover ⁽¹⁾ (x)	1.19	1.26	1.13
Revenue reserves (£m)	1.3	0.89	0.63

(1) Dividend cover has been calculated on the financial information extracted from the audited accounts based on revenue return per Share and dividends per Share.

3.3 *Operating and Financial Review*

The published annual report and accounts of the Company for the three financial years ended 31 January 2010 included, on the pages specified in the table below, descriptions of the Company's financial condition (in both capital and revenue terms), changes in its financial condition and details of the Company's portfolio of investments for each of those years.

	<i>Annual Report and Accounts for Year Ended 31 January</i>		
	<i>2010</i>	<i>2009</i>	<i>2008</i>
<i>Section</i>	<i>Page No(s)</i>	<i>Page No(s)</i>	<i>Page No(s)</i>
Chairman's statement	5	5	5
Manager's review	6-8	6-8	6-8
Investment portfolio	9	9	9

The information referred to above is incorporated in this document by reference.

3.4 *Availability of Annual Report and Accounts for Inspection*

Copies of the published annual report and audited accounts of the Company for the three financial years ended 31 January 2010 (as filed with the UKLA) are available for inspection at the addresses set out in paragraph 16 of Part 5 of this document and at www.thecayennetrust.com.

4. Unaudited Interim Report for Six Months Ended 31 July 2010

4.1 *Historic Financial Information*

The published unaudited interim reports of the Company for the six months ended 31 July 2009 and 31 July 2010 included, on the pages specified in the table below, descriptions of the Company's financial condition (in both capital and revenue terms), changes in its financial condition and details of the Company's portfolio of investments for each of those periods and are incorporated by reference into this document.

<i>Section</i>	<i>Interim Report for six months ended 31 July</i>	
	<i>2010 Page No(s)</i>	<i>2009 Page No(s)</i>
Interim Management Statement	4	4
Investment Manager's Report	5	4-5
Investment Portfolio	6	6
Income Statement (incorporating revenue account)	7	7
Reconciliation of movements in shareholders' funds	8	8
Balance Sheet	9	9
Cash Flow Statement	10	10
Notes to the Financial Statements	11-13	11-13

4.2 *Selected Financial Information*

The key unaudited figures that summarise the financial condition of the Company in respect of the six months ended 31 July 2010 (and the corresponding figures in respect of the six months ended 31 July 2009, which have been included for comparative purposes), which have been extracted directly from the historical financial information referred to in paragraph 4.1 of this Part 3 (unless otherwise indicated in the note below the following table), are set out in the following table.

<i>Capital</i>	<i>As at 31 July</i>	
	<i>2010</i>	<i>2009</i>
Total assets (£m)	58.34	48.57
Total fixed assets (investments) (£m)	50.93	44.61
Total assets less current liabilities (£m)	57.43	45.8
Net asset value per Share (p)		
Basic	119.10	110.54
Diluted	119.10	109.78
<i>Earnings and Dividends</i>		
Revenue Earnings per Share (p)	0.64	1.57
Revenue reserves (£m)	0.71	0.95

4.3 *Availability of Interim Report and Accounts for Inspection*

Copies of the Company's unaudited interim reports for the six months ended 31 July 2009 and 31 July 2010 (as filed with the UKLA) are available for inspection at the address set out in paragraph 16 of Part 5 of this document and at www.thecayennetrust.com.

5. Financial Position and Prospects

- 5.1 There has been no significant change in the financial or trading position of the Company since 31 July 2010 (being the last date in respect of which the Company has published financials).
- 5.2 There has been no material adverse change in the prospects of the Company since 31 January 2010 (being the last date in respect of which the Company has published audited financial statements).

6. Capitalisation and Indebtedness

The following table shows the unaudited capitalisation and indebtedness of the Company (distinguishing between guaranteed and unguaranteed, secured and unsecured indebtedness) as at 31 July 2010 (being the last date in respect of which the Company has published financial information) and as 21 January 2011, being the latest practicable date prior to the publication of this document.

	<i>31 July 2010¹</i> £'000	<i>21 January 2011²</i> £'000
<i>Total Current Debt</i>		
Guaranteed	—	—
Secured	—	—
Unguaranteed/unsecured	917	9,198
<i>Total Non-current Debt</i>		
Guaranteed	—	—
Secured	—	—
Unguaranteed/unsecured	9,167	—
<i>Shareholders' Equity</i>		
Share capital	25,906	26,453
Legal reserve ³	—	—
Other reserves ³	20,804	30,882

1 Derived from the Company's published unaudited interim financial report for the half year ended 31 July 2010.

2 Extracted from internal management accounting records maintained by Phoenix on behalf of the Company on a basis consistent with the Company's accounting policies.

3 Legal and other reserves do not include profit and loss reserve.

Save as disclosed in the above table, there has been no material change in the unaudited capitalisation and indebtedness of the Company since 31 July 2010 (being the last date in respect of which the Company has published financial information).

The following table shows the Company's unaudited net indebtedness as at 21 January 2011 (being the latest practicable date prior to the publication of this document).

	<i>£'000</i>
A. Cash	3,708
B. Cash equivalent	—
C. Trading securities	63,721
D. Liquidity (A + B + C)	<u>67,429</u>
E. Current financial receivable	<u>289</u>
F. Current bank debt	—
G. Current portion of non-current debt	—
H. Other current financial debt	9,167
I. Current financial debt (F + G + H)	<u>9,167</u>
J. Net current financial indebtedness (I – E – D)	<u>(58,551)</u>
K. Non-current bank loans	—
L. Bonds issued	—
M. Other non-current loans	—
N. Non-current financial indebtedness (K + L + M)	<u>—</u>
O. Net financial indebtedness (J + N)	<u>(58,551)</u>

The Company has no indirect or contingent indebtedness.

7. Accounting Policy Regarding Investment Management Fees and Finance Costs

The Company prepares its accounts in accordance with UK GAAP and the AIC Guidelines. Both UK GAAP and the AIC Guidelines are subject to change and this may have an affect on the Company's calculation of NAV. The Company has a policy of charging 80 per cent. of the periodic management fee and interest on the CULS, and the entirety of any performance fee earned under the terms of the Management Agreement, to capital. Such charges will reduce the NAV per Share. Changes in the Company's accounting policies could adversely affect Shareholders.

8. Working Capital

In the Company's opinion, the Company has sufficient working capital for its present requirements, that is, for at least the 12 months following the date of this document.

9. NAV Calculations

The unaudited NAV per Share is calculated in accordance with the guidelines of the AIC as at the close of business on each Business Day by the Administrator and announced through a Regulatory Information Service on the following Business Day. The unaudited NAVs per share that the Company publishes value the CULS at par and at market value.

For the purpose of calculating the NAV per Share, quoted investments are valued at bid prices, adjusted for accrued income where it is reflected in the market price. Unquoted investments (including securities in which trading has been suspended) are valued at the Board's estimate of their net realisable value.

The calculation of the NAV per Share will only be suspended in circumstances where the underlying data necessary to value the investments of the Company cannot readily, or without undue expenditure, be obtained. Details of any suspension in making such calculations will be announced through a Regulatory Information Service.

The unaudited NAV per Share (with the CULS valued at par) as at 24 January 2011 (being the latest practicable date before the publication of this document) was 133.59p per Share.

PART 4

DETAILS OF THE CULS

The 3.25 per cent. Convertible Unsecured Loan Stock 2016 of the Company in a nominal amount of up to £15 million have been created by a resolution of the Board on 24 January 2011 and by way of a Supplemental Trust Deed (supplemental to the existing Trust Deed) between the Company and the Trustee, whose registered office is at Fifth Floor, 100 Wood Street, London EC2V 7EX as trustee for the Stockholders. Copies of the Trust Deed (as amended by the Supplemental Trust Deed) will be available for inspection by Stockholders at the registered office for the time being of the Company, being at the date of publication of this document, Springfield Lodge, Colchester Road, Chelmsford, Essex CM2 5PW.

The Trust Deed (as amended by the Supplemental Trust Deed) contains provisions, *inter alia*, to the following effect:

1. Definitions

In addition to the defined terms set out in the Definitions section on pages 70 to 73 of this document, the following additional definitions apply for the purposes of this Part 4. Where relevant, the definitions given in this Part 4 prevail, for the purposes only of this Part 4, over the definitions of the same terms in the Definitions section on pages 70 to 73 of this document.

“Conversion Price” means the nominal amount of CULS required for conversion into one Ordinary Share from time to time;

“equity share capital” means equity share capital as defined in Section 548 of the Act;

“Further CULS” means further unsecured loan stock of the Company issued pursuant to the provisions described in paragraph 7 below and constituted by a trust deed supplemental to the Trust Deed; and

“Subsidiary” means any company which is for the time being a subsidiary (within the meaning of section 1159 of the Act).

2. Interest

The CULS will bear interest on its nominal amount for the time being outstanding at the rate of 3.25 per cent. per annum. Interest will be payable (less United Kingdom income tax where applicable or any other deduction or withholding required by law) on the CULS by equal quarterly instalments on 30 April, 31 July, 31 October and 31 January (each an **“interest payment date”**) in each year in respect of the quarters ending on those dates respectively, save that the next payment of interest on the CULS following the Placing, which will be made on 30 April 2011, will be in respect of the period from the date of the Admission of the new CULS to 30 April 2011 (both dates inclusive) and will (assuming Admission on 28 January 2011) amount to 0.84p (less United Kingdom income tax where applicable) per £1 nominal of the CULS.

3. Conversion Rights

3.1 Each Stockholder shall (upon and subject to the provisions hereinafter mentioned) have the right (together the **“Conversion Rights”**) to convert the whole or such part (being an integral multiple of £1 nominal) of his CULS as he may specify into Shares, credited as fully paid, on the basis (subject to adjustment under sub-paragraph 3.4 below) of 67.74 Ordinary Shares for every £100 nominal of CULS, such rate as so adjusted from time to time being hereinafter called the **“Conversion Rate”**.

3.2 Each certificate for CULS shall have endorsed thereon a conversion notice. The Conversion Rights shall be exercisable by sending to the registered office of the Company at any time during the months of April, July, October and January in any year commencing 30 April 2011 in respect

of the CULS issued pursuant to the Placing (such month and any other period during which Conversion Rights may be exercised being hereinafter called a “Conversion Period”) so as to be received on or prior to the last day of the relevant Conversion Period (each such last day being hereinafter called a “Conversion Date” and the Conversion Date falling on 31 July 2016 being hereinafter called the “Final Conversion Date”) the relevant CULS certificate(s) with the conversion notice(s) thereon duly completed and signed. A conversion notice once given shall not be withdrawn without the consent in writing of the Company. The Company shall as at, and not later than 14 days after, the relevant Conversion Date allot Shares in respect of CULS converted and within 28 days after the relevant Conversion Date despatch free of charge to, and at the risk of, the persons entitled thereto certificates for the said Shares and (if applicable) separate certificates for any balances of CULS not converted and remittances in respect of any fractional entitlements.

- 3.3 Interest on CULS converted shall be payable up to and including, but shall cease to accrue immediately after, the relevant Conversion Date (whether or not this is an interest payment date). Shares allotted on conversion shall be credited as fully paid and carry the right to receive all dividends and all other distributions (including, but not limited to, any allotment referred to in sub-paragraph 3.4.1 below) declared, paid or made on the Shares in or in respect of the financial period of the Company in which the relevant Conversion Date falls, other than dividends and other distributions declared, paid or made on the Shares by reference to a record date falling prior to the relevant Conversion Date, and shall rank *pari passu* in all other respects and form one class with the Shares of the relevant class in issue on the relevant Conversion Date.

3.4

3.4.1 Upon any allotment of Shares pursuant to a capitalisation of profits or reserves (including, without limitation, share premium account and capital redemption reserve) to any Shareholders on the register on a record date being a date on which any CULS is and remains capable of being converted into Shares of such class, the nominal amount of Shares of that class to be allotted in respect of CULS converted on any Conversion Date following such record date shall be increased in due proportion. No adjustment shall be made to the Conversion Rate by reason only of a Shareholder wholly or partially foregoing his entitlement to a cash dividend and in lieu thereof the Company making an issue to him of fully paid Shares by way of capitalisation of an amount standing to the credit of the profit and loss account or revenue reserves equal to the amount of the cash dividend foregone, provided that in respect of each such issue the Trustee:

- (a) shall have been given not less than 28 days’ written notice thereof by the Company;
- (b) is supplied immediately prior thereto with a certificate from a financial adviser approved for such purpose by the Trustee to the effect that the basis of the issue of Shares as aforesaid will not be materially prejudicial to the interests of the Stockholders; and
- (c) is otherwise satisfied that the interests of the Stockholders will not be materially prejudiced thereby.

3.4.2 If, whilst any CULS remains capable of being converted, the Company shall make any offer of Shares (“New Shares”) by way of rights to Shareholders for which a listing by the UK Listing Authority is obtained then at the option of the Company either:

- (a) the Conversion Rate shall be adjusted with effect on and from the record date for each such offer so that the nominal amount of Shares thereafter allotted in respect of every £100 nominal of CULS converted shall be increased by an amount (expressed in £) equal to:

$$\frac{A \times C}{B + C}$$

where:

‘A’ equals the nominal amount (expressed in £) of the New Shares which would have been offered to a holder of £100 nominal of CULS had his Conversion Rights been exercisable and exercised in full with effect immediately before the record date for such offer at the Conversion Rate then applicable (such nominal amount to include any fraction of a New Share notwithstanding that under the offer fractional entitlements may not be offered or allotted or may be disregarded);

‘B’ equals the price per share (expressed in £) at which the New Shares are being offered to Shareholders; and

‘C’ equals the average (expressed in £) of the middle market quotations on the London Stock Exchange (calculated by reference to the Daily Official List) for the rights to the New Shares nil paid for all dealing days during the period in which the rights to the New Shares are traded in on the Main Market nil paid; or

- (b) the Company shall make, or use all reasonable endeavours to procure that there is made, a like offer at the same time to each Stockholder as if his Conversion Rights had been exercisable and exercised in full with effect immediately before such record date at the Conversion Rate then applicable.

3.4.3 All adjustments to the Conversion Rate shall be rounded upwards if necessary to two decimal places. The Company will forthwith notify the Stockholders in writing in a form previously approved in writing by the Trustee of any increases in the Conversion Rate pursuant to sub-paragraphs 3.4.1 and 3.4.2 above.

3.5 If any offer (not being an offer falling within sub-paragraph 3.4.2 above or 3.8.11 below) or invitation is made to Shareholders on the register on a record date being a date on which any CULS remains capable of being converted, the Company shall make, or use all reasonable endeavours to procure that there is made, a like offer or invitation at the same time to each Stockholder as if his Conversion Rights had been exercisable and exercised in full with effect immediately before such record date at the Conversion Rate then applicable. Except for an offer in respect of which an adjustment is made under sub-paragraph 3.4.2 above, the Company shall not make, or permit any Subsidiary of the Company to make, any offer or invitation to Shareholders unless it makes to each Stockholder at the same time a like offer or invitation as referred to in the preceding sentence of this sub-paragraph.

3.6 If any fractions of any Share shall fall to be allotted on conversion the Shares representing such fractions will not be allotted to the relevant converting Stockholders but will be aggregated and sold and the net proceeds of sale will be distributed *pro rata* among the persons entitled thereto, except that, where the entitlement of any such person amounts to less than £5, the amount thereof shall not be distributed but shall be retained for the benefit of the Company.

3.7 The Company will use all reasonable endeavours:

3.7.1 to procure that (a) the CULS shall at all times remain admitted to listing by the UK Listing Authority and to trading on the Main Market and (b) for so long as any CULS remains capable of being converted, Shares which are fully paid of a class into which the CULS would or might convert shall at all times remain admitted to listing by the UK Listing Authority and to trading on the Main Market; and

3.7.2 to ensure that during such time as the Shares are admitted to listing by the UK Listing Authority and to trading on the Main Market and/or listed or quoted on any other stock exchange all the Shares allotted on conversion will, upon allotment, be admitted to listing by the UK Listing Authority and to trading on the Main Market and/or be listed or quoted on such other stock exchange.

3.8 The Company will covenant with the Trustee in the Trust Deed that, so long as any CULS remains capable of being converted, the following provisions, *inter alia*, shall apply:

3.8.1 the Company shall not:

- (a) save as permitted by sub-paragraph 3.8.5 below and subject to paragraph 3.11 below, distribute capital profits (whether realised or not) or capital reserves (including any share premium account or capital redemption reserve) or profits or reserves arising from a distribution of capital profits (whether realised or not) or capital reserves (including as aforesaid) by a Subsidiary of the Company except by means of a capitalisation issue permitted under (b) below or pursuant to any distribution described in sub-paragraph 3.8.13 below, and so that for the purposes of this sub-paragraph 3.8.1(a) and insofar as the relevant audited accounts do not distinguish between capital and revenue profits or reserves the Company and the Trustee shall be entitled to rely upon a written estimate (whether or not addressed to the Trustee) by the Auditors (as defined in the Trust Deed) as to the extent (if any) to which any part of any profits or reserves should be regarded as capital profits or capital reserves;
- (b) capitalise any profits or reserves other than by way of a capitalisation issue made only to the Shareholders in the form of fully paid Shares and (if so extended) in like proportions to the holders of any other class of equity share capital of the Company in the form of fully paid Shares or shares of such other class of equity share capital, or for the purposes of scrip dividend where permitted under the second sentence of sub-paragraph 3.4.1 above without adjustment to the Conversion Rate; or
- (c) except with the prior written consent of the Trustee, make or permit any Subsidiary of the Company to make any offer or invitation to Shareholders or allot any Shares in pursuance of a capitalisation issue or make any distribution permitted by sub-paragraph 3.8.13 below, in each case during, or by reference to a record date falling within, a Conversion Period or following a Conversion Period by reference to a record date prior to such Conversion Period;

3.8.2 save as permitted by sub-paragraph 3.8.1 above or sub-paragraph 3.8.3 below, the Company shall not create or permit to be in issue any equity share capital which as regards voting, dividends, other distributions or capital has more favourable rights than those attached to the Ordinary Shares;

3.8.3 nothing in sub-paragraph 3.8.2 above shall prevent the issue of any equity share capital carrying rights for a period not exceeding three years from the date of issue to dividends greater than those paid in respect of the Ordinary Shares provided that such equity share capital shall have been issued by way of consideration or part consideration for the acquisition of another business or of share or loan capital or assets of another company and that the dividend payable on such equity share capital in respect of any financial period of the Company during such first-mentioned period shall not be at a rate in excess of twice the rate of dividend declared on an equivalent nominal amount of Ordinary Shares in respect of the same financial period;

3.8.4 the Company shall not do any act or thing if, in consequence, the nominal amount of Shares into which £1 nominal of the CULS would be convertible would exceed £1;

3.8.5 save as permitted by paragraphs 3.11 or 3.12 below, the Company shall not (except as authorised by sections 146(2) of the 1985 Act or, in respect of redeemable shares and shares purchased by it, by sections 159, 160(4) and 162(2) of the 1985 Act) reduce its share capital or any uncalled or unpaid liability in respect thereof or (except as authorised by sections 130(2), 160(2) and 170(4) of the 1985 Act) any amount for the time being standing to the credit of any share premium account or capital redemption reserve or purchase any of its own shares unless in any such case such adjustment (if any) is made to the Conversion Rate as shall be determined by a financial adviser approved for such purpose by the Trustee to be appropriate, provided that the Company shall not be restricted by this paragraph 3.8.5

from reducing or cancelling share premium account or share capital where such reduction or cancellation does not involve a payment to Shareholders but instead results in the creation of a special reserve in the Company's balance sheet;

- 3.8.6 (a) if the Company commences liquidation (whether voluntary or compulsory) it shall forthwith give notice in writing thereof to all Stockholders in a form previously approved in writing by the Trustee and thereupon each Stockholder shall in respect of the whole or any part of his CULS be entitled within four weeks after the service of such notice to elect by notice in writing to the Company to be treated as if a Conversion Date had occurred on the day immediately preceding the date of such commencement and his Conversion Rights had been exercisable and exercised in full with effect on that date on the basis (including rate) of conversion then applicable (after making any appropriate adjustment pursuant to sub-paragraph 3.4 above) and in that event, subject as hereafter in this sub-paragraph 3.8.6(a) provided, each Stockholder making such an election shall in lieu of the payments which would otherwise be due in respect of his CULS deemed to have been converted as a result of such election be entitled to participate in the assets available in the liquidation *pari passu* with the Shareholders as if he were the holder of the Shares (including any fraction of a Share) to which he would have become entitled had that CULS in respect of which he shall have made such election been converted as aforesaid by virtue of such exercise as at such deemed Conversion Date. Notwithstanding the foregoing, a Stockholder making such an election shall be entitled to receive and retain any payment in respect of the CULS in relation to which he shall have made such election which shall have become due on or prior to such immediately preceding day as though he had not made such election. For the purpose of determining the assets in which any Stockholder making an election as aforesaid shall be entitled to participate, the provisions of sub-paragraph 3.3 above shall be deemed to apply as if such immediately preceding day were the Conversion Date, provided that if such Stockholder shall receive any payment on the CULS in relation to which he shall have made such election in respect of interest falling due on the CULS on any day after such immediately preceding day up to and including the date of service of the aforesaid notice by the Company, he shall be entitled to retain such payment. If, at any time, the Company posts a notice to its Shareholders convening a meeting at which a resolution will be proposed to wind up the Company, it may at the same time give notice in writing to all Stockholders in a form previously approved in writing by the Trustee in which event the period of four weeks referred to above shall commence on the date of such notice and a Stockholder shall in respect of the whole or any part of his CULS be entitled to elect within that period by notice in writing to the Company that, if such resolution is passed, he should be treated as if a Conversion Date had occurred on the day immediately preceding the date on which such resolution is passed and his Conversion Rights had been exercisable and exercised in full with effect on that date on the same basis, *mutatis mutandis*, as is referred to above (and, for the avoidance of doubt, if the Company shall give notice to Stockholders as referred to in this sentence, no further notice shall be given to Stockholders under this paragraph 3.8.6(a) on commencement of the liquidation). Subject to this sub-paragraph 3.8.6(a), the Conversion Rights shall lapse in the event of the liquidation of the Company;
- (b) if the CULS shall become immediately due and repayable in accordance with the provisions of the Trust Deed (for any reason other than the liquidation of the Company) the Company shall forthwith give notice thereof to all Stockholders in a form previously approved in writing by the Trustee and thereupon each Stockholder shall in respect of the whole or any part of his CULS be entitled within the period of six weeks after the service of such notice to exercise his Conversion Rights (such exercise to be with effect as on the day immediately preceding the date on which the CULS shall have become so due and repayable which day shall be deemed to be a

Conversion Date) on the basis (including rate) of conversion then applicable (after making any appropriate adjustments pursuant to sub-paragraph 3.4 above) by completing and signing the conversion notice(s) on his relevant CULS certificate(s) and depositing the same at the registered office of the Company prior to the expiry of such period of six weeks;

- 3.8.7 except in relation to the circumstances specified under paragraphs 3.68(a) & (b), 3.8.11 and 3.8.13, the Company shall not change the end of its financial period so that it falls otherwise than on 31 January or a day falling within 14 days before or after 31 January in each year unless such modifications (if any) shall be made to the Trust Deed as the Trustee shall require;
- 3.8.8 the Company shall keep available for issue sufficient authorised but unissued Ordinary Share capital to satisfy in full all rights for the time being outstanding of conversion into, subscription for, and other acquisition of, Ordinary Shares;
- 3.8.9 the Company shall not be required to issue a reminder to Stockholders of their Conversion Rights that are exercisable;
- 3.8.10 the Company shall send to all Stockholders a copy of every document sent by the Company to Shareholders at the time the same is sent by the Company to Shareholders;
- 3.8.11 if any offer is made to all (or as nearly as may be practicable all) the Shareholders (or to all (or as nearly as may be practicable all) such holders other than the offeror and/or any company controlled by the offeror and/or persons associated, connected or acting in concert with the offeror) to acquire the whole or any part of the Shares (the "Offer") and the Company becomes aware that the right to cast more than 50 per cent. of the votes which may ordinarily be cast on a poll at a general meeting of the Company has or will become vested in the offeror and/or any company controlled by the offeror and/or persons associated, connected or acting in concert with the offeror, the Company shall give notice of that fact in writing in a form previously approved in writing by the Trustee to all Stockholders within 14 days of its becoming so aware and, unless an offer, proposal, scheme or other arrangement which is on terms as to consideration which are, in the opinion of a financial adviser approved for such purpose by the Trustee, fair and reasonable (having regard to the terms of the Conversion Rights and the period during which they may be exercised and to the terms of the Offer and any other circumstances which may appear to such financial adviser to be relevant) has already been, or not later than 45 days after the date of such notice is, made or put to all Stockholders, then the Company shall forthwith thereafter give further notice in writing of that fact to all Stockholders in a form previously approved in writing by the Trustee and each Stockholder may, within the period of 30 days after the date of such further notice, exercise his Conversion Rights in respect of the whole or any part (being an integral multiple of £1 nominal) of his CULS as he may specify (and so that for this purpose such 30 day period shall be deemed to be a Conversion Period, the last day thereof shall be deemed to be a Conversion Date and the provisions of sub-paragraph 3.3 above shall apply accordingly) at the Conversion Rate applicable on such deemed Conversion Date (after making any appropriate adjustments pursuant to sub-paragraph 3.4 above). The publication of a scheme of arrangement under the Companies Act providing for the acquisition by any person of the whole or any part of the Shares shall be deemed to be the making of an offer;
- 3.8.12 the Company shall procure that no compromise or arrangement (within the meaning of section 425 of the 1985 Act) affecting the Shares shall be proposed unless the Stockholders shall be parties to the compromise or arrangement and unless the compromise or arrangement shall be subject to approval by the Stockholders in the manner prescribed by the said section, provided that these provisions shall not apply (a) if an offer, proposal, scheme or other arrangement which is, in the opinion of a financial adviser approved for such purpose by the Trustee, fair and reasonable (having regard to the terms of the Conversion Rights and the periods during which they may be exercised and to the terms of

such compromise or arrangement and any other circumstances which may appear to such financial adviser to be relevant) has already been, or not later than the date on which the document containing particulars of the compromise or arrangement shall first be issued to the parties thereto is, made or put to all Stockholders, (b) if the Trustee shall be of the opinion that implementation of such compromise or arrangement will not be prejudicial to the interests of the Stockholders, or (c) to a scheme of arrangement to which sub-paragraph 3.8.11 above or 3.8.13 below applies; and

- 3.8.13 if the Company shall propose any arrangement pursuant to which the Company is to make a distribution of the kind described in section 213(3) of the Income and Corporation Taxes Act 1988 otherwise than by means of (a) an arrangement within the meaning of section 425 of the Companies Act permitted by sub-paragraph 3.8.12 above, or (b) an arrangement to which the provisions of such sub-paragraph do not apply by reason of any of the provisos thereto, or (c) an arrangement made or put to all Stockholders which is, in the opinion of a financial adviser approved for such purpose by the Trustee, fair and reasonable (having regard to the terms of the Conversion Rights and the periods during which they may be exercised and to the terms of such first-mentioned proposed arrangement and any other circumstances which may appear to such financial adviser to be relevant), it shall give notice thereof in a form previously approved by the Trustee to all Stockholders not less than 45 days prior to the proposed record date in respect of the entitlement of Shareholders to receive the relevant distribution (and/or shares in the company or companies to which any such distribution is to be made) and each Stockholder may, within the period of 30 days after the date of such notice, exercise his Conversion Rights in respect of the whole or any part (being an integral multiple of £1 nominal) of his CULS as he may specify (and so that for this purpose such 30 day period shall be deemed to be a Conversion Period, the last day thereof shall be deemed to be a Conversion Date and the provisions of sub-paragraph 3.3 above shall apply accordingly) at the Conversion Rate applicable on such deemed Conversion Date (after making any appropriate adjustments pursuant to sub-paragraph 3.4 above).
- 3.9 The Trustee may at its absolute discretion and without any responsibility for any loss occasioned thereby, within the period of five days following the Final Conversion Date, exercise all Conversion Rights not exercised on or before such Conversion Date at the Conversion Rate applicable on the date of exercise and sell for the benefit of the Stockholders entitled thereto the Shares allotted on such conversion, provided that the Trustee shall not exercise such Conversion Rights unless a financial adviser appointed for the purpose by it (acting as an expert and not an arbitrator) shall have stated in writing that in its opinion the exercise of such Conversion Rights and prompt sale by the Trustee would be in the interests of the Stockholders concerned as a body and provided further that the Trustee shall not exercise such Conversion Rights in respect of any CULS whose holder has requested redemption thereof. Such period shall be deemed to be a Conversion Period and the date of exercise of such Conversion Rights shall be deemed to be a Conversion Date and the provisions of sub-paragraph 3.3 above shall apply accordingly.
- 3.10 Following the first Conversion Date as at which, taking into account all Conversion Rights exercised on that date, 80 per cent. or more in nominal amount of the CULS (which expression for the purpose of this paragraph 3.10 shall include the whole of the original nominal amount of the CULS issued and any Further CULS forming a single series therewith but exclude any of the CULS or such Further CULS purchased by the Company or any Subsidiary and cancelled) shall have been converted or shall otherwise have ceased to be in issue, the Company shall be entitled within 30 days after that or any subsequent Conversion Date to give not less than 30 nor more than 60 days' notice in writing to all Stockholders in a form previously approved in writing by the Trustee (a "compulsory conversion notice") to convert, on the expiry date of such compulsory conversion notice, the whole (but not part only) of the CULS into Shares at the Conversion Rate applicable on such expiry date and in the event of such notice being given as aforesaid the holding of CULS of each Stockholder shall, subject as hereafter in this paragraph 3.10 provided, be automatically converted at such rate on such expiry date (and so that for this purpose such expiry date shall be deemed to be a Conversion Date), provided that each Stockholder shall have the right

by giving written notice to the Company within 30 days after the service of a compulsory conversion notice to require the Company, in lieu of converting, to repay the whole or such part as he may in such notice specify of his CULS at its nominal amount on the expiry date of the compulsory conversion notice together with interest accrued up to and including such date and in that event the Company shall be bound to repay such CULS together with accrued interest accordingly and provided further that no such notice shall be given by the Company if it would expire after the date for redemption of the CULS.

- 3.11 Nothing in the Trust Deed shall restrict the Company from making purchases of its Shares at a price per Share at or below the NAV per Share (as determined by the Directors on a date falling not more than 10 days before the date of purchase).

4. Purchase and Redemption

- 4.1 The Company or any Subsidiary of the Company may at any time purchase CULS on the London Stock Exchange (if the CULS is then admitted to listing by the UK Listing Authority and to trading on the Main Market) or on any other recognised stock exchange on which the CULS is for the time being listed or quoted or by tender (available to all Stockholders alike) or by private treaty. If the CULS is admitted to listing by the UK Listing Authority and to trading on the Main Market, and unless the purchase is by way of tender or partial offer made to all holders of CULS on the same terms, any purchase of CULS by the Company or any Subsidiary shall be at a price (inclusive of accrued interest but exclusive of all costs of purchase) which shall not exceed the average of the middle market quotations therefor on the Main Market (calculated by reference to the Daily Official List of the London Stock Exchange) during the period of 5 dealing days immediately preceding the date of purchase (or at such other price as may be permitted by the Listing Rules). If the CULS is not admitted to listing by the UK Listing Authority and to trading on the Main Market, the price of any purchase of CULS by the Company or any Subsidiary shall not exceed 110 per cent. of the nominal amount thereof.
- 4.2 All CULS not previously redeemed, purchased or converted in accordance with any of the foregoing provisions will be redeemed by the Company on 8 August 2016 at its nominal amount, together with interest accrued up to and including the date of redemption.
- 4.3 If the NAV per Ordinary Share for at least 20 dealing days (on the Main Market) during any period of 30 consecutive dealing days ending on or after 31 January 2012 is at least 30 per cent. or more above the Conversion Price prevailing at the end of such period, the Company may, no later than 30 days after the end of such period, serve notice on the Stockholders pursuant to this paragraph 4.3 in a form previously approved in writing by the Trustee. Each Stockholder shall be entitled within six weeks after the date of such notice to exercise his Conversion Rights in respect of the whole of any part (being an integral multiple of £1 nominal) of his CULS as he may specify (and so that for this purpose such six week period shall be deemed to be a Conversion Period, and the last day thereof shall be deemed to be a Conversion Date, and the provisions of paragraph 3.3 above shall apply accordingly) at the Conversion Rate applicable on such deemed Conversion Date (after making any appropriate adjustments pursuant to paragraph 3.4 above) by completing and signing the conversion notice(s) on the certificate(s) representing the CULS in respect of which he wishes to exercise his Conversion Rights and delivering such certificate(s) together with a form or forms of nomination (if required) to the registered office of the Company prior to the expiry of such six weeks. All, but not part only, of the CULS remaining unconverted after such entitlement has expired shall be redeemed by the Company at its nominal amount, together with interest accrued up to and including the date of redemption, on the redemption date specified in the notice given by the Company pursuant to this paragraph (which shall be a date falling not less than seven weeks nor more than ten weeks following the date of that notice). For the purpose of this sub-paragraph 4.3, a certificate signed by two Directors as to the NAV per Ordinary Share may be relied upon by the Trustee as sufficient evidence thereof and if so relied upon shall (in the absence of manifest error) be binding on all parties.
- 4.4 All CULS redeemed, purchased or converted in accordance with any of the foregoing provisions shall be cancelled and shall not be re-sold or re-issued.

- 4.5 The Company may exercise its rights and powers of redemption and purchase as regards the CULS and any Further CULS at its sole discretion and without obligation to maintain the ratio between the nominal amounts for the time being outstanding of stock of any series.

5. Events of Default

Upon the happening of any of the following events the Trustee may, at its discretion, and, if requested in writing by Stockholders holding at least one-fifth in nominal amount of the CULS then outstanding or directed by an extraordinary resolution of Stockholders (“Extraordinary Resolution”), shall (subject in each case to being indemnified and/or secured by Stockholders to its satisfaction) give notice to the Company that the CULS is (and it shall thereupon forthwith become) immediately due and repayable at its nominal amount together with accrued interest as provided in the Trust Deed:

- 5.1 if the Company makes default for a period of 14 days or more in the payment on the due date of any interest in respect of the CULS; or
- 5.2 if an order is made or an effective resolution passed for winding-up or dissolution of the Company or any Subsidiary (except for the purpose of a reconstruction or amalgamation the terms of which have previously been approved in writing by the Trustee, or by an Extraordinary Resolution); or
- 5.3 if:
- 5.3.1 the Company or any Subsidiary is unable or admits inability to pay its debts as they fall due, suspends making payments on any of its debts or by reason of actual or anticipated financial difficulties commences negotiations with one or more of its creditors with a view to rescheduling any of its indebtedness; or
- 5.3.2 the value of the assets of the Company is less than its liabilities (taking into account contingent and prospective liabilities); or
- 5.3.3 a moratorium is declared in respect of any indebtedness of the Company or any Subsidiary; or
- 5.3.4 if the Company or a Subsidiary ceases or threatens to cease to carry on the whole or a substantial part of its business (which shall not include a change in investment policy, objective, performance benchmark or manager nor a reconstruction or amalgamation the terms of which have previously been approved in writing by the Trustee, or by an Extraordinary Resolution); or
- 5.4 if an encumbrancer takes possession or a receiver or administrator or administrative receiver is appointed of the Company or any Subsidiary or of the whole or a substantial part of the assets or undertaking of the Company or any Subsidiary or a distress or execution is levied or enforced upon or sued out against the whole or a substantial part of the assets or property of the Company or any Subsidiary and is not discharged within 14 days of being levied, enforced or sued out; or
- 5.5 if default is made by the Company in the performance or observance of any covenant or provision binding on it under or pursuant to the Trust Deed (other than any covenant for the payment of principal and interest in respect of the CULS) or if any event occurs or any action is taken or fails to be taken which is (or but for the provisions of any applicable law would be) a breach of any of the covenants contained in the Trust Deed and (except where in the opinion of the Trustee the same is not capable of remedy when no such continuation or notice as is herein provided will be required) the same continues for more than 14 days after written notice requiring the same to be remedied shall have been given to the Company by the Trustee; or
- 5.6 if the Company shall, without the prior written consent of the Trustee or an Extraordinary Resolution, alter the rights attached to all or any of its Shares in issue from time to time or attach any special rights, privileges or restrictions thereto, or if the Company shall, without the prior written consent of the Trustee or an Extraordinary Resolution and except as permitted under paragraph 3.8.3 above, create or issue any new class of equity share capital other than the Ordinary Shares ranking *pari passu* in all respects (or in all respects except as regards any restriction on their rights to receive dividends or other distributions or on their rights on a return of capital or on their

rights to participate in any issue by way of capitalisation of profits or reserves or on their voting rights which in all such cases make such rights less favourable than those attached to the Ordinary Shares) with the Ordinary Shares, and (except where, in the opinion of the Trustee, such alteration, attachment, creation or issue is not capable of cancellation when no such continuation or notice as is herein provided shall be required) such alteration, attachment, creation or issue shall continue for more than 14 days after written notice requiring such alteration, attachment, creation or issue to be cancelled shall have been given to the Company by the Trustee, provided that nothing in this sub-paragraph 5.6 shall affect the right of the Company to consolidate or sub-divide Shares or convert Shares into stock or vice-versa and no such consolidation, sub-division or conversion shall give rise to any rights under this paragraph 5.

Provided that no such event set out in sub-paragraph 5.2 (in relation to any Subsidiary only) and subparagraphs 5.3 to 5.6 above inclusive shall constitute an event upon the happening of which the CULS may become immediately due and repayable unless such event shall be certified in writing by the Trustee to be, in its opinion, materially prejudicial to the interests of the Stockholders.

6. Denomination, Transfer and Currency

The CULS will be denominated, and will be registered and transferable without payment of any fee (excepting all transfer taxes), in integral multiples of £1 nominal. The Trust Deed will contain provisions enabling the CULS to be held and transferred in uncertificated form, and for Conversion Rights to be exercisable, by means of a relevant system in accordance with the Uncertificated Securities Regulations 2001 and enabling the Company to issue Shares in uncertificated form on conversion of any of the CULS. The Trustee may, without the sanction of an Extraordinary Resolution, concur with the Company in making modifications to the provisions of the Trust Deed in order to reflect changes in the Uncertificated Securities Regulations 2001 or in the applicable law and practice relating to the holding or transfer of CULS in uncertificated form and the issue of Shares in uncertificated form on conversion of CULS.

7. Issues of Further Unsecured Loan Stock

Subject to the terms hereof, provision will be made in the Trust Deed to enable further unsecured loan stock of the Company to be issued either so as to be identical in all respects with and to form a single series with the CULS or on such terms, including rights as to interest, ranking, conversion, premium, repayment and otherwise as the Directors may determine. Such further unsecured loan stock shall, if identical and forming a single series with the CULS, and may in any other case with the consent of the Trustee, be constituted by a trust deed supplemental to the Trust Deed and shall accordingly, if so constituted, be Further CULS. No additional loan capital of the Company or any Subsidiary shall be paid up in whole or in part by way of capitalisation of profits or reserves or be issued by way of collateral security.

8. Modification of Rights etc.

8.1 Stockholders will have power by Extraordinary Resolution, *inter alia*, to sanction any modification, abrogation or compromise of or arrangement in respect of their rights against the Company and to assent to any modification of the provisions of the Trust Deed. In addition, the Trustee may from time to time without the consent or sanction of the Stockholders (but only if and insofar as in the opinion of the Trustee the interests of the Stockholders will not be materially prejudiced thereby), on such terms and subject to such conditions as it shall deem expedient, waive or authorise any breach or proposed breach by the Company of any of the covenants or provisions of the Trust Deed, determine that any act or omission which would or could constitute an event of default under the Trust Deed shall not do so, or agree to any modification of the provisions of the Trust Deed. The Trustee may also agree, without such consent or sanction as aforesaid, to any modification of the Trust Deed which is of a formal, technical or minor nature or to correct a manifest error or an error which is in the opinion of the Trustee proven. Provision will be made for convening separate meetings of the holders of the CULS and each series of any Further CULS when the Trustee considers this appropriate.

8.2 In connection with the exercise by it of any of its trusts, powers, authorities and discretions under the Trust Deed (including, without limitation, any modification, waiver, authorisation or determination as aforesaid), the Trustee shall have regard to the general interests of the Stockholders as a class but shall not have regard to any interests arising from circumstances particular to individual Stockholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of such exercise for individual Stockholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political subdivision thereof and the Trustee shall not be entitled to require, nor shall any Stockholder be entitled to claim, from the Company, the Trustee or any other person, any indemnification or payment in respect of any tax consequences of any such exercise upon individual Stockholders.

9. Trustee's Indemnification and Consents

The Trust Deed will contain provisions for the indemnification of and/or provision of security to the Trustee and for its relief from responsibility in certain events. Any consent given by the Trustee may be given on such terms and subject to such conditions (if any) as the Trustee may in its absolute discretion think fit and, notwithstanding anything to the contrary in this Part 4, may be given retrospectively.

10. Removal, Retirement and Replacement of Trustee

The Trust Deed will contain provisions for the removal of the Trustee by Extraordinary Resolution and will permit the Trustee to retire at any time without assigning any reason.

The Company will have the power to appoint a new Trustee but such new Trustee shall be subject to the approval of an Extraordinary Resolution of the Stockholders.

11. Auditors

The Trust Deed will provide that the Trustee may rely on certificates or reports provided by the Auditors or other experts in accordance with the provisions of the Trust Deed whether or not any such certificate or report shall be addressed to the Trustee and whether or not any such certificate or report or any engagement letter or other document entered into by the Trustee and/or the Auditors or such other experts in connection therewith contains any limit (whether monetary or otherwise) on the liability of the Auditors or such other expert.

12. Governing Law

The Trust Deed will be governed by, and construed in accordance with, English law.

Notes:

The Trust Deed will not contain any restriction on borrowings by, the disposal of assets by, charges created by, or changes in the nature of the business of, the Company. In addition, the Trust Deed will not contain any provision giving the Stockholders any right to redemption on a take-over of the Company or on a demerger (although in each case Stockholders will have a right in such circumstances to exercise their Conversion Rights).

The Trust Deed will not contain any time limits on the validity of claims to interest and repayment of principal.

PART 5

GENERAL INFORMATION

1. Responsibility Statement

- 1.1 The Company and each of its Directors, whose names appear on page 13 of this document, accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Company and each of its Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.
- 1.2 The Manager accepts responsibility for certain information contained in this Prospectus, namely the sections headed “Investment Approach” and “Investment Opportunity” set out on pages 14 and 15 and the summaries of such sections set out on pages 3 and 4 of this document. To the best of the knowledge of the Manager (which has taken all reasonable care to ensure that such is the case), this information for which it is responsible is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Incorporation, History and Conduct of Business

- 2.1 The Company was incorporated and registered in England and Wales on 14 December 1992 as a public company limited by shares under the 1985 Act with registered number 2774914 and the name New City and Commercial Investment Trust plc. On 2 September 1997, the Company changed its name to INVESCO City and Commercial Trust plc and, on 31 January 2006, the Company changed its name to The Cayenne Trust plc. The principal legislation under which the Company operates is the Act and regulations made under the Act.
- 2.2 The Company’s registered office is at Springfield Lodge, Colchester Road, Chelmsford, Essex CM2 5PW.
- 2.3 The Company’s principal place of business is at 23 Buckingham Gate, London SW1E 6LB. The Company’s telephone number at its principal place of business is +44(0)20 7233 8899.
- 2.4 The memorandum of association of the Company provides that its principal object is to undertake and carry on the business of an investment trust company. The objects of the Company are set out in clause 4 of its memorandum of association, a copy of which is available for inspection at the addresses set out in paragraph 16 of this Part 5.
- 2.5 On 17 December 1992, the Company was granted a certificate of entitlement to do business and to borrow under section 117 of the 1985 Act.
- 2.6 It is the intention of the Directors to continue to conduct the affairs of the Company so that it satisfies the conditions for approval as an investment trust under Chapter 4 of Part 24 of the CTA 2010 and, accordingly, the Company intends that its income will consist wholly or mainly from shares or securities. The Company has obtained approval from HMRC as an investment trust in respect of its financial year ended 31 January 2010. The Directors are of the opinion that the Company has conducted its affairs for the current year so as to be able to continue to obtain approval as an investment trust. As an investment trust, the Company is not regulated as a collective investment scheme (or otherwise) nor is it authorised by the FSA but is subject to the Listing Rules applicable to closed-ended investment companies in general and investment trusts in particular.
- 2.7 The Company has given notice to the Registrar of Companies of its intention to carry on business as an investment company pursuant to section 833 of the Act.

- 2.8 There are no, nor during the 12 months immediately preceding the date of this document have there been any, governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have, or have had, in the recent past significant effects on the Company's financial position or profitability.
- 2.9 If and for so long as required by the Listing Rules of the UKLA in relation to closed-ended investment companies, the Company has adopted the following investment and other restrictions:
- 2.9.1 the Company will at all times, invest and manage its assets in a way which is consistent with its object of spreading investment risk and in accordance with its published investment policy;
- 2.9.2 the Company will not conduct any trading activity which is significant in the context of the Company (or, if applicable, its group as a whole); and
- 2.9.3 No more than 10 per cent., in aggregate, of the value of the Company's assets will be invested in other listed investment companies or listed investment trusts save that this restriction does not apply to the extent that such companies or trusts themselves have stated investment policies to invest no more than 15 per cent. of their total assets in other listed investment companies or listed investment trusts.
- 2.10 In order to maintain its status as an investment trust pursuant to Sections 1158 to 1165 of the CTA (formerly section 842 of the Income and Corporation Taxes Act 1988) the Company is required to operate under certain constraints. Loss of such status would result in capital gains becoming subject to UK corporation tax. These restrictions include the following limits on investments and operations:
- 2.10.1 no investment in any one company may exceed 15 per cent. of the value of the Company's total investments at the time of investment;
- 2.10.2 the Company may not retain (in respect of any accounting period) an amount which is greater than 15 per cent. of the income derived from shares and securities;
- 2.10.3 at least 70 per cent. of the Company's gross income must be derived from shares and securities (including gilts); and
- 2.10.4 the Company may not distribute capital profits by way of dividend.
- In the event of any material breach of the investment restrictions applicable to the Company, Shareholders will be informed of the actions to be taken by the Manager through an announcement via a Regulatory Information Service.
- After a period of consultation, on 9 December 2010, the UK Government set out proposals to reform and modernise the tax rules for investment trusts and, in particular, the restrictions imposed by Sections 1158 to 1165 of the CTA . Draft legislation (which will be in the form of regulations) is not yet available, however the stated aims of the reform are to remove unnecessary restrictions on the commercial activities of investment trusts and reduce costs to business. If implemented as currently proposed the amendments would, *inter alia*, remove the requirement that at least 70 per cent. of the Company's gross income be derived from shares and securities, permit the Company to retain up to 15 per cent. of its income in any one year measured by reference to total income rather than income from shares and securities and replace the 15 per cent. investment restriction with a more purposive spread of risk condition, modelled on provisions in the Listing Rules.
- 2.11 As at the date of this document, save as disclosed in paragraph 4 of Part 5 of this document in respect of the CULS, the Company has no guaranteed, secured, unguaranteed or unsecured debt and the Company has no indirect or contingent indebtedness. The Company has the power to borrow, subject to the limit imposed by the Articles described in paragraph 4 of this Part 5. Details of the Company's borrowing policy are set under the heading "**Current gearing policy**" in Part 1 of this document.
- 2.12 As of the date of this document, the Company has no subsidiary or parent undertakings, associated companies or employees and does not own or lease any premises.

3. Share Capital

3.1 As at 21 January 2011 (being the latest practicable date prior to the publication of this document), the authorised and issued share capital of the Company was as follows:

	<i>Number</i>		<i>Amount</i>	
	<i>Authorised</i>	<i>Issued and Fully Paid</i>	<i>Authorised</i>	<i>Issued and Fully Paid</i>
Ordinary Shares of 25p each	220,000,000	43,602,910	£55,000,000	£10,900,728
CULS (entitling the holder to subscribe for Ordinary Shares at the Conversion Rate)	N/A	9,167,100	N/A	N/A

3.2 Immediately following the Placing (assuming the maximum size of the Placing), the authorised and issued share capital of the Company upon Admission will be as follows:

	<i>Number</i>		<i>Amount</i>	
	<i>Authorised</i>	<i>Issued and Fully Paid</i>	<i>Authorised</i>	<i>Issued and Fully Paid</i>
Ordinary Shares of 25p each	220,000,000	43,602,910	£55,000,000	£10,900,728
CULS (entitling the holder to subscribe for Ordinary Shares at the Conversion Rate)	N/A	15,000,000	N/A	N/A

3.3 The Company's issued share capital history during the last three financial years and since 1 February 2010 is as follows:

- (i) in the financial year ended 31 January 2008, the Company did not issue any new Ordinary Shares. It repurchased 3,969,500 Ordinary Shares into treasury; 869,500 Ordinary Shares were cancelled out of treasury. As at 31 January 2008, the Company had 41,605,643 Ordinary Shares in issue, including 3,100,000 Ordinary Shares held in treasury;
- (ii) in the financial year ended 31 January 2009, the Company did not issue any new Ordinary Shares. It repurchased 4,637,893 Ordinary Shares into treasury; 3,975,643 Ordinary Shares were cancelled out of treasury. As at 31 January 2009, the Company had 37,630,000 Ordinary Shares in issue, including 3,762,250 Ordinary Shares held in treasury;
- (iii) in the financial year ended 31 January 2010 the Company issued 6,726,690 Subscription shares by way of a bonus issue, and issued 318,024 new Ordinary shares as a result of the exercise of a corresponding number of Subscription shares. It repurchased 554,550 Ordinary Shares into treasury, reissued 1,720,000 Ordinary Shares from treasury, and cancelled 487,800 Ordinary Shares out of treasury. As at 31 January 2010, the Company had 37,460,224 Ordinary Shares in issue, including 2,109,000 Ordinary Shares held in treasury, and 6,408,666 Subscription shares in issue.
- (iv) in the period from 1 February 2010 to the date of this Document, the Company issued 6,408,666 new Ordinary Shares as a result of the exercise of a corresponding number of Subscription Shares, reissued 3,280,822 Ordinary Shares from treasury, and cancelled 265,980 Ordinary Shares out of treasury. As at the date of this document, the Company had 43,602,910 Ordinary Shares in issue and no Ordinary Shares held in treasury.

3.4 Pursuant to a general authority granted at the Company's annual general meeting held on 7 May 2008, under section 80 of the 1985 Act, the Directors have authority to allot up to an aggregate nominal amount of £3,000,000 (representing approximately one third of the capital in issue (excluding treasury shares) as at 3 April 2008). As at the date of this document and except as set out in 3.3 above, no Ordinary Shares have been issued pursuant to such authority which expires at the conclusion of the annual general meeting of the Company to be held in 2012.

Further, pursuant to a special resolution passed on 24 January 2011, the Directors have, in addition to the existing authority under section 551 of the Act to allot equity securities (as defined in Section 560 of the Act), generally and unconditionally authorised for the purposes of section 551 of the Act, to allot £10 million convertible unsecured loan stock 2016 and to grant such relevant rights to subscribe for, or to convert any security into, shares in the Company up to an aggregate nominal amount of £10 million. Such authority will expire on the fifth anniversary of the passing of the date of the resolution.

The provisions of section 561(1) of the 2006 Act confer rights of pre-emption in respect of the allotment of equity securities (as defined in section 560(1) of the 2006 Act) which are, or are to be, paid up in cash and apply to the unissued share capital of the Company, except to the extent disapplied by the Company in general meeting. Pursuant to authorities granted at the Company's annual general meeting held on 10 June 2010 under section 570(1) of the Act, a general disapplication in relation to the issue of new Ordinary Shares up to an aggregate nominal value of £507,380 (representing approximately 5 per cent. of the capital in issue as at 13 April 2010) currently exists. Such authority expires at the earlier of 15 months after the date of the annual general meeting or the conclusion of the next annual general meeting of the Company to be held in 2011.

- 3.5 As at 21 January 2011 (being the latest practicable date prior to the publication of this document), the Company holds no Shares in treasury.
- 3.6 Other than the issue of CULS pursuant to the Placing, the Directors have no present intention of issuing any of the authorised but unissued share capital of the Company.
- 3.7 As at the date of this document, save as disclosed in this paragraph 3:
- (i) no Shares which did not represent capital had been issued by the Company and remained outstanding;
 - (ii) no Shares were held by or on behalf of the Company in treasury or otherwise;
 - (iii) no convertible securities, exchangeable securities or securities with warrants had been issued by the Company and remained outstanding;
 - (iv) there were no acquisition rights and/or obligations over any of the Company's authorised but unissued capital and, save in connection with the Placing, no undertakings to increase the Company's capital; and
 - (v) no share or loan capital of the Company is under option or has been agreed, conditionally or unconditionally, to be put under option.
- 3.8 The ISIN (International Security Identification Number) of the Ordinary Shares is GB0006369119. The ISIN of the CULS is GB00B11H1Q91.
- 3.9 The provisions of section 561 of the Act (which confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are or are to be paid up in cash) apply to the authorised but unissued share capital of the Company (to the extent not disapplied pursuant to section 570 of the Act).

4. Articles of Association

4.1 The Articles contain provisions, *inter alia*, to the following effect:

(a) ***Notice of General Meetings***

- (i) An annual general meeting and a meeting called for the passing of a special resolution shall be called by not less than 21 clear days' notice in writing, and a meeting of the Company other than an annual general meeting or a meeting for the passing of a special resolution shall be called by not less than 14 clear days' notice in writing. The notice shall specify the place, the day and the time of meeting and, in

the case of any special business, the general nature of that business. It shall be given, in the manner mentioned in the Articles or in such other manner, if any, as may be prescribed by the Company in general meeting, to such persons as are, under the Articles, entitled to receive such notices from the Company and shall comply with the provisions of the Companies Act and other statutes concerning companies (the “**Statutes**”) as to informing members of their right to appoint proxies. A notice calling an annual general meeting shall specify the meeting as such and a notice convening a meeting to pass an extraordinary resolution or a special resolution as the case may be shall specify the intention to propose the resolution as such.

- (ii) A meeting of the Company shall, notwithstanding that it is called by shorter notice than that specified in the preceding paragraph (i), be deemed to have been duly called if it is so agreed in the case of a meeting called as the annual general meeting, by all the members entitled to attend and vote thereat and in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right.
- (iii) The accidental omission to give notice of a meeting, or to send a form of proxy with a notice where required by the Articles, to any person entitled to receive notice, or the non-receipt of notice of a meeting or form of proxy by any such person, shall not invalidate the proceedings at that meeting.

(b) ***Voting Rights***

- (i) Subject to any rights or restrictions for the time being attached to any class or classes of shares and to any other provisions of the Articles, on a show of hands every member present in person shall have one vote, and on a poll every member present in person or by proxy shall have one vote for each share of which he is the holder.
- (ii) In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders; and for this purpose seniority shall be determined by the order in which the names stand in the register in respect of the share.
- (iii) A member in respect of whom an order has been made by any court having jurisdiction (in the United Kingdom or elsewhere) in matters concerning mental disorder may vote, whether on a show of hands or on a poll, by his receiver curator bonis or other person authorised in that behalf appointed by that court, and such receiver curator bonis or other person may, on a poll, vote by proxy, provided that evidence to the satisfaction of the Directors of the authority of the person claiming to exercise the right to vote has been delivered at the Company’s registered office (or at such other place as may be specified in accordance with the Articles for the delivery of instruments appointing a proxy) not later than the last time at which an instrument of proxy should have been delivered in order to be valid for use at that meeting or on the holding of that poll.
- (iv) No member shall, unless the Directors otherwise determine, be entitled, in respect of any share in the capital of the Company held by him, to be present or to vote on any question, either in person or by proxy, at any general meeting, or separate general meeting of the holders of any class of shares of the Company, or to be reckoned in a quorum, if any call or other sum presently payable by him to the Company in respect of such share remains unpaid.

(c) ***Restrictions on shares***

If a member or any person appearing to be interested in shares in the Company has been duly served with a notice pursuant to the 1985 Act and is in default in supplying to the Company information thereby required within a prescribed period after the service of such notice, the Directors may serve on such member or any such person a notice (a

“**Restriction Notice**”) directing that the member shall not be entitled to vote at any general meeting of the Company in respect of the shares in relation to which the default occurred (“**Restricted Shares**”). Where the Restricted Shares represent at least 0.25 per cent. of the class of shares, the direction notice may in addition direct, *inter alia*, that any dividend or other money which would otherwise be payable on such shares shall be retained by the Company without liability to pay interest and no transfer of any of the shares held by the member shall be registered unless the member is not himself in default in supplying the information requested and the transfer is part only of the member’s holding and is accompanied by a certificate given 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 is interested in any shares subject to the transfer or the transfer is an approved transfer. The prescribed period referred to above means 14 days from the date of service of the notice under the said section 793 where the Restricted Shares represent at least 0.25 per cent. of the class of shares concerned and 28 days in all other cases.

(d) ***Variation of class rights and alteration of capital***

- (i) If at any time the share capital of the Company is divided into different classes of shares, the rights attached to any class of shares may, subject to the Statutes, be modified, abrogated or varied either with the consent in writing of the holders of three-fourths in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of sections 284, 307-310, 313-319 and 337-340 of the 1985 Act and the provisions of the Articles relating to general meetings shall apply, *mutatis mutandis*, but so that the necessary quorum at any such meeting other than an adjourned meeting shall be two persons holding or representing by proxy at least one-third in nominal value of the issued shares of the relevant class and at an adjourned meeting one person holding shares of the class or his proxy. Any holder of shares of the relevant class present in person or by proxy may demand a poll. Every holder of shares of the class in question present in person or by proxy shall be entitled on a poll to one vote for every share of that class held by him. The rights attached to any class of shares, unless otherwise expressly provided by the terms of issue of such share or by the terms upon which such shares are for the time being held, be deemed not to be modified, abrogated or varied by the creation or issue of further shares ranking *pari passu* therewith.
- (ii) The Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of larger amount, sub-divide all or any of its shares into shares of smaller amount and cancel any shares not taken or agreed to be taken by any person.
- (iii) Subject to any consent required by law, the Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account.
- (iv) Subject to the provisions of the Statutes or the Articles, all unissued shares of the Company are at the disposal of the Directors.
- (v) Subject to the provisions of the Statutes, any shares may be issued on terms that they are, or at the option of the Company or the members are, liable to be redeemed on the terms and in the manner provided for by the Articles.
- (vi) Subject to the provisions of the Statutes, the Company may purchase its own shares (including any redeemable shares) provided that the Company shall not purchase its own shares if at the time of any approval or authorisation by the Company in general meeting of such purchase or contract relating thereto there are outstanding any shares which remain capable of being converted into equity share capital, unless such purchase has been properly sanctioned by an extraordinary resolution passed at a separate meeting of the holders of each class of such convertible shares.

- (vii) The Company may not give any financial assistance for the acquisition of shares in the Company except and in so far as permitted by the Statutes.
 - (viii) Subject to the provisions of the Statutes, the shares of the Company cannot be allocated at a discount and save as permitted by the Statutes cannot be allotted except as paid up at least as to one-quarter of their nominal value and the whole of any premium.
- (e) ***Transfer of shares***
- (i) All transfers of shares shall be effected by instrument in writing in any usual or common form or any other form which the Directors may approve. The instrument of transfer of any share in the Company shall be signed by or on behalf of the transferor (and, in the case of a share which is not fully paid, shall be signed by or on behalf of the transferee).
 - (ii) The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the Company's share register in respect thereof.
 - (iii) The Directors may, in their absolute discretion and without assigning any reason therefor, refuse to register any transfer of any share which is not a fully paid share provided that, where any such shares are admitted to the Official List, such discretion may not be exercised in a way which the London Stock Exchange regards as preventing dealings in the shares of that class from taking place on an open and proper basis. The Directors may likewise refuse to register any transfer of a share, whether fully paid or not, in favour of more than four persons jointly.
 - (iv) The Directors may decline to recognise any instrument of transfer unless the instrument of transfer is left at the company's registered office, or at such other place as the Directors may from time to time determine, accompanied by the certificate(s) of the shares to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer (and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do) and the instrument of transfer is in respect of only one class of share.

(f) ***US Persons***

The Directors shall be entitled to invoke the provisions described in the following paragraphs under the heading "US Persons" where they believe either (i) that the aggregate number of US Persons who are beneficial owners of any outstanding securities (which expression includes warrants) is or might be more than fifty (or such other number as the Directors may from time to time determine) or (ii) in light of the holding of beneficial ownership of any share or warrant (whether on its own or when taken together with other securities of the Company of other holders), the assets of the Company might in the opinion of the Directors, either at the time of determination or at any time in the future, be considered "plan assets" within the meaning of Regulations adopted by the United States Department of Labor under the Employee Retirement Income Security Act of 1974 (as amended) of the United States of America.

The Directors may decline to register any person as a holder of shares unless there has been furnished to them a declaration (in such form as the Directors may from time to time prescribe), together with such evidence as the Directors may require of the authority under which any such declaration may have been signed, stating whether or not such person is a person having an interest in shares who is, or who is deemed to be a Restricted Person (as defined below) and whether or not, upon registration of such share in the relevant name or names, any Restricted Person is or will be interested in such share. The Directors shall in any case where they may consider appropriate require such person to provide such evidence or give such information as to the matters referred to in the declaration as they think fit, and shall decline to register any person as a holder of a share if such further evidence of

information is not provided or given. The Directors may at any time give notice in writing to the holder (or to each one of the joint holders) of a share requiring him within such reasonable period as may be specified in the notice to show to their satisfaction whether or not a Restricted Person is interested in such a share. If within 14 days after the giving of such notice (or such extended time as in all circumstances the Directors shall consider reasonable) they are not satisfied, the Directors may declare that a Restricted Person is interested in such share.

For the purpose of preventing any Restricted Person from having any interest in shares:

- (i) The Directors may serve written notice on a registered holder of any Restricted Shares and on any other person who appears to them to be a Restricted Person in relation to those shares setting out the restrictions contained in paragraph (iii) below and calling for a Required Disposal (as defined below) to be made within 14 days of the service of the notice on the registered holder (or such longer period as the Directors consider reasonable). The Directors may extend the period in which such notice is required to be complied with and may withdraw any such notice (whether before or after the expiration of the period referred to) if it appears to them that there is no Restricted Person in relation to the shares concerned. The registered holder of the Restricted Shares and any other person on whom such notice is served may make representations to the Directors in such manner and detail as the Directors shall deem appropriate to the effect that no Restricted Person is interested in relation to such shares. Upon the giving of such notice, and save for the purpose of a required disposal under this paragraph (i) or the following paragraph (ii) no transfer of any Restricted Shares (or any interest therein) may be made until either such notice has been withdrawn or a Required Disposal has been made to the satisfaction of the Directors and registered.
- (ii) If a notice served under paragraph (i) has not been complied with in all respects to the satisfaction of the Directors and has not been withdrawn, the Directors may in their sole discretion, so far as they are able, arrange for a Required Disposal to be made at the best price reasonably obtainable at the relevant time and shall give written notice within such reasonable time as the Directors shall determine of such disposal to the former registered holder. The manner, timing and terms under which any such Required Disposal is made or sought to be made by the Directors (including but not limited to the price or prices at which the same is made and the extent to which assurances obtained that no transferee is or would become a Restricted Person) shall be such as the Directors determine, based upon advice from bankers. Brokers or other appropriate persons consulted by them for the purpose, to be reasonably practicable having regard to all the circumstances (including but not limited to the number of shares to be disposed of and the requirement the disposal be made without delay) and the Directors shall not be liable for any of the consequences of reliance on such advice.
- (iii) A registered holder of a Restricted Share on whom a notice has been served under paragraph (i) above shall not in respect of that share be entitled, until such time as the notice either has been complied with to the satisfaction of the Directors or withdrawn, to attend or vote at any general meeting of the Company or of any class thereof and the rights to attend (whether in person or by proxy), to speak and to demand and vote on a poll which, but for the provisions of this paragraph (iii) would have attached to the Restricted Share, shall vest in the chairman of such meeting. The manner in which the chairman exercises or refrains from exercising any such right shall be entirely at his discretion. The chairman of any such meeting as aforesaid shall be informed by the Directors of any share becoming or being deemed to be a Restricted Share.

The transfer of any Restricted Share shall be subject to the approval of the Directors if, in the opinion of the Directors, such Restricted Share would upon transfer remain a Restricted Share and the Directors may refuse to register the transfer of any such share.

For the purpose of a Required Disposal under paragraph (ii) above, the Directors may appoint any person to execute as transferor an instrument of transfer in favour of the transferee and may enter the name of the transferee in respect of the transferred shares in the Register of Members notwithstanding the absence of any share certificate and such instrument of transfer shall be as effective as if it had been executed by the registered holder and the title of the transferee shall not be affected by any irregularity or invalidity in the proceedings relating thereto. The net proceeds of a Required Disposal shall be received by the Company (whose receipt shall be a good discharge for the purchase money) and shall be converted into sterling (if necessary) and shall be held on trust for and paid (together with interest at such rate as the Directors deem appropriate) to the former registered holder (or, in the case of joint holders, the first named joint holder thereof in the Register of Members) upon surrender by him or on his behalf of any certificate in respect of the shares sold and formerly held by him. When a Required Disposal is made the Directors shall notify the former registered holder of the shares disposed of and inform him that the net proceeds of the Required Disposal will be paid to him upon surrender by him or on his behalf of any certificate in respect of the shares concerned.

Subject to these provisions the Directors shall, unless any Director has any reason to believe otherwise, be entitled to assume without enquiry that all shares are not Restricted Shares and no person is a Restricted Person.

The Directors shall not be obliged to serve any notice required under these provisions upon any person if they know neither his identity nor his address. The absence of service in such circumstances as aforesaid and any accidental error in or failure to give any notice to any person upon whom notice is required to be served under these provisions shall not prevent the implementation of or invalidate any procedure under these provisions. Any notice required by this paragraph to be served upon a person who is not a member or upon a person who is a member but whose current address is unknown (and/or is untraced in terms of the Articles) shall be deemed validly served if it is sent through the post prepaid addressed to that person at the address (or if more than one at one of the addresses (if any) at which the Directors believe him to be resident or carrying on business). Service shall in such a case be deemed to be effected at the expiration of 24 hours (or where second class mail is employed, 48 hours) after the time it is posted and in proving such service it shall be sufficient to prove that the notice was properly addressed, stamped and posted.

Any resolution or determination of, or any decision or the exercise of any discretion or power by the Directors or any one of them or by the chairman of the Company (including any other Director duly acting in place of the chairman) under these provisions shall be final and conclusive and neither he nor they shall be obliged to give any reason therefor. Any disposal or transfer made or other thing done, by or on behalf of, or on the authority of, the Directors or any of them pursuant to these provisions shall be conclusive and binding on all persons concerned and shall not be open to challenge on any ground whatsoever. For the avoidance of doubt any powers, rights or duties conferred by these provisions on the Directors can be exercised by a duly authorised committee of the Directors.

The Directors shall, so long as they act reasonably and in good faith, be under no liability to the Company or to any other person for failing to treat any share as a Restricted Share or any person as a Restricted Person in accordance with the Articles and neither shall the Directors be liable to the Company or any other person if, having acted reasonably and in good faith they determine erroneously that any share is a Restricted Share, or any person is a Restricted Person or on the basis of such determination or any other determination or resolution of the Directors, they perform or exercise (or purport to perform or exercise) their duties, powers, rights or discretions under these provisions in relation to such share.

In exercising their powers under the Articles in respect of Restricted Shares, the Directors shall so far as practicable, have regard to the order of date (insofar as the Directors are able to determine) in which such shares became Restricted Shares and/or the relative number of Restricted Shares held or beneficially owned by each Restricted Person save in circumstances where such would in the opinion of the Directors be inequitable or in the case of Restricted Shares which became Restricted Shares at or around the same time when the Directors shall be entitled to apply such other criterion or criteria as they consider appropriate.

The following terms are defined, broadly, as follows (and in this paragraph (f) only, these definitions prevail over the definitions in the Definitions section at the start of and elsewhere in this document):

- “interest”** means any interest which would (subject as provided below) be taken into account, or which any person would be taken as giving in determining, for the purposes of Part 22 of the Act, whether a person has a notifiable interest (but not an interest which a person would be deemed to have in shares in which his spouse or any infant child or stepchild (or, in Scotland, pupil or minor) of his is interested by virtue of that relationship or which he holds as a bare or custodian trustee under the laws of England or as a simple trustee under the laws of Scotland) or would otherwise be or be deemed to be a beneficial interest in the shares for the purposes of US securities laws;
- “Required Disposal”** means a disposal or disposals of (or in the discretion of the Directors of interests in) such number of Restricted Shares as will cause a Restricted Person to cease to be a Restricted Person, not being a disposal to another Restricted Person nor a disposal which constitutes any other person a Restricted Person;
- “Restricted Person”** means any person having an interest in shares who is, or who is deemed to be, or who appears to the Directors to be a U.S. person or any person or entity in light of whose interest in shares, either on its own or taken together with the interests of other holders, the assets of the Company might be considered “plan assets” (as defined in the Articles); and where the Directors resolve they have made reasonable enquiries and they are unable to determine whether or not a person has an interest in any particular shares, the shares concerned shall be deemed to be Restricted Shares and all persons interested in them to be Restricted Persons;
- “Restricted Share”** means any share in which a Restricted Person has an interest;
- “United States”** means the United States of America, its territories and possessions and any area subject to its jurisdiction including the Commonwealth of Puerto Rico; and
- “US Person”** means (a) any individual who is a citizen or resident of the United States; or (b) any corporation, partnership, association or other entity organised or created under the laws of the United States or of any states of the United States; (c) any state or trust subject to United States Federal income tax without regard to the source of its income; (d) any corporation organised or created under the laws of any jurisdiction outside the United States if 20 per cent. or more of the equity interests therein are owned by US Persons as defined under clause (a) to (c) above; (e) any partnership organised or created under the laws of any jurisdiction outside the United States if any of its partners are, directly or indirectly,

US Persons as defined under clauses (a) to (d) above; (f) any trust or estate, in respect of which there is a beneficiary which is a US Person as defined under clauses (a) to (d) above, the income of which is derived from sources outside the United States which is not effectively connected with the conduct of a trade or business within the United States and may not be included in gross income for United States Federal income tax purposes; (g) any corporation capital stock of which is subject to an option to acquire such stock held directly or indirectly by a US Person as defined in clauses (a) to (d) above; and (h) any other person or entity who or which is or may be a US Person for the purposes of US securities laws.

(g) ***Directors***

- (i) The business of the Company shall be managed by the Directors, who may exercise all the powers of the Company, subject nevertheless to the provisions of the Articles and of the Statutes.
- (ii) Unless and until the Company in general meeting shall otherwise determine, the maximum number of Directors shall be ten and the minimum number of Directors shall be two.
- (iii) A Director shall not be required to hold any Shares in the capital of the Company. A Director who is not a member will nevertheless be entitled to receive notice of, attend and speak at all general meetings of the Company and all separate general meetings of the holders of any class of shares in the capital of the Company.
- (iv) No Director shall be disqualified by his office from entering into any contract, arrangement, transaction or proposal with the Company either with regard to his tenure of any other office or place of profit or acting in a professional capacity for the Company or as a vendor, purchaser or otherwise. Subject to the provisions of the Statutes and save as provided in the Articles, no such contract, arrangement, transaction or proposal entered into by or on behalf of the Company in which any Director or person connected with him is in any way interested, whether directly or indirectly, shall be liable to be avoided, nor shall any Director who entered into any such contract, arrangement, transaction or proposal or who is so interested be liable to account to the Company for any profit realised by any such contract, arrangement, transaction or proposal by reason of such Director holding that office or of the fiduciary relationship thereby established, but such Director shall declare the nature of his interest in accordance with the Statutes.
- (v) A Director shall (in the absence of some other material interest than is indicated below) be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters, namely:
 - (aa) the giving of any guarantee, security or indemnity to him in respect of money obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiaries;
 - (bb) the giving of any guarantee, security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
 - (cc) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiaries 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 thereof;

- (dd) any contract, arrangement, transaction or other proposal concerning any other body corporate in which he or any person connected with him is interested, directly or indirectly and whether as an officer or shareholder or otherwise howsoever, provided that he and any person connected with him do not to his knowledge hold an interest in one per cent. or more of any class of the equity share capital (or of a third body corporate through which his interest is derived) or of the voting rights available to members of the relevant body corporate (any such interest being deemed for these purposes to be a material interest in all circumstances);
 - (ee) any contract, arrangement, transaction or other proposal for the benefit of the employees of the Company or any of its subsidiary undertakings which does not accord to him any privilege or advantage not generally accorded to the employees to whom the scheme or arrangement relates; and
 - (ff) any proposal concerning any insurance which the Company is to purchase and/or maintain for the benefit of the Directors or persons who include the Directors.
- (vi) A Director, upon it becoming known to him that he and/or any person connected with him has or possibly may have a direct or indirect interest which conflicts or possibly may conflict with the interests of the Company (“a conflict situation”) shall declare the nature and extent of that interest to the Directors in accordance with the statutes.

Where a Director declares a conflict situation the remaining Directors may:

- (aa) authorise the conflict (subject to the Articles, statute and any terms and conditions the authorising directors think fit);

Provided that:

- (bb) any requirement as to quorum at the meeting at which the matter is considered is met without counting the conflicted Director or any similarly interested Director in the quorum; and
- (cc) the matter is agreed without the conflicted Director nor any similarly interested Director voting, or would have been agreed if their vote had not been counted.

Where a Director receives this authorisation (notwithstanding his duty to act in the best interests of the Company) he:

- (A) shall not be required to disclose any confidential information he acquires from the conflict situation if to disclose it would result in him breaching any duty of confidentiality owed by him in relation thereto;
- (B) need not consider board papers and may absent himself from any discussions relating to the conflict situation;
- (C) shall not (unless otherwise agreed) account to the Company for any profit, remuneration or other benefits realised or receivable by him in consequence of the conflict situation and no contract, transaction or arrangement relating thereto shall be avoided on the grounds of his conflict situation; and
- (D) may act in any way authorised by any guidance for dealing with the conflicts of interest issued by the Company.

A conflict of interest includes a conflict of duty or conflict of duties where a Director had or can have a direct or indirect interest that conflicts or possibly may conflict with the interests of the Company, the duties which the Directors owe to the Company shall not be infringed by anything done (or omitted) by the Directors, or any of them, in accordance with this Article.

- (vii) If any question shall arise at any meeting as to the materiality of a Director's interest or as to the entitlement of any Director to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to any other Director shall be final and conclusive except in a case where the nature or extent of the interests of the Director concerned have not been fairly disclosed.
- (viii) Save as provided in the Articles, a Director shall not vote or be counted in the quorum in respect of any contract, arrangement, transaction or any other proposal in which he has any material interest otherwise than by virtue of his interest in shares or debentures or other securities of or otherwise in or through the Company. A Director shall not be counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting.
- (ix) A Director will not be counted in the quorum on any resolution concerning his own appointment as the holder of any office or place of profit with the Company or any company in which the Company is interested including fixing or varying the terms of his appointment or the termination thereof.
- (x) The Directors shall be paid out of the funds of the Company by way of fees for their services as Directors such sums (if any) as the Directors may from time to time determine (not exceeding in the aggregate an annual sum (excluding amounts payable under any other provisions of the Articles) of £100,000 or such larger amount as the Company may by ordinary resolution determine).
- (xi) Any Director who serves on any committee or who devotes special attention to the business of the Company, or who otherwise performs services which, in the opinion of the Directors, are outside the scope of the ordinary duties of a Director, may be paid such extra remuneration by way of salary, percentage of profits or otherwise as the Directors may determine.
- (xii) The Directors may be paid all reasonable travelling, hotel and other expenses properly incurred by them in attending and returning from meetings of the Directors or any committee of the Directors or meetings of members or debenture holders of the Company or otherwise in connection with the business of the Company.
- (xiii) Subject to the provisions of the Statutes, a Director may hold any other office or place of profit under the Company, except that of auditor, in conjunction with the office of Director and may act by himself or through his firm in a professional capacity for the Company, and in any such case, on such terms as to remuneration and otherwise as the Directors may arrange.
- (xiv) Where proposals are under consideration concerning the appointment (including fixing or varying the terms of appointment) of two or more Directors to office or employment with the Company or any body corporate in which the Company is interested, such proposals may be divided and considered in relation to each Director separately and in such cases each of the Directors concerned, subject to the Articles, shall be entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment.
- (xv) Without prejudice to any other provisions of the Articles, the Directors may exercise all the powers of the Company to purchase and maintain insurance for or for the benefit of any persons who are or were at any time Directors, officers, employees or

auditors of the Company, or of any other body (whether or not incorporated) which is or was its parent undertaking or subsidiary undertaking or another subsidiary undertaking of any such parent undertaking (“**Group Companies**”) or otherwise associated with the Company or any Group Company or in which the Company or any such Group Company has or had any interest, whether direct or indirect, or of any predecessor in business of any of the foregoing, or who are or were at any time trustees of (or directors of trustees of) any pension, superannuation or similar fund, trust or scheme or any employees’ share scheme or other scheme or arrangement in which any employees of the Company or of any such other body are interested, including (without prejudice to the generality of the foregoing) insurance against any costs, charges, expenses, losses or liabilities suffered or incurred by such persons in respect of any act or omission in the actual or purported execution and/or discharge of their duties and/or the exercise or purported exercise of their powers and discretions and/or otherwise in relation to or in connection with their duties, powers or offices in relation to the Company or any such other body, fund, trust, scheme or arrangement.

(xvi) Each Director shall have the power at any time to appoint as an alternate Director either (i) another Director or (ii) any other person approved for that purpose by a resolution of the Directors, and, at any time, to terminate such appointment.

(h) ***Borrowing powers***

The Directors may, save as otherwise provided in the Articles, exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets and uncalled capital, or any part thereof, and, subject to the provisions of the Statutes, to issue debentures, debenture stock and other securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.

The Company does not have any subsidiaries but the Articles provide that the Directors shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiary undertakings (if any) so as to secure (so far, as regards subsidiary undertakings, as by such exercise they can secure) that the aggregate amount for the time being remaining undischarged of all monies borrowed by the Company and its subsidiary undertakings for the time being (“**Group**”) and for the time being owing to persons outside the Group shall not at any time, without the previous sanction of an ordinary resolution of the Company in general meeting, exceed the greater of two times the aggregate of (i) the amount paid up on the issued share capital of the Company and (ii) the total of the capital and revenue reserves of the Group (including any share premium account, capital redemption reserve and credit balance on the profit and loss account) in each case whether or not such amounts are available for distribution as shown in the latest audited and consolidated balance sheet of the Group but after such adjustment exclusions and reductions (including any amounts attributable to intangibles) as are specified in the relevant Article.

(i) ***Pensions, gratuities, etc.***

The Directors may exercise all the powers of the Company to give or award pensions, gratuities and superannuation or other allowances or benefits to, *inter alia*, any director, ex-director, employee or ex-employee of the Company or of any of its subsidiary undertakings (present or past) or the relatives or dependants of any such person and may establish, maintain, support, subscribe to and contribute to all kinds of scheme, trusts and funds for the benefit of any such person.

(j) ***Dividends and distributions on liquidation to shareholders***

The Company in general meeting may declare dividends but no dividend shall exceed the amount recommended by the Directors. Subject to the rights of persons (if any) entitled to shares with any priority, preference or special rights as to dividends, all dividends shall be paid according to the amounts paid up on the shares in respect whereof the dividend is paid, but no amount paid up on a share in advance of calls shall be treated as paid on the share.

All 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; but if any share is issued on terms providing that it shall rank for dividend as if paid up in full or in part from a particular date, whether past or future, such share shall rank for dividend accordingly.

Subject to the provisions of the Statutes, the Directors may pay such interim dividends as they think fit and may also pay the fixed dividends payable on any shares of the Company half-yearly or otherwise on fixed dates.

The Directors may, before recommending any dividend, set aside out of the Company's profits such sums as they think proper as a reserve or reserves which will be applicable for any purpose to which the Company's profits may be properly applied and may in the meantime either be employed in the Company's business or invested in such investments as the Directors may think fit.

On a winding up, the liquidator may, with the sanction of an extraordinary resolution of the Company and any other sanction required by the Statutes, divide amongst the members the whole or any part of the assets of the Company and may, for such purpose, set such value as he deems fair upon any property to be so divided and may determine how such division shall be carried out.

(k) ***Unclaimed dividends***

Any dividend unclaimed for a period of 12 years after being declared or becoming due for payment shall be forfeited and shall revert to the Company.

(l) ***Capital Reserve***

All surpluses arising from the realisation or revaluation of investments and all other capital profits and accretions of capital shall be credited to a reserve or reserves to be established by the Directors ("**Capital Reserve**"). Any loss realised on the sale, repayment or payment of any investments or other capital assets and any expenses, loss or liability (or provision therefor) properly chargeable to capital shall be carried to the debit of the Capital Reserve. All sums carried and standing to the credit of 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 shall be transferred to the revenue reserves of the Company or be regarded or treated as profits of the Company available for distribution (as defined by section 829(1) and (2) of the Act) or be applied in paying dividends on any shares in the Company. Any determination of the Directors that any amount received or receivable by the Company or any expenses, loss or liability incurred by or on behalf of the Company is to be dealt with as income or capital or partly one way and partly the other shall be conclusive.

Subject to the Articles and to the provisions of the Statutes, the Directors may from time to time set aside out of the profits of the Company such sums as they think proper as a reserve or reserves which shall, at the discretion of the Directors, be applicable for any purpose to which the profits of the Company may be properly applied, and pending such application may, at the like discretion, either be employed in the business of the Company or be invested in such investments as the Directors think fit. The Directors may divide the reserve into such special funds as they think fit, and may consolidate into one fund any special funds or any parts of any special funds into which the reserve may have been divided as they think fit. The Directors may also without placing the same to reserve carry forward any profits which they may think prudent not to divide.

(m) ***Capitalisation of profits and scrip dividend***

Subject to the provisions of the Articles, the Directors may capitalise any part of the amount for the time being standing to the credit of any of the Company's reserve accounts (including any share premium account and capital redemption reserve) or to the credit of the profit and loss account (in each case, whether or not such amounts are available for distribution), and appropriate the sum resolved to be capitalised either:

to the holders of Ordinary Shares (on the Register at the close of business on such date as may be specified in, or determined as provided in, the resolution of the general meeting granting authority for such capitalisation) who would have been entitled thereto if distributed by way of dividend and in the same proportions; and the Directors shall apply such sum on their behalf either in or towards paying up any amounts, if any, for the time being unpaid on any shares held by such holders of Ordinary Shares respectively or in paying up in full at par unissued shares or debentures of the Company to be allotted credited as fully paid up to such holders of Ordinary Shares in the proportions aforesaid, or partly in the one way and partly in the other; or

to such holders of Ordinary Shares who may, in relation to any dividend or dividends, validly accept an offer or offers on such terms and conditions as the Directors may determine (and subject to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with legal or practical problems in respect of overseas shareholders or in respect of shares represented by depositary receipts) to receive new Ordinary Shares, credited as fully paid up, in lieu of the whole or any part of any such dividend or dividends (any such offer being called a “**Scrip Dividend Offer**”); and the Directors shall apply such sum on their behalf in paying up in full at par unissued shares (in accordance with the terms, conditions and exclusions or other arrangements of the Scrip Dividend Offer) to be allotted credited as fully paid up to such holders respectively.

The authority of the Company in general meeting shall be required before the Directors implement any Scrip Dividend Offer (which authority may extend to one or more offers) and for any capitalisation referred to above.

A share premium account and a capital redemption reserve and any other amounts which are not available for distribution may only be applied in the paying up of unissued shares to be allotted to holders of Ordinary Shares credited as fully paid up.

Whenever a capitalisation requires to be effected, the Directors may do all acts and things which they may consider necessary or expedient to give effect thereto, with full power to the Directors to make such provision as they think fit for the case of shares or debentures becoming distributable in fractions (including provisions whereby fractional entitlements are disregarded or the benefit thereof accrues to the Company rather than to the members concerned) and also to authorise any person to enter on behalf of all members concerned into an agreement with the Company providing for any such capitalisation and matters incidental thereto and any agreement made under such authority shall be effective and binding on all concerned.

(n) ***Duration and winding up***

- (i) The Directors shall procure that there is proposed at the annual general meeting of the Company to be held in 2016 and at every annual general meeting of the Company thereafter an ordinary resolution providing that the Company should continue as an investment trust. If any such resolution is not put forward or is not passed, the Directors shall be obliged to convene within 3 months an extraordinary general meeting to propose the Company’s voluntary winding-up pursuant to section 84(1) of the Insolvency Act 1986. The resolution proposing the Company’s voluntary winding-up will be a special resolution.
- (ii) If the Company shall be wound up the liquidator may, with the sanction of an extraordinary resolution of the Company and any other sanction required by the Statutes, divide amongst the members in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts

for the benefit of the contributories as the liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any shares or other securities or other assets whereon there is any liability.

- (iii) The Directors shall have the power in the name and on behalf of the Company to present a petition to the Court for the winding-up of the Company or for an administration order to be made in relation to the Company.

5. Directors Profiles

The names, business experience and principal business activities outside the Company of the current Directors, as well as the dates of their initial appointment as directors, are set out below.

6. Directors' and other interests

- 6.1 The Directors of the Company, each of whose business address is Springfield Lodge, Colchester Road, Chelmsford, Essex CM2 5PW and their functions in relation to the Company are as follows:

Jonathan Agnew: non executive director and Chairman;

Christopher Jones: non executive director; and

Sir Laurence Magnus: non executive director and chairman of the audit committee.

- 6.2 As at the date of this document, the interests of the Directors, their immediate families and related trusts and (insofar as is known to them or could with reasonable diligence be ascertained by them) persons connected (within the meaning of section 96B of FSMA (as amended by the Financial Services and Markets Act 2000) (Market Abuse) Regulations 2005) with the Directors in the share capital of the Company (all of which are beneficial unless otherwise stated), including: (i) interests arising pursuant to any transaction notified to the Company pursuant to DTR 3.1.2R; or (ii) those of persons connected with the Directors, which would, if such connected person were a Director, be required to be disclosed under (i) above, together with the interests which are expected to subsist immediately following the Placing, are set out in the following tables:

	<i>No. of Ordinary Shares</i>	<i>Nominal amount of CULS (£)</i>	<i>% of issued Ordinary Share Capital</i>	<i>% of CULS issued</i>
Jonathan Agnew	180,000	—	0.41	—
Christopher Jones	24,000	—	0.05	—
Sir Laurence Magnus	130,378	60,000*	0.30	0.66

* This includes the £25,000 nominal of CULS that Sir Laurence Magnus has agreed to purchase under the Placing.

- 6.3 No Director of the Company has or has had any interest in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company which was effected by the Company during the current or immediately preceding financial year or was effected during an earlier financial year and remains in any respect outstanding or unperformed.
- 6.4 Save as disclosed in this paragraph 6 and paragraph 3 of Part 5, no share or loan capital of the Company is under option or is agreed conditionally or unconditionally to be put under option.
- 6.5 The Company has not entered into any related party transactions (as defined in the Standards adopted pursuant to Regulation (EC) No 1606/2002) with any Director or with any other related party during the financial periods ended 31 January 2008, 2009 and 2010 nor since 1 February 2010 to 21 January 2011 (being the latest practicable date prior to the publication of this document) other than the following:

Any performance fee payable to the Manager is subject to a HWM and is constructed so that a performance fee cannot be paid unless the NAV per Share has increased by at least 5 per cent. since the last performance fee was paid. The subscription shares issued by the Company in June 2009 were exercised in full and this resulted in a dilution to the NAV per Share. In order to

maintain a level HWM on an undiluted basis, and therefore not disadvantage the Manager, the HWM for the year to 31 January 2011 has been amended from 146.07p to 140.87p. This transaction constituted a related party transaction under the Listing Rules.

6.6 There are no outstanding loans granted by the Company to any of the Directors nor is any guarantee provided by the Company for the benefit of any of the Directors.

6.7 Details of those companies (other than the Company) and partnerships of which the Directors have been directors or partners (excluding subsidiaries of any company whose securities have been admitted to listing or are the subject of an application for admission to listing) at any time over the past five years preceding the date hereof are as follows:

(i) **Jonathan Agnew (Chairman)**

Current directorships and partnerships: Ashmore Global Opportunities Limited (Guernsey registered), Thos. Agnew and Sons (Holdings) Limited, Beazley plc (Jersey registered), Rightmove plc and St Mary's School Ascot.

Previous directorships and partnerships: LMS Capital plc, Agnew's Property Investments (Holdings) Limited, Agnew's Property Investments Limited and Thos. Agnew & Sons Limited.

(ii) **Christopher Jones**

Current directorships and partnerships: Schroder UK Mid & Small Cap Fund plc, Ecofin Water & Power Opportunities plc, EW&PO Finance plc, and Montanaro European Smaller Companies Ltd (Dublin registered).

Previous directorships and partnerships: The Asian Technology Trust plc (dissolved), ATT Securities Limited (dissolved), Henderson Geared Income & Growth Trust plc (in liquidation), Montanaro UK Smaller Companies Investment Trust plc, Merchant Investor Services Company Limited, Japanese Accelerated Performance Fund Limited (Guernsey registered), Baring World Opportunity Fund (Luxembourg registered, in liquidation), JFIT Securities Limited (in liquidation), Jupiter Second Enhanced Income Trust plc, Mid-Small Ark plc (in liquidation), Recovery Trust plc, NM Smaller Australian Companies Trust plc, the Asian Technology Trust plc, Mid-Small Ark plc, ATT Securities Limited, JFIT Securities Limited, Japan Accelerated Performance Fund, Jupiter Second Enhanced Income Trust plc, Thompson Clive Investments plc (in liquidation) and Jupiter Financial Trust plc (in liquidation).

(iii) **Sir Laurence Henry Philip Magnus**

Current directorships and partnerships: The Lexicon Partnership LLP, SPOT (1002) Investments LLP, Aggregated Micro Power Limited, SPOT (1003) Investments LLP, FIM Services Limited, Lexicon Group Limited, The Eating Disorders Association, JP Morgan Fleming Income & Capital Investment Trust plc (in liquidation), The National Trust, Community of St Jude, The Windsor Leadership Trust, JP Morgan Income and Capital Trust plc, Magnus Whyte Property Developments Limited, The Barbican Centre Trust Limited and Fidelity Japanese Values plc;

Previous directorships and partnerships: ins-sure Holdings Limited, ins-sure Services Limited, LPSO Limited, London Processing Centre Limited, The Fleming Income & Capital Investment Trust plc (dissolved), TTG Incentive Trustees Limited, TT electronics plc, Climate Exchange plc, Syndicated Services Company, Inc (US registered) and Directfac, Inc (US registered).

6.8 As at the date of this document, none of the Directors has any convictions in relation to fraudulent offences. No Director has been the subject of any official public incriminations and/or had sanctions imposed upon him by any statutory or regulatory authorities (including designated professional bodies). No Director has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or partnership or from

acting in the management or conduct of the affairs of any company or partnership in the previous five year period. There have been no bankruptcies, receiverships or liquidations of companies (save as disclosed in paragraph 6.7 above) or partnerships in respect of which any Director was a member of the administrative, management or supervisory body or was a senior manager and with which he was associated over at least the previous 5 years.

- 6.9 There are no potential conflicts of interests between any of the Directors' duties to the Company and their private interests and/or other duties, other than the following:

Christopher Jones is a director of Ecofin Water and Power Opportunities plc (“**EWPO**”). This is a company in which the Company has a shareholding of 1,500,000 shares and 1,450,000 subscription shares and Christopher Jones holds 6,150 ordinary shares 51,230 subscription shares, £50,000 of 6 per cent. convertible unsecured loan stock 2016 and 80,000 zero dividend preference shares.

- 6.10 The remuneration paid and benefits in kind granted to the Directors or former directors of the Company during the financial year ended 31 January 2010 is as follows:

	£
Jonathan Agnew	23,000
Christopher Jones	15,000
Sir Laurence Magnus	17,500
Total	<u>55,500</u>

With effect from 1 February 2011, the above fees rates will increase to £25,000, £16,500 and £19,000 respectively.

- 6.11 The Directors are not and will not be eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefit. There is no amount set aside or accrued by the Company in respect of contingent or deferred compensation payments or any benefits in kind payable to the Directors.
- 6.12 There are no existing or proposed service contracts between any of the Directors and the Company. Each of the Directors has entered into a letter of appointment with the Company. Under the terms of their appointment the Chairman is entitled to aggregate annual remuneration of £23,000 and each of the other Directors, save for the chairman of the audit committee who is entitled to annual aggregate remuneration of £17,500, is entitled to aggregate annual remuneration of £15,000 (or such higher amount as the Company may from time to time determine) in each case payable quarterly in arrears. The Directors are entitled to be reimbursed for any out-of-pocket expenses and other expenses incurred in the proper performance of their duties as directors. The Directors are not entitled to any compensation upon termination of office as a director of the Company. The Company may terminate the appointment of a Director upon such period of notice as it considers appropriate in the circumstances.

7. Corporate Governance

- 7.1 The Board consists of three non-executive directors, all of whom are regarded by the Board as being independent of the Manager and free from any business or other relationship which could materially interfere with the exercise of independent judgement.
- 7.2 The Board has put in place a framework for corporate governance which it believes is appropriate to an entity investing in securities and, taking account of the matters referred to below, enable the Company to comply with the Combined Code and AIC Code of Corporate Governance (the “**AIC Code**”). The Company does not comply with the Combined Code in the following respects:

- (i) it has elected not to read out proxy votes after each resolution is put to a general meeting of the Company, but instead provides a written summary report to attending shareholders it is felt that this is more useful to shareholders as they may retain the record for their own purposes;
 - (ii) no senior independent director has been nominated owing to the small size of the Board, which comprises only three members;
 - (iii) all three Directors sit as members of the nomination and audit committees again owing to the small size of the Board it is not practical to operate yet smaller sub-committees; and
 - (iv) the Company does not maintain a policy on “whistle blowing” as it does not have any employees.
- 7.3 The Management Agreement sets out the matters over which the Manager has authority and the limits above which Board approval must be sought. All other matters are reserved for the approval of the Board.
- 7.4 The Board receives full details of the Company’s assets, liabilities and other relevant information in advance of Board meetings. The Board will meet formally at least 4 times a year; however, the Manager and Secretary stay in more regular contact with Directors on a less formal basis. Individual Directors have direct access to the Secretary and may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties.
- 7.5 In relation to the use of the Company’s voting rights in respect of investee companies, the Manager, in the absence of explicit instruction from the Board, is empowered to exercise discretion in the use of the Company’s voting rights. The underlying aim of exercising such voting rights is to protect the return from an investment.
- 7.6 Since all Directors are non-executive, the Company is not required to comply with the principles of the Combined Code in respect of executive Directors’ remuneration. The Board has appointed a management engagement committee, which comprises the entire Board. The function of this committee is to review the terms of third party service agreements and performance against them and that the provisions of these follow industry practice and remain competitive and in the best interests of Shareholders.
- 7.7 Given the size and composition of the Board it is not felt necessary to separate the roles of Chairman and senior independent non-executive Director.
- 7.8 The Board has appointed a nomination committee, which comprises the entire Board and is convened for the purpose of considering the appointment of additional or replacement Directors. Full details of the duties of new Directors are provided to them together with a letter of appointment. All newly appointed Directors receive any necessary training or induction. The Board considers that, in view of its non-executive nature, it is not appropriate for the Directors to be appointed for a specified term of no more than 3 years as recommended by the Combined Code. The Articles require that each Director shall retire from office at the third annual general meeting after his appointment or (as the case may be) after the general meeting at which he was last re-appointed.
- 7.9 The Board has appointed an audit committee, which operates within clearly defined terms of reference and comprises the entire Board. In summary, the audit committee’s main functions are:
- (i) to review and monitor the internal financial control systems and risk management systems on which the Company is reliant;
 - (ii) to consider annually whether there is a need for the Company to have its own internal audit function;

- (iii) to monitor the integrity of the interim and annual financial statements of the Company by reviewing and challenging, where necessary, the actions and judgements of the Manager and Administrator;
- (iv) to meet, if required, with the Company's auditors to review their proposed audit programme of work and their findings (the audit committee also uses this as an opportunity to assess the effectiveness of the audit process);
- (v) to make recommendations to the Board in relation to the appointment of the Company's auditors and to approve the remuneration and terms of engagement of the Company's auditors; and
- (vi) to monitor and review annually the Company's auditors' independence, objectivity, effectiveness, resources and qualification.

8. Substantial Shareholders

8.1 As at 21 January 2011 (being the latest practicable date prior to the publication of this document), insofar as it is known to the Company, the only persons known to the Company who, directly or indirectly, were interested in 3 per cent. or more of the Company's issued share capital (being interests in the Company's capital which are notifiable under the Act) were as follows:

<i>Shareholder</i>	<i>No. of Ordinary Shares</i>	<i>% of Issued Ordinary Share Capital</i>
East Riding Pension Fund	4,800,000	11.01
Henderson Global Investors Ltd	4,354,998	9.99
Premier Asset Management Ltd	3,494,000	8.01
Investec Asset Management Ltd	2,844,866	6.52
JPMorgan Asset Management UK Ltd	2,808,000	6.44
Reliance Mutual Insurance Society Ltd	2,413,372	5.53
Philip J Milton & Company plc	2,081,533	4.77
Scottish Widows Investment Partnership Ltd	2,000,000	4.59
Brewin Dolphin Ltd	1,952,175	4.48
Jupiter Asset Management Ltd	1,848,891	4.24
South Yorkshire Pensions Authority	1,469,828	3.37

- 8.2 The Company's major shareholders do not have different voting rights from other Shareholders. The voting rights attached to the Ordinary Shares are described in paragraph 4 of this Part 5.
- 8.3 As at 21 January 2011 (being the latest practicable date prior to the publication of this document), the Company was not aware of any person who can, will or could, directly or indirectly, jointly or severally, exercise control over the Company or will exercise or could exercise control over the Company upon Admission.
- 8.4 As at the date of this document, the Company is not aware of any arrangements the operation of which may at a subsequent date result in a change of control of the Company.

9. Management, Administration and Custody Arrangements

9.1 *Investment Management Agreement*

9.1.1 By an investment management agreement dated 30 January 2006 (as amended by an amendment agreement dated 28 March 2006) between (i) Cayenne Asset Management Limited and (ii) the Company, Cayenne has been appointed to act as investment manager of the Company to manage the assets of the Company in accordance with the investment objectives, policies and restrictions of the Company.

Management Fee

The Manager is entitled to receive a management fee from the Company at the rate of 1 per cent. per annum (exclusive of VAT) of NAV provided that (i) there shall be deducted from the NAV, for the purpose of determining the management fee, the aggregate value attributable to any shares or units held by or on behalf of the Company at the relevant valuation date in any collective investment scheme (whether regulated or not) or other investment entity, vehicle or fund which is managed, operated or advised by the Manager or any associate of the Manager or in respect of which the Manager or any associate of the Manager is the authorised corporate director; (ii) no deduction shall be made in respect of any dividend declared in respect of any period at any time during that period and any such sum shall only be included as a liability with effect from, at the earliest, the Business Day immediately following the end of such period; and (iii) no deduction shall be made in respect of any provision in respect of the performance fee (but deductions shall be made on account of the management fee payable but not paid in respect of any period ending prior to the relevant quarter). The management fee (plus any applicable VAT) is payable quarterly in arrears.

The Manager has waived its management fee for the quarter to 31 January 2011 in relation to the amount raised pursuant to the Placing of new CULS.

Performance Fee

The Manager is also eligible to receive a performance fee (plus VAT if applicable) determined at the end of each accounting period of the Company.

The performance fee is equal to 10 per cent. of (i) the increase in NAV per Share (in sterling) above 5 per cent. per annum, multiplied by (ii) the average number of Shares in issue during each accounting period, calculated as follows:

- (i) At the end of each accounting period the Manager shall calculate the increase in the NAV per Share between the beginning and end of such accounting period. For these purposes NAV shall include, in respect of the NAV at the beginning or end of an accounting period, deduction for all management fees or other fees or expenses payable but not yet paid in respect of any period (including the relevant accounting period) but shall only include deduction for all performance fees and dividends payable but not yet paid in respect of any prior period (and not in respect of the relevant accounting period); and the NAV per Share at the end or beginning of an accounting period is the NAV as at such date divided by the number of Shares in issue at the end of the relevant accounting period or the previous accounting period respectively.
- (ii) If the result of the calculation called for in paragraph (i) indicates that NAV per Share has not increased in excess of 5 per cent. during the relevant accounting period no further calculation shall be made in respect of such accounting period and at the end of the next succeeding accounting period a calculation shall be made in respect of the period between the beginning of the first accounting period and the end of such second accounting period, this process to be repeated until the increase in NAV per Share is shown, by a calculation pursuant to this paragraph (ii), to exceed the equivalent of 5 per cent. compound per annum over the relevant accounting periods (a "calculation period").
- (iii) If a calculation pursuant to paragraphs (i) and/or (ii) indicates an increase in the NAV per Share in excess of 5 per cent. per annum over the relevant accounting period or calculation period, the average number of Shares in issue during such period shall be calculated by aggregating the number of Shares in issue (on a fully-diluted basis, i.e. as if all outstanding convertible stock, warrants, options or other rights to subscribe for Shares had been fully exercised and the relevant Shares were in issue, and as if all convertible shares of £1.00 each, in the capital of the Company has been fully converted and the relevant shares were in issue except in this latter case if the NAV

attributable to each convertible share as at the relevant date is less than 100p) on each business day during such Period and dividing the result by the number of business days in such period.

- (iv) A performance fee shall then be payable to the Manager in respect of the relevant period equal to 10 per cent. of the product of (i) the average number of Shares in issue during such period (calculated in accordance with paragraph (iii)) and (ii) the increase in the NAV per Share (in sterling) above the equivalent of 5 per cent. per annum over such period (calculated in accordance with paragraph (i)).
- (v) The calculation of the performance fee in respect of any accounting period or calculation period shall be undertaken by the Manager following the completion of the audit of the Company's accounts for the relevant accounting period or the final accounting period in the calculation period as appropriate and presented, together with details of the calculation, as soon as practical thereafter for the approval of the Board (such approval not to be unreasonably refused or delayed) and any performance fee due to the Manager shall be payable on receipt of an invoice, which invoice may be dispatched by the Manager as soon as the Board's approval has been given.

Termination Provisions

The Management Agreement may be terminated by either party giving to the other not less than 6 months' notice.

The Company is entitled to terminate the Management Agreement immediately if Cayenne commits a material breach of the Management Agreement which is not rectified, experiences an insolvency event, fails to maintain its status as authorised person under the Financial Services and Markets Act or is otherwise subject to a material restriction on the conduct of its duties, loses the services of its chief executive, Len Gayler, for a period of more than 30 days (if it has failed to provide the Company with satisfactory alternative proposals within a further 60 day period) or is subject to a change of control (if it has failed to satisfy the Company of its ability to properly carry out its duties within 3 months).

Other Provisions

The Management Agreement contains an indemnity in favour of Cayenne against losses arising directly out of the proper performance of its duties, except in so far as they may arise from a breach of contract, negligence, wilful default, bad faith or fraud on the part of Cayenne, its delegates or associates, or employees, directors or agents of Cayenne or its associates.

- 9.1.2 The Manager, Cayenne Asset Management Limited, was incorporated and registered in England and Wales on 24 March 2004 as a private limited company under the Companies Act with registered number 5082657. It operates under the Act and regulations made under the Act. Cayenne has its registered office at First Floor, Thavies Inn House, 3-4 Holborn Circus, London EC1N 2HA and its principal place of business is at 23 Buckingham Gate, London SW1E 6LB. Cayenne's telephone number at its principal place of business is + 44 (0) 20 7233 8899.

There are no potential conflicts of interests between the Manager's duties to the Company and the private interests and/or other duties of its employees, other than the following:

Len Gayler is a director and major shareholder of Cayenne and a director of Apollo. As at 21 January 2011 (being the latest practicable date prior to the publication of this document), he controlled by virtue of his direct holdings 2,138,000 Ordinary Shares and 750,000 CULS in the Company. Mr Gayler has agreed to purchase £273,400 nominal of CULS under the Placing.

9.2 **Administration**

Under the terms of the Administration Agreement, Phoenix has been appointed to provide accounting, taxation, company secretarial and administrative services to the Company. Phoenix is entitled to receive an annual fee from the Company of £90,000 (plus VAT). This fee is payable quarterly in advance.

The Administration Agreement may be terminated by either party giving the other not less than 6 months' notice in writing.

The Company may elect to terminate one or more (or all or part) of the services without prejudice to the continuation of the Administration Agreement in relation to these other services or those parts of the services that remain by serving not less than 6 months' notice in writing on Phoenix.

Each party can terminate the Administration Agreement immediately should the other (i) commit a material breach of its terms which is not rectified within 30 days of receipt of a written notice from the other party or (ii) experience an insolvency event.

The Administration Agreement contains an indemnity by the Company in favour of Phoenix against all losses arising out of performance of its duties, except in so far as they may arise out of negligence, bad faith, fraud, wilful default or breach of any provisions of the agreement by Phoenix.

9.3 **Custody**

9.3.1 The Company has entered into a custody agreement with The Chase Manhattan Bank (whose successor is JPMorgan Chase Bank N.A.) to provide custodian or sub-custodian services to the Company including all settlement and safekeeping of the Company's securities. The agreement is terminable by either party on 60 days' written notice. Fees payable by the Company to the Custodian will relate mainly to the market value of securities held at each calendar quarter end. There is also a transaction settlement charge, fee rates for which vary as between UK and overseas securities.

9.3.2 The Custodian is a National Banking Association organised under the laws of the United States and, as a foreign corporation, is registered as a branch in England and Wales with branch number BR000746. The Custodian operates under the Act and regulations made under the Act. The Custodian has its registered office at 125 London Wall, London EC2Y AJ. The Custodian's telephone number at its registered office is +44 (0) 20 7777 2000. The Custodian is authorised and regulated in the UK by the FSA.

9.3.3 Although the Custody Agreement permits the Custodian to act through, and hold the Company's securities with, sub-custodians, no sub-custodians have been or are expected to be appointed in relation to the Company's investments. The Custodian must use reasonable care in the selection and continued appointment of such sub-custodians.

9.4 **Registrar**

The Registrar acts as registrar to the Company and provides services to the Company on market standard terms.

9.5 **Placing Arrangements**

9.5.1 By a placing agreement dated 25 January 2011 (i) the Company, (ii) the Manager and (iii) Winterflood Investment Trusts, Winterflood Investment Trusts has agreed, subject to the conditions referred to below, to act as agent of the Company, to use its reasonable endeavours to procure subscribers for CULS under the Placing. The Placing, which has not been underwritten by Winterflood Investment Trusts, is conditional on, *inter alia*, the Placing Agreement becoming wholly unconditional (save to Admission) and not being terminated in accordance with its terms at any time prior to Admission, and Admission occurring by 8.00 a.m. on 28 January 2011 (or such later date as the Company, the Manager and Winterflood Investment Trusts may agree, being in any event not later than 28 February 2011).

9.5.2 Conditional on Admission, the Company will pay to Winterflood Investment Trusts (i) a corporate finance and documentation fee of £70,000; and (ii) subject to Admission, a commission payable at a rate of 0.85721 per cent. to the extent that the CULS are issued in the Placing or thereafter. No commission is payable unless and until the nominal amount of the CULS exceeds £9,167,100 and is capped at £50,000 (plus any VAT thereon). The Company will also pay all other costs and expenses incurred in connection with the Placing and the application for Admission, including Winterflood Investment Trusts' reasonable out-of-pocket expenses and legal fees.

9.5.3 Under the Placing Agreement, which may be terminated by Winterflood Investment Trusts in certain circumstances prior to Admission (including by reason of *force majeure*), the Company and the Manager have given certain warranties and indemnities (which are standard for this type of agreement) to Winterflood Investment Trusts concerning, *inter alia*, the accuracy of the information contained in this document.

10. Material Contracts

Save for the Management Agreement, the Administration Agreement, the Custody Agreement and the Placing Agreement (details of which are summarised in paragraphs 9.1, 9.2, 9.3 and 9.5 respectively of this Part 5), the Company has not:

- (i) entered into any material contract (not being a contract entered into in the ordinary course of business) within the two years immediately preceding the date of this document; or
- (ii) entered into any other contract (not being a contract entered into in the ordinary course of business) which contains any provision under which the Company has any obligation or entitlement which is material to the Company as at the date of this document.

11. UK Taxation

11.1 Introduction

The following statements are based upon current UK tax law and what is understood to be the current practice of HMRC, both of which are subject to change, possibly with retrospective effect. The statements are intended only as a general guide and may not apply to certain Stockholders, such as dealers in securities, insurance companies, collective investment schemes or Stockholders who have (or are deemed to have) acquired their CULS by virtue of an office or employment, who may be subject to special rules. They apply only to Stockholders resident and ordinarily resident for UK tax purposes in the UK (except in so far as express reference is made to the treatment of non-UK residents), who hold CULS as an investment rather than trading stock and who are the absolute beneficial owners of those CULS.

The information contained in this document relating to taxation matters is a summary of the taxation matters which the Directors consider should be brought to the attention of Stockholders. All Stockholders and in particular those who are in any doubt about their tax position, or who are resident or otherwise subject to taxation in a jurisdiction outside the UK, should consult their own professional advisers on the potential tax consequences of holding, transferring or otherwise disposing of CULS or under the laws of their country and/or state of citizenship, domicile or residence.

11.2 The Company

It is the intention of the Directors to conduct the affairs of the Company so that it satisfies and continues to satisfy the conditions necessary for it to be approved by HMRC as an investment trust under Section 1158 of the CTA. However, neither the Manager nor the Directors can guarantee that this approval will be maintained. One of the conditions for a company to qualify as an investment trust is that it is not a close company. The Directors consider that the Company should not be a close company immediately following the issue of the CULS. In respect of each accounting period for which the Company continues to be approved by HMRC as an investment trust the Company will be exempt from UK taxation on its capital gains. The Company will,

however, be liable to UK corporation tax on its income in the normal way. Income arising from any overseas investments may be subject to foreign withholding tax at the relevant jurisdiction's applicable rate, but relief may be available under the terms of an applicable double tax treaty.

11.3 *Stockholders*

11.3.1 *Taxation of Interest*

Under current tax legislation, and whilst the CULS are listed on the Main Market, payments of interest on the CULS will be made by the Company without deduction at source of UK income tax. For individual Stockholders, the amount of interest paid on the CULS will form part of the recipient's income for the purposes of UK income tax. The provisions of the accrued income scheme may apply to individuals transferring CULS and to individuals to whom CULS are transferred. The charge to tax on income that may arise to the transferor, and the relief which may be allowed to the transferee, will be in respect of an amount representing interest on the CULS which has accrued since the preceding interest date. These amounts will be taken into account in calculating any chargeable gain or allowable loss arising on a disposal of the CULS.

Stockholders which are companies within the charge to UK corporation tax (including investment trusts) will be subject to corporation tax on interest on a basis which, in general, reflects the basis of recognition of that interest in the Stockholder's accounts.

In the event that the CULS cease to be listed on the Main Market, or where tax legislation changes, there may be an obligation on the Company to deduct UK tax from interest paid to individuals, and to foreign company investors who cannot avail themselves of double tax treaty relief. The Company will not pay any additional amount to the Stockholders to compensate for any deduction of UK tax that it is, or hereafter may be, required to make.

11.3.2 *Conversion of CULS to Shares*

On a conversion of the CULS into Shares, individual Stockholders should not be treated as having disposed of their CULS for the purposes of UK taxation of chargeable gains on the basis that the CULS should not fall to be treated as a "qualifying corporate bond" under current legislation. Instead, the Shares replacing the CULS will be treated for UK tax purposes as the same asset as, and as having been acquired at the same time as, the CULS. The tax treatment of Shareholders following conversion of CULS into Shares is described in paragraph 11.4 below.

For Stockholders which are companies within the charge to UK corporation tax, we recommend that such Stockholders seek their own professional advice in relation to the UK corporation tax treatment of a conversion, as this treatment may vary depending on the investor company's particular circumstances.

11.3.3 *Disposal of CULS (including Redemption)*

Individual Stockholders resident or ordinarily resident in the UK for taxation purposes may, depending on their personal circumstances, be liable to capital gains tax on chargeable gains arising from the sale or other disposal, including redemption, of their CULS. Gains realised during a period of temporary non-residence may also be subject to UK taxation upon resumption of residence. Individual Stockholders will, in general, not be subject to UK income tax on any gain on disposal, nor obtain income tax relief for any loss on disposal.

For Stockholders which are companies within the charge to UK corporation tax, we recommend that such Stockholders seek their own professional advice in relation to the UK corporation tax treatment of a disposal, as this treatment may vary depending upon the investor company's particular circumstances.

11.3.4 *Stamp Duty and Stamp Duty Reserve Tax ("SDRT")*

No stamp duty or SDRT should be payable on the issue of the CULS.

Transfers in writing of CULS (on the basis that it is convertible loan capital) will be liable to stamp duty at a rate of 0.5 per cent. of the consideration provided in exchange therefor, rounded up to the nearest £5. No stamp duty will be chargeable to the extent the consideration provided, when aggregated with any consideration payable for any larger transaction or series or transactions of which the transfer forms part of, is less than or equal to £1,000.

Agreements to transfer the CULS will be liable to stamp duty reserve tax at a rate of 0.5 per cent. of the consideration provided in exchange therefore, rounded up to the nearest penny. Such SDRT will be cancelled by payment of stamp duty on a written transfer with six years of the agreement.

Liability to pay stamp duty or SDRT normally falls on the transferee or purchaser.

Special rules apply to transactions involving clearance services and depositary receipt systems to which 1.5 per cent. charges can apply.

11.3.5 *ISA Status of CULS*

The CULS will be a qualifying investment for the stocks and shares component of an ISA, provided that the CULS have a remaining term of at least 5 years at the time of acquisition, and provided that the Company remains a 'qualifying investment trust' as described below.

For the purposes of determining whether the CULS are a qualifying investment for the stocks and shares component of an ISA, the Company will be a 'qualifying investment trust' provided that not more than 50 per cent. of the value of investments held by the Company are securities which when purchased would not be a qualifying investment for the stocks and shares component of an ISA.

11.4 *Shares acquired on Conversion*

11.4.1 *Dividends*

No withholding tax will be deducted from dividends paid to Shareholders by the Company. An individual Shareholder, resident in the UK for tax purposes, who receives a dividend will be entitled to a tax credit of an amount equal to 10 per cent. of the aggregate of the dividend and the tax credit (equivalent to one ninth of the cash dividend). Shareholders who are not liable to income tax in respect of dividends will not generally be entitled to any tax credit. The income tax charge in respect of dividends for starting and basic rate taxpayers will be at the rate of 10 per cent. and therefore, such Shareholders will have no further liability to tax on their dividends. A higher rate or additional rate taxpayer will be liable to income tax on the sum of the dividend plus the tax credit (to the extent that, taking that sum as the top slice of his income, it falls above the threshold for the higher or additional rate of income tax) at the rate of 32.5 per cent. (for higher rate taxpayers) or 42.5 per cent. (for additional rate taxpayers), against which he can offset the 10 per cent. tax credit.

A UK resident corporate Shareholder will, in general, not be liable to corporation tax on any dividends received from the Company.

Dividends received from the Company by individual or corporate Shareholders who are dealers in securities may be subject to income tax, or corporation tax, as trading profits and, in certain circumstances, may carry no entitlement to a tax credit.

Shareholders who are resident outside the UK should consult an appropriate professional adviser as to their tax position. Such Shareholders should note that they may be subject to tax in jurisdictions outside the UK.

11.4.2 *Gains Arising on Sale or Other Disposal*

Shareholders who are resident or ordinarily resident in the UK may, depending upon their personal circumstances, be liable to taxation in respect of gains arising from the sale or other disposal of their Shares (including a disposal on winding-up of the Company). Gains realised during a period of temporary non-residence may also be subject to UK taxation upon

resumption of residence. An individual will be taxed on such gains at the rate of 18 per cent. (to the extent that, taking the gain as the top slice of his income and gains, it falls below the threshold for the higher rate of income tax) and of 28 per cent. (to the extent the gain falls above that threshold) but the amount of gain subject to charge may be reduced by the annual exemption and any allowable losses. Corporate Shareholders may be entitled to an indexation allowance. In the event of a winding-up of the Company, distributions (other than to dealers in securities who are subject to different rules) should be treated as capital receipts.

Shareholders who are neither resident nor ordinarily resident in the UK and who are not carrying on a trade, profession or vocation in the UK through a branch or agency, or a permanent establishment, to which the Shares are attributable as assets will not be liable to UK taxation on chargeable gains arising on the sale or other disposal of their Shares, although they may be subject to foreign taxation.

11.4.3 *Stamp Duty and Stamp Duty Reserve Tax (“SDRT”)*

No stamp duty or SDRT should be payable on the issue of the Shares.

Transfers in writing of Shares will be liable to stamp duty at a rate of 0.5 per cent. of the consideration provided in exchange therefor, rounded up to the nearest £5. No stamp duty will be chargeable to the extent the consideration provided, when aggregated with the consideration payable for any larger transaction or series of transactions of which the transfer forms part, is less than or equal to £1,000.

Agreements to transfer the Shares will be liable to stamp duty reserve tax at a rate of 0.5 per cent. of the consideration provided in exchange therefore, rounded up to the nearest penny. Such SDRT will be cancelled by payment of stamp duty on a written transfer with six years of the agreement.

Liability to pay stamp duty or SDRT normally falls on the transferee or purchaser.

Special rules apply to transactions involving clearance services and depositary receipt systems to which 1.5 per cent. charges can apply.

12. Mandatory bids, squeeze-out and sell-out rules

Mandatory bid

The City Code applies to the Company. Under the City Code, if an acquisition of shares were to increase the aggregate holding of the acquirer and any parties acting in concert with it to shares carrying 30 per cent. or more of the voting rights in the Company, the acquirer and, depending on the circumstances, its concert parties (if any) would be required (except with the consent of the Panel on Takeovers and Mergers) to make a cash offer for shares not already owned by the acquirer or its concert parties (if any) at a price not less than the highest price paid for shares by the acquirer or its concert parties (if any) during the previous 12 months or (where there has been no acquisition of shares of the relevant class) at a comparable price agreed by the Panel. A similar obligation to make sure a mandatory cash offer would also arise on the acquisition of shares by a person holding (together with its concert parties, if any) shares carrying at least 30 per cent. but not more than 50 per cent. of the voting rights in the Company if the effect of such acquisition were to increase the percentage of the aggregate voting rights held by the acquirer and its concert parties (if any).

Squeeze-out rules

Under the Act, if a person (the offeror) who has made a general offer to acquire the Ordinary Shares were to acquire, or unconditionally contract to acquire, not less than 90 per cent. in value of the Ordinary Shares to which the offer relates and not less than 90 per cent. of the voting rights carried by those shares, the offeror could then compulsorily acquire the remaining Ordinary Shares. In order to do so, the offeror would have to send a statutory notice to outstanding Ordinary Shareholders within three months of the last day on which the offer can be accepted telling them that the offeror wishes to acquire their Ordinary Shares and send a statutory declaration to the Company stating that the conditions for the giving of the notice have been satisfied. Six weeks later, the offeror must send a copy of the statutory

notice together with, if the Ordinary Shares are registered, an executed instrument of transfer of the outstanding Shares in the offeror's favour to the Company and pay the consideration to the Company, which would hold the consideration on trust for outstanding Ordinary Shareholders. The consideration offered to those Ordinary Shareholders whose shares are compulsorily acquired must, in general, be the same as the consideration that was available under the general offer.

Sell-out rules

The Act gives minority Ordinary Shareholders a right to be bought out in certain circumstances by a person who has made a general offer as described in the paragraph "Squeeze-out rules" above. If, at any time before the end of the period within which the general offer can be accepted, the offeror has acquired, or contracted to acquire, Ordinary Shares representing not less than 90 per cent. in value of all the Ordinary Shares and carrying not less than 90 per cent. of the voting rights in the Company, any Ordinary Shareholder to which the general offer relates who has not accepted the general offer can, by a written communication to the offeror, require it to acquire that shareholder's Ordinary Shares. The offeror is required to give each shareholder written notice of his right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of minority shareholders to be bought out, but that period cannot end less than three months after the end of the acceptance period. If a shareholder exercises his rights the offeror is entitled and bound to acquire the relevant Ordinary Shares on the terms of the offer or on such other terms as may be agreed.

13. Profile of Typical Investors

The typical investors for whom the CULS are intended are institutional investors, or professionally advised private investors, seeking to achieve consistent positive absolute returns. An investment in the Company may also be suitable for financially sophisticated private investors who are not professionally advised but are capable of evaluating the risks and merits of an investment in the Company and who have sufficient resources to bear any loss that may result from such an investment. However, such investors should consider consulting an independent financial adviser authorised under FSMA before investing.

If prospective investors are in any doubt as to the consequences of their acquiring, holding or disposing of Ordinary Shares or CULS, they should consult an independent financial adviser authorised under the Financial Services and Markets Act.

14. Conflicts of Interest

Cayenne (or its associates) may provide investment management, investment advisory and other services to other clients (including investment companies), including clients which may invest in the securities in which the Company may invest and, in providing such services, may use information obtained by them which is used in advising on the Company's investments. Neither Cayenne nor any of its associates will be liable to account to the Company for any profit, commission or remuneration earned as a result of such conflict. However, in the event of a conflict of interest arising, Cayenne will take reasonable steps to ensure fair treatment for the Company in accordance with the FSA's Conduct of Business Sourcebook.

15. Miscellaneous

- 15.1 Winterflood Investment Trusts, which is authorised and regulated by the FSA, has given and has not withdrawn its written consent to the issue of this Prospectus with the inclusion of its name and references to it in the form and context in which they appear.
- 15.2 The Manager, which is authorised and regulated by the FSA, has given and has not withdrawn its written consent to the issue of this Prospectus with the inclusion of the sections headed "Investment Approach" and "Investment Opportunity" set out on pages 14 and 15 and the summaries of such sections set out on pages 3 and 4 of this document and of its name and references to it in the form and context in which they appear.
- 15.3 The total costs and expenses of the Placing will be met by the Company and are expected to amount to approximately £250,000 (inclusive of VAT).

- 15.4 Save as disclosed in paragraphs 6.2 and 9.1.2 of this Part 5, no persons involved in the Placing have any interests that are material to the Placing.
- 15.5 The most recent unaudited NAV per Ordinary Share as at 24 January 2011 (being the latest practicable date prior to the publication of this document) was 133.59p.
- 15.6 No application is being made for the CULS pursuant to the Placing to be listed or dealt in on any stock exchange or investment exchange other than the Main Market of the London Stock Exchange.
- 15.7 The publication or delivery of this document shall not under any circumstances imply that the information contained in this document is correct as at any time subsequent to the date of this document or that there has not been any change in the affairs of the Company since that date.

16. Documents Available for Inspection

- 16.1 Copies of the following documents are available for inspection at the registered office of the Company and at the offices of Maclay Murray & Spens LLP, One London Wall, London EC2Y 5AB, during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) until 25 January 2012:
- 16.1.1 the memorandum of association and the Articles;
- 16.1.2 the audited report and accounts of the Company for the three years ended 31 January 2010 and the unaudited interim report and accounts for the 6 months period to 31 July 2010 and 31 July 2009 respectively;
- 16.1.3 the Management Agreement, the Administration Agreement, the Custody Agreement and the Placing Agreement (details of which are summarised in paragraphs 9.1, 9.2, 9.3 and 9.5 respectively of this Part 5;
- 16.1.4 the Trust Deed and the Supplemental Trust Deed;
- 16.1.5 this document.

17. Availability of this Prospectus

Copies of this document are available for inspection at the National Storage Mechanism which is located at www.hemscott.com//nsm.do. Copies of this document may also be collected, free of charge during normal business hours, from the Company's registered office and, from the date of this document up to and including 25 January 2012 from Winterflood Investment Trusts, The Atrium Building, Cannon Bridge, 25 Dowgate Hill, London EC4R 2GA.

PART 6

DEFINITIONS

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

“1985 Act”	the UK Companies Act 1985 (as amended);
“Act” or “Companies Act”	the UK Companies Act 2006;
“Administration Agreement”	the administration/service agreement between the Administrator and the Company dated 21 June 2006, details of which are set out in paragraph 9.2 of Part 5 of this document;
“Administrator” or “Phoenix”	Phoenix Administration Services Limited;
“Admission”	the admission of the CULS to the Official List and to trading on the London Stock Exchange’s Main Market becoming effective in accordance with, respectively, the Listing Rules and the Admission and Disclosure Standards;
“Admission and Disclosure Standards”	the requirements contained in the publication “Admission and Disclosure Standards” dated 6 April 2010 containing, amongst other things, the admission requirements to be observed by companies seeking admission to trading on the London Stock Exchange’s markets for listed securities;
“AIC”	Association of Investment Companies;
“Apollo”	Apollo Fund plc;
“Articles”	the articles of association of the Company;
“Board” or “Directors”	the directors of the Company, whose names appear on page 13 of this document;
“Business Day”	any day other than a Saturday, Sunday or a day on which the major clearing banks are not open for normal business in London;
“certificated” or “in certificated form”	a share or other security which is not in uncertificated form (that is, not held in CREST);
“Company”	The Cayenne Trust plc;
“Conversion Price”	the nominal amount of CULS required for conversion into one Ordinary Share from time to time;
“Conversion Rate”	the number of Ordinary Shares into which £100 nominal of CULS would convert, as detailed in Part 4 of this document;
“Combined Code”	the Combined Code on Corporate Governance dated June 2008, as amended from time to time;

“CREST”	the computerised settlement system (as defined in the Regulations) to facilitate the paperless settlement of trades in searches and the holding of securities in uncertificated form operated by Euroclear UK & Ireland Limited;
“CTA”	Corporation Tax Act 2010;
“CULS”	3.25 per cent convertible unsecured loan stock 2016 of the Company constituted by the Trust Deed as amended and supplemented by the Supplemental Trust Deed;
“Custodian”	JPMorgan Chase Bank N.A.;
“Disclosure Rules”	the rules for issuers on the disclosure and control of inside information by persons discharging managerial responsibilities and their connected persons contained in the FSA sourcebook;
“EEA”	the European Economic Area;
“Financial Services and Markets Act”	the Financial Services and Markets Act 2000, as amended;
“Financial Services Authority” or “FSA”	the Financial Services Authority in the UK;
“HMRC”	HM Revenue and Customs;
“Index Futures”	contractual agreements carrying an obligation to pay/receive a cash sum equivalent to the difference between the purchase/sale price and the prevailing price on a pre-determined date in the future;
“Index Put Options”	contractual agreements carrying a right, but not an obligation, to sell an index-related instrument at a specified price on a specified future date;
“Investment Company Act”	the United States Investment Company Act of 1940, as amended;
“ISA”	an individual savings account maintained in accordance with the Individual Savings Account Regulations 1998 (as amended);
“Issue”	the issue of CULS pursuant to the Placing;
“Listing Rules”	the rules and regulations made by the FSA under Part VI of the Financial Services and Markets Act;
“London Stock Exchange”	London Stock Exchange plc;
“Main Market” or “London Stock Exchange’s Main Market”	the London Stock Exchange’s market for larger and established companies;
“Management Agreement”	the investment management agreement between the Company and the Manager, details of which are set out in paragraph 9.1 of Part 5 of this document;
“Manager” or “Cayenne”	Cayenne Asset Management Limited, being the investment manager of the Company appointed pursuant to the Management Agreement;

“Net Asset Value” or “NAV”	the net asset value of the Company calculated in accordance with its applicable accounting policies;
“Net Asset Value per Share” or “NAV per Share”	the Net Asset Value divided by the number of Ordinary Shares in issue;
“Official List”	the Official List of the UKLA;
“Ordinary Shareholder” or “Shareholder”	a holder of Ordinary Shares;
“Ordinary Shares” or “Shares”	ordinary shares of 25p each in the share capital of the Company;
“Placing”	the placing of CULS pursuant to the Placing Agreement;
“Placing Agreement”	the agreement dated 25 January 2011 between the Company, Cayenne and Winterflood Investment Trusts, a summary of which is set out in paragraph 9.5 of Part 5 of this document;
“Placing Price”	100p per £1 nominal of CULS;
“Prospectus”	this document together with the documents incorporated by reference as set out in the table on page 10 of this document;
“Prospectus Rules”	the prospectus rules made under Part VI of the Financial Services and Markets Act;
“Register”	the register of Shareholders of the Company;
“Registrars” or “Capita”	Capita Registrars Limited;
“Regulations”	the Uncertificated Securities Regulations (SI 2001/3755);
“SIPPs”	self invested personal pensions;
“SSASs”	small self administered schemes;
“Stockholder”	a holder of CULS;
“Subscription Shares”	subscription shares of 1p each in the capital of the Company;
“Supplemental Trust Deed”	the supplemental trust deed entered into by the Company and the Trustee dated 24 January 2011;
“Transparency Rules”	the rules made under section 73A(6) of FSMA;
“Trust Deed”	a trust deed dated 25 April 2006 (as amended by deed of amendment dated 1 July 2009 and the Supplemental Trust Deed);
“Trustee”	The Law Debenture Trust Corporation p.l.c.;
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland;
“UK GAAP”	UK generally accepted accounting practice;
“UKLA” or “UK Listing Authority”	the Financial Services Authority in its capacity as competent authority under Part VI of the Financial Services and Markets Act;

**“uncertificated” or
“in uncertificated form”**

recorded on the register of members of the Company as being held in uncertificated form (that is securities held in CREST);

“United States” or “US”

the United States or America, its territories, its possessions including the states, the district of Columbia and other areas subject to its jurisdiction;

“US Person”

any **“US Person”** as such term is defined in Regulation S under the Securities Act, or in regulations adopted under the US Commodity Exchange Act of 1922; and

“US Securities Act”

the United States Securities Act 1933, as amended.

All references in this document to “pounds”, “pounds sterling”, “Sterling”, “£”, “pence”, “penny” and “p” are to the lawful currency of the United Kingdom.

