

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt about the contents of this document or the action you should take, you should immediately consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.

The directors of PCH, whose names appear on page 4 of this document, accept responsibility for the information contained in this document including individual and collective responsibility for compliance with the rules of AIM. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Application will be made to the London Stock Exchange for the whole of the issued share capital of PCH to be admitted to trading on AIM. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority. The rules of AIM are less demanding than those of the Official List of the UK Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The London Stock Exchange has not itself examined or approved the contents of this document.

This document is an AIM admission document drawn up in accordance with the rules of AIM. The whole of the text of this document should be read. You should be aware that an investment in PCH involves a high degree of risk. PCH has yet to commence trading and has no existing business record. Your attention is drawn, in particular, to the risk factors set out in Part 2 of this document.

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## **Admission to trading on AIM**

of all the issued ordinary shares of £1 each

of

## **PRINCIPLE CAPITAL HOLDINGS S.A.**

*(a 1929 holding company incorporated in the Grand Duchy of Luxembourg  
with registered number 98144)*

### **Nominated Adviser and Broker**

## **NUMIS SECURITIES LIMITED**

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### **Share capital on Admission**

<i>Authorised</i>		<i>Issued and fully paid</i>
12,500,000	ordinary shares of £1 each	8,999,806

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This document does not constitute an offer to sell, or the solicitation of an offer to buy or subscribe for, PCH Shares in any jurisdiction in which such offer or solicitation is unlawful and, in particular, is not for distribution in or into the United States, Canada, Australia, the Republic of Ireland or Japan or any other country where its distribution would require compliance by PCH with any governmental or regulatory procedure or any similar formalities. The PCH Shares have not been, and will not be, registered under the applicable securities laws of the United States, Canada, Australia, the Republic of Ireland or Japan, or in the name of any national resident or citizen of the United States, Canada, Australia, the Republic of Ireland or Japan. The distribution of this document in other jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

The PCH Shares will be offered only to limited and selected persons and is not being made to the public in the UK, and accordingly an exemption applies from the requirement to prepare a prospectus under the UK Public Offers of Securities Regulations 1995. Moreover, this document is being provided only to limited and selected persons to whom it may lawfully be provided under the UK Financial Services and Markets Act 2000 (Financial Promotion) Order 2001, including persons who have professional experience in matters relating to investments and certain overseas recipients. No person to whom this document has not been specifically addressed may act upon it, and interests in the Company will not be available to any other person. The document must not be copied or provided to any person other than the person to whom it is addressed.

Numis Securities Limited is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting as nominated adviser and broker to PCH in relation to Admission and is not acting for any other person or persons and will not be responsible to any such person for providing protections afforded to customers of Numis Securities Limited or advising them on the contents of this document or any matter referred to in it.

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## **PLACING STATISTICS**

Placing Price	200p
Shares in issue after the Retail Stores Acquisition	2,749,806
Placing Shares	6,250,000
Total PCH Shares in issue after the Placing and the Retail Stores Acquisition	8,999,806
Market capitalisation of PCH on Admission at the Placing Price	£17,999,612

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## **EXPECTED TIMETABLE OF PRINCIPAL EVENTS**

Admission and commencement of dealings in PCH Shares on AIM	3 November 2004
CREST accounts credited	3 November 2004
Expected date of despatch of definitive certificates for PCH Shares	17 November 2004

## DIRECTORS AND ADVISERS OF PCH

<b>Directors</b>	Brian Myerson ( <i>Chief Executive Officer</i> ) David Cooley ( <i>Non-executive Director</i> ) Marco Felder ( <i>Non-executive Director</i> ) Leonard O'Brien ( <i>Non-executive Director</i> ) Brian Padgett ( <i>Non-executive Director</i> )  of 6 rue Adolphe Fischer L-1520 Luxembourg
<b>Registered office</b>	6 rue Adolphe Fischer L-1520 Luxembourg
<b>Domiciliation agent</b>	Maitland Luxembourg S.A. 6 rue Adolphe Fischer L-1520 Luxembourg
<b>Nominated adviser and broker</b>	Numis Securities Limited Cheapside House 138 Cheapside London EC2V 6LH
<b>Auditors of the Group</b>	KPMG Luxembourg 31 allée Scheffer L-2520 Luxembourg
<b>Reporting accountants</b>	KPMG Audit Plc PO Box 695 8 Salisbury Square London EC4Y 8BB
<b>Legal advisers to the Company</b>	Allen & Overy LLP One New Change London EC4M 9QQ
<b>Legal advisers to the Placing</b>	Simmons & Simmons City Point One Ropemaker Street London EC2Y 9SS
<b>Depositary</b>	Capita IRG Trustees Limited The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
<b>Registrars</b>	Maitland Luxembourg S.A. 6 rue Adolphe Fischer L-1520 Luxembourg

## DEFINITIONS

In this document, unless the context requires otherwise, defined terms shall have the meaning given to them below:

“Act”	the United Kingdom Companies Act 1985
“Active Value Advisors”	Active Value Advisors Limited (registered number 2679682), a private investment advisory company incorporated in England and Wales on 16 January 1992 which is authorised and regulated by the FSA, with a registered address of 9 Savoy Street, London WC2E 7ER
“Active Value Group”	Active Value Fund Managers Limited, its subsidiaries and affiliated companies (including Active Value Advisors)
“Active Value Funds”	a collective term for five investment holding entities which are managed by Active Value Fund Managers Limited (which is advised by Active Value Advisors), as follows: Active Value Capital, L.P., AVC CIP, L.P. and Active Value Pledge Fund, L.P., which are all limited partnerships established in Delaware, United States of America; and Active Value Capital, Inc. and Active Value Euro Partners, Inc., which are both incorporated in the British Virgin Islands
“Admission”	admission of the entire issued share capital of PCH (including the Consideration Shares and the Placing Shares) to trading on AIM becoming effective in accordance with rule 6 of the AIM Rules
“Advisory Agreement”	the advisory agreement dated 18 October 2004 between PCA and PCP, further details of which are set out in paragraph 13(g) of Part 5 of this document
“AIM”	the Alternative Investment Market of the London Stock Exchange
“AIM Rules”	the rules for AIM companies and their nominated advisers as published by the London Stock Exchange from time to time
“Articles”	means the articles of incorporation of the Company
“AVASA”	AVASA Holdings Limited
“AV Realisation Period”	the realisation period of the Active Value Funds expiring no later than 30 June 2006 unless, in respect of any Active Value Fund, extended by resolution of the investors of that fund to 30 June 2007
“Bonus Plan”	the Principle Capital Holdings S.A. Discretionary Bonus Plan
“Concerto”	Concerto Capital Corporation Limited, a private company incorporated in the British Virgin Islands (registered number 42347) the entire issued share capital of which is held by the Nicholas Trust
“Consideration Shares”	the 2,728,416 PCH Shares to be issued to Concerto under the terms of the Retail Stores Acquisition
“Consortium Vehicles”	vehicles intended to be formed by PCP in which funds are raised by PCP to co-invest with the Company in a particular company or companies

“Continental Europe”	Denmark, Finland, France, Germany, Italy, The Netherlands, Norway, Portugal, Spain, Sweden and Switzerland
“Contribution Agreement”	the agreement dated 18 October 2004 between PCH and Concerto, further details of which are set out in paragraph 13(d) of Part 5 of this document
“CREST”	the relevant system (as defined in the Uncertificated Securities Regulations 2001) for the paperless settlement of share transfers and the holding of shares in uncertificated form in respect of which CRESTCo Limited is the Operator (as defined in those Regulations)
“Directors” or “Board”	the directors of PCH, whose names appear on page 4 of this document
“DSOP”	the Principle Capital Holdings S.A. Discretionary Share Option Plan
“Euro Suisse”	Euro Suisse Securities Limited, a private company incorporated in England and Wales (and now dissolved) which acted as joint adviser (with a private company owned and controlled by Julian Treger) to certain funds from 10 May 1993 to 1 November 1994, following which Julian Treger and Brian Myerson established the Active Value Group
“FSA”	the United Kingdom Financial Services Authority
“Investment Committee”	Brian Myerson and the Management Team
“IRR” or “internal rate of return”	the discount rate which sets the net present value of the cash flows on a particular investment or portfolio of investments over the period of the investment(s) to zero
“London Stock Exchange”	London Stock Exchange plc
“Managed Funds”	funds intended to be raised and managed by PCP but excluding Consortium Vehicles
“Management Agreement”	the management agreement dated 18 October 2004 between PCP and PCH, further details of which are set out in paragraph 13(f) of Part 5 of this document
“Management Team”	David Cooley, George May, Brian Padgett and James Peggie
“Nicholas Trust”	a discretionary trust established by a Deed of Settlement dated 21 March 1988 settling certain property on discretionary trusts for the benefit of potential beneficiaries who include Brian Myerson and certain members of his family
“Nominated Adviser Agreement”	the agreement dated 18 October 2004 between PCH and Numis relating to Numis acting as nominated adviser to PCH for the purposes of the AIM Rules, further details of which are set out in paragraph 13(b) of Part 5 of this document
“Numis”	Numis Securities Limited
“Numis Option Agreement”	the agreement dated 18 October 2004 between PCH and Numis, further details of which are set out in paragraph 13(c) of Part 5 of this document
“Official List”	Official List of the UK Listing Authority

“PCA”	Principle Capital Advisors Limited (registered number 5137088), a private company incorporated in England and Wales
“PCH” or “the Company”	Principle Capital Holdings S.A. (registered number 98144), a 1929 holding company incorporated in the Grand Duchy of Luxembourg
“PCH Administrative Services Agreement”	the agreement dated 18 October 2004 between Silex and PCH, further details of which are set out in paragraph 13(h) of Part 5 of this document
“PCH Group” or “the Group”	PCH and its subsidiary undertakings (including PCP and PCA)
“PCH Shares”	ordinary shares of £1 each in the capital of PCH
“PCP”	Principle Capital Partners Limited (registered number 575718), a private company incorporated in the British Virgin Islands which is owned as to 70 per cent. by PCH and as to 30 per cent. by Concerto and the Management Team
“PCP Administrative Services Agreement”	the agreement dated 18 October 2004 between Silex and PCP, further details of which are set out in paragraph 13(i) of Part 5 of this document
“PCP Shareholders Agreement”	the agreement dated 18 October 2004 between PCH, PCP, Concerto and each member of the Management Team, further details of which are set out in paragraph 13(e) of Part 5 of this document
“Placing”	the conditional placing by Numis of the Placing Shares pursuant to the Placing Agreement
“Placing Agreement”	the conditional agreement dated 18 October 2004 between the Company, certain Directors and Numis relating to the Placing, further details of which are set out in paragraph 13(a) of Part 5 of this document
“Placing Price”	200 pence for each Placing Share
“Placing Shares”	the 6,250,000 PCH Shares which are the subject of the Placing
“Retail Stores”	Retail Stores PLC (registered number 3967671), a public company incorporated in England and Wales which owns the entire issued share capital of Liberty plc, the holding company of the Liberty department store group
“Retail Stores Acquisition”	the transaction more fully described in paragraph 7 of Part 1 and paragraph 13(d) of Part 5 of this document under the terms of which PCH has agreed to acquire 5.6 per cent. of the issued share capital of Retail Stores conditional on Admission
“Retail Stores Shareholders Agreement”	the agreement dated 15 May 2000 between Retail Stores, Marylebone Warwick Balfour Group plc and Concerto, and to which PCH will be bound following completion of the Contribution Agreement, further details of which are set out in paragraph 13(d) of Part 5 of this document
“Silex”	Silex Administration S.A. (registered number CH-660-0598001-5), a company incorporated in Switzerland, which is a wholly-owned subsidiary of Silex Holdings Limited and which will provide company secretarial, regulatory, financial reporting and other administrative services to both PCH and PCP

“Silex Management”	Silex Management Limited (registered number 428097), a company incorporated in the British Virgin Islands, which is a wholly-owned subsidiary of Silex Holdings Limited and which is the sole director of PCP
“South Africa”	the Republic of South Africa
“subsidiary undertaking”	has the same meaning given to such term in sections 736 and 736A of the Act
“UK Listing Authority”	the Financial Services Authority as the competent authority for listing in the United Kingdom under the United Kingdom Financial Services and Markets Act 2000
“uncertificated”	not in certificated form
“United Kingdom” or “UK”	the United Kingdom of Great Britain and Northern Ireland
“United States” or “US”	the United States of America, its territories and possessions, any state or political sub-division of the United States of America and the District of Columbia

## KEY INFORMATION ON THE GROUP

The following information should be read in conjunction with the full text of this document from which it is derived. You should read the whole of this document and not rely solely on the information set out below.

### BACKGROUND

- PCH is the holding company of a group established to raise and manage funds for activist investment in the United Kingdom and Continental Europe. The Company intends to invest its own money in or alongside these funds. When PCP raises Managed Funds, the Company intends to raise further equity capital so as to be able to invest itself in those Managed Funds. In the meantime, the Company intends to acquire minority interests in a small number of quoted companies and will raise funds in one or more Consortium Vehicles to co-invest in the same companies.
- The chief executive officer of the Company is Brian Myerson who, with Julian Treger, established Active Value Advisors in 1994. Mr Myerson, principally through Active Value Advisors but also (prior to the establishment of Active Value Advisors) on an individual basis and/or through Euro Suisse, has a proven track record in advising investment funds and third party investors on realising value through an activist investment strategy.

### THE BUSINESS

- PCP's investment strategy is to concentrate on significantly undervalued or distressed small to medium-sized companies in the UK and Continental Europe with a market capitalisation between approximately £50 million and £1 billion. The focus of this strategy will be on asset-backed companies (including those with strong cash flows) where, in the Directors' view, there is scope for an activist investor to unlock the value inherent in the target company.
- The Company will operate principally through PCP, which will raise and manage the Managed Funds and/or Consortium Vehicles on behalf of the Group. Upon Admission, PCP will be 70 per cent. owned by the Company and 30 per cent. owned by Concerto and the Management Team. Concerto is a company owned by a trust connected with Brian Myerson. PCP will receive investment advice from PCA, subject to the approval of the Investment Committee. PCA is a wholly-owned subsidiary of PCH. The Investment Committee comprises Brian Myerson and the Management Team.
- At the end of the AV Realisation Period, the PCH Group will be the sole vehicle for Brian Myerson in activist investing in the UK and Continental Europe and will be his principal business focus. The PCH Group may extend its activities to investing in South Africa at some future date. In addition, the Company may wish to make suitable strategic acquisitions in order to strengthen the PCH Group with additional business expertise as well as to increase the Group's client base of investors for Consortium Vehicles and/or Managed Funds.

### TRACK RECORD

- The track record of Brian Myerson, principally through Active Value Advisors but also (prior to the establishment of Active Value Advisors) on an individual basis and/or through Euro Suisse, shows a gross annual IRR on realised investments (excluding human capital investments, which do not form part of PCH's investment strategy) of approximately 22 per cent. (before allowance for any management fees or carried interest) over the last 15 years.

### RETAIL STORES

- Concerto is investing in the PCH Group through a contribution, conditional on Admission, of its 1,270,475 shares of 25 pence each in Retail Stores (representing 5.6 per cent. of the issued share capital of Retail Stores) in consideration of which the Company will issue 2,728,416 PCH Shares at £1 per share to Concerto (representing 30.3 per cent. of the enlarged issued share capital of PCH upon Admission). Retail Stores owns the entire issued share capital of Liberty plc, the holding company of the Liberty department store group.

## **THE PLACING**

- The Company is, conditional *inter alia* on Admission, raising approximately £11.0 million (net of expenses) through a placing arranged and underwritten by Numis of 6,250,000 PCH Shares at 200 pence for each PCH Share.
- Up to 50 per cent. of the net proceeds of the Placing will provide funds for principal investment by PCH alone or alongside Consortium Vehicles and/or for any strategic acquisitions (as described above). The balance of the Placing proceeds will provide the working capital for the Group's fund management activities.
- Upon Admission, the Company will have 8,999,806 PCH Shares in issue and a market capitalisation of approximately £18 million at the Placing Price. The PCH Shares have not been listed, traded or quoted on any regulated or recognised stock market, but application has been made for admission of the entire issued share capital of the Company to trading on AIM and Admission is expected to become effective on 3 November 2004.

## **FINANCIAL INFORMATION**

- The Company was incorporated in Luxembourg on 29 December 2003 and has not yet traded, generated any revenue or, apart from entering into the Retail Stores Acquisition (details of which are set out in paragraph 7 of Part 1 of this document), acquiring (conditional on Admission) the issued share capital of PCP and acquiring the subscriber share of PCA, made any investments. PCH has no borrowings.

## Part 1

### INFORMATION ON THE GROUP

#### 1. OVERVIEW

PCH is a holding company of a group established to raise and manage funds for activist investment in the United Kingdom and Continental Europe. The Company will also invest its own money in or alongside these funds (whether they are in Consortium Vehicles or Managed Funds). Subject to market conditions, the Company intends to raise further equity capital at the same time as the Group raises Managed Funds, so as to be able to invest itself in these Managed Funds. In the meantime, the Company intends to acquire minority interests in a small number of quoted companies and will raise funds in one or more Consortium Vehicles to co-invest in those companies.

The chief executive officer of the Company is Brian Myerson who, with Julian Treger, established Active Value Advisors in 1994. Brian Myerson, principally through Active Value Advisors but also (prior to the establishment of Active Value Advisors) on an individual basis and/or through Euro Suisse, has a proven track record in advising investment funds and third party investors on realising value through an activist investment strategy. This record shows a gross annual IRR on realised investments advised upon principally by Active Value Advisors (but also by Brian Myerson on an individual basis and/or through Euro Suisse) of approximately 22 per cent. over the last 15 years. The gross annual IRR is calculated before allowance for any management fees or carried interest. The realised investments exclude human capital investments, which do not form part of PCH's investment strategy. Further details of this track record are set out in paragraph 6 of this Part 1 and in paragraph 14 of Part 5 of this document.

The Active Value Funds are currently in their realisation phase. The Active Value Group will be dedicating sufficient time and expertise to ensure a successful realisation of the existing portfolio of the Active Value Funds and to safeguard fully the interests of the investors in those funds. Accordingly, Brian Myerson and members of the Management Team will continue to provide services to Active Value Advisors following Admission. Brian Myerson and Julian Treger have decided not to be involved in raising a new fund together within the Active Value Group and, following Admission, will be pursuing new business interests separately. Julian Treger will not, therefore, be involved in PCH.

The Active Value Funds permit Active Value Advisors to raise and manage new funds and pursue investment opportunities during the AV Realisation Period. As the Active Value Funds are not permitted to make further investments other than in existing portfolio companies, the PCH Group will be the sole vehicle for Brian Myerson in advising investment funds and third party investors on new activist investing in the UK and Continental Europe. Furthermore, the PCH Group will be his core business focus outside the Active Value Group during the AV Realisation Period and his core business focus following the AV Realisation Period.

In view of Brian Myerson's South African background and, in the light of the opportunities which he and the Management Team consider are available for activist investment in South Africa, it is possible that the Group will extend its activities to investing in South Africa at some future date.

The Company may also wish to make suitable strategic acquisitions to strengthen the PCH Group with additional business expertise as well as to increase the Group's client base of investors for Consortium Vehicles and/or Managed Funds.

During the AV Realisation Period and, in certain cases, after it, the PCH Group has secured the services of most of the senior management from the Active Value Group, being the Management Team. Further details of the Management Team, the interim arrangements with Active Value Advisors and the PCH Group during the AV Realisation Period, and arrangements thereafter, are set out in paragraph 9 of this Part 1 and paragraph 5 of Part 5 of this document.

Concerto, a wholly-owned subsidiary of the Nicholas Trust, will be investing in the Group through a contribution, conditional on Admission, of 1,270,475 ordinary shares of 25 pence each in Retail Stores (representing 5.6 per cent. of the issued share capital of Retail Stores). Further details of the Retail Stores

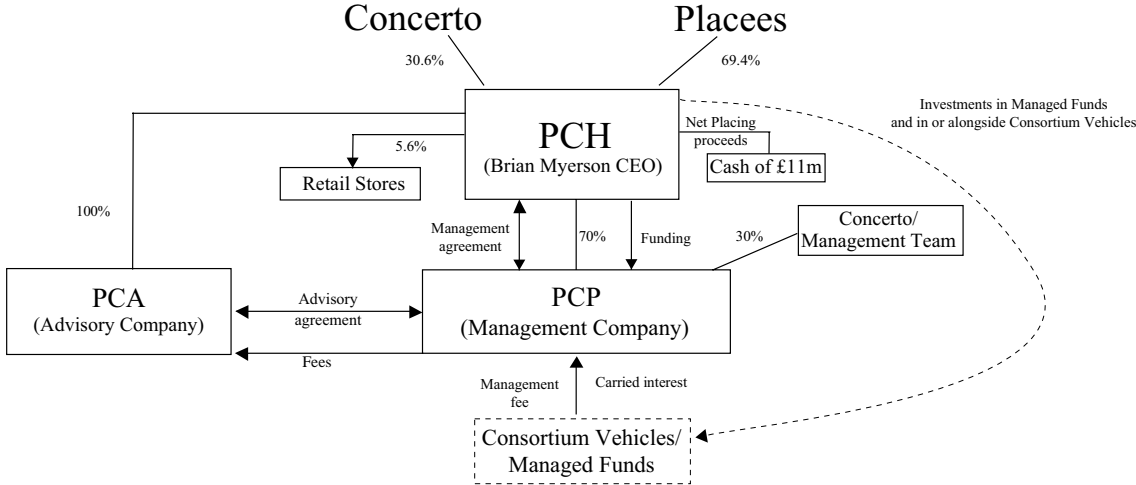
Acquisition are set out in paragraph 7 of this Part 1. In consideration of the transfer to PCH of the Retail Stores Shares, PCH will issue 2,728,416 PCH Shares to Concerto at £1 per share, representing approximately 30.3 per cent. of the issued share capital of PCH upon Admission.

It is anticipated that all the PCH Shares, including those to be issued to Concerto pursuant to the Retail Stores Acquisition and to other investors pursuant to the Placing, will be admitted to trading on AIM on 3 November 2004.

**2. GROUP STRUCTURE**

**(a) Structure chart**

In diagrammatic form, the corporate structure of the Group upon Admission is summarised below:



**(b) PCH**

The Company is a 1929 holding company under Luxembourg law which confers certain tax advantages as described in paragraph 6(a) of Part 5 of this document. Brian Myerson is the chief executive officer of PCH.

**(c) PCP and PCA**

The Company will operate principally through PCP which is 70 per cent. owned by PCH and 30 per cent. owned by Concerto and the Management Team. Details of the ownership split between Concerto and the Management Team are set out in paragraph 3(1) of Part 5 of this document.

- (i) **Principle Capital Partners Limited** is a newly-formed fund management company registered in the British Virgin Islands which has been appointed by PCH to raise and actively manage the Consortium Vehicles and the Managed Funds, as well as the direct investments of PCH.

PCH, Concerto and the Management Team are party to the PCP Shareholders Agreement governing certain aspects of the management of PCP’s business and the relationship between the shareholders of PCP. The PCP Shareholders Agreement is conditional on Admission. In accordance with the PCP Shareholders Agreement, certain matters in respect of the business of PCP are reserved for decision by the holders of 92 per cent. of the PCP shares then in issue (other than any holder who is interested in the matter concerned). The PCP Shareholders Agreement further provides that the acquisition by any person of more than 51 per cent. of the issued share capital of PCH will entitle (at PCH’s option) or require (at the option of the Management Team and/or Concerto) PCH to acquire the PCP shares held by the Management Team and Concerto at the then fair price for such shares (as determined by a third party expert in accordance with the PCP Shareholders Agreement).

In addition, a material and persistent breach by PCH of the PCP Shareholders Agreement will oblige PCH (at the option of the Management Team and/or Concerto or any of them) to acquire either the balance of the PCP shares not held by the Company at the then fair value for such shares or to transfer its shares in PCP at a price equal to 75 per cent. of the then fair price for such shares. Further details of the PCP Shareholders Agreement are set out in paragraph 20 of this Part 1 and paragraph 13(e) of Part 5 of this document. (For these purposes, the parties have agreed that a determination as to fair value is to be made by an approved independent valuer based on the fair value of the shares on a sale between a willing buyer and a willing seller taking no account of whether the shares do or do not carry control of PCP (save in respect of a transfer of shares to PCH pursuant to a change of control of PCH).

- (ii) ***Principle Capital Advisors Limited*** will provide advisory services to PCP in respect of investments (for PCH, the Managed Funds and the Consortium Vehicles) in the UK and Continental Europe and will provide advice on strategic decisions in relation to such investments.

PCA is incorporated in England and Wales and intends to apply for the grant of authorisation by the FSA prior to, or concurrently with, the creation of the first Consortium Vehicle or the raising of the first Managed Fund (whichever is the sooner and, in any event, as soon as reasonably practicable following Admission).

PCA's advisory service is provided to PCP subject to the approval of the Investment Committee, which comprises Brian Myerson and the Management Team. The services of all members of the Investment Committee will be provided by PCA other than Brian Myerson, whose services will be provided by PCP and Brian Padgett, whose services will be provided by Silex. Further details of the Advisory Agreement are set out in paragraph 13(g) of Part 5 of this document.

**(d) Silex and Silex Management**

Administrative services will be provided by Silex, including the provision of company secretarial, regulatory, financial reporting and other administrative services to both PCH and PCP. Silex Management will be the sole director of PCP and Silex is providing the services of Brian Padgett, Leonard O'Brien and Marco Felder as Directors.

Silex and Silex Management are both wholly-owned subsidiaries of Silex Holdings Limited. Silex Holdings Limited is beneficially owned as to 40 per cent. by a trust of which Brian Myerson is a potential beneficiary, as to 40 per cent. by a trust of which Julian Treger is a potential beneficiary, as to 10 per cent. by Leonard O'Brien and as to 10 per cent. by Brian Padgett.

Further details of the PCH Administrative Services Agreement and the PCP Administrative Services Agreement are set out in paragraph 13 of Part 5 of this document.

**(e) Maitland Management Services S.A.**

Maitland Management Services S.A. will provide certain administrative services in Luxembourg to PCH enabling it to exercise its activities in accordance with its constitutional documents.

**(f) Investment Committee**

PCP will have responsibility for discretionary management of the investments made, or to be made, by the PCH Group and those made, or to be made, by the Consortium Vehicles and the Managed Funds. PCP will be advised on these investments by PCA. PCA will be advised by the Investment Committee comprising Brian Myerson and the Management Team. The Investment Committee will meet monthly and as otherwise necessary. Approval of the Investment Committee will be required for any investment recommendations made to PCP by PCA. PCP will only make investment decisions on matters advised to it by PCA and which have been approved by the Investment Committee, but PCP is not obliged to accept PCA's advice.

### **3. FEE AND CUSTODY ARRANGEMENTS**

#### **(a) Fees payable by PCH**

Under the Advisory Agreement, PCP will be required to pay an advisory fee on a cost plus 10 per cent. basis, or otherwise as PCA and PCP may agree. PCA (and persons connected with it) also have the benefit of an indemnity from PCP for losses incurred by reason of PCA's provision of services under the Advisory Agreement. Further details of the Advisory Agreement are set out in paragraph 13(g) of Part 5 of this document.

Under the PCP Shareholders Agreement, PCH has agreed to fund by way of loan the obligations of PCP as they fall due, including costs payable by PCP to PCA, to the extent that PCP is unable to meet these obligations itself. These obligations may also include the winding-up costs of PCA in the event that the Advisory Agreement is terminated as a result of the termination of the Management Agreement. These loans are repayable in advance of any dividends being paid to the shareholders of PCP. PCP (and persons connected with it) also has the benefit of an indemnity from PCH for losses incurred by reason of PCP's provision of services under the Management Agreement. PCH will be responsible for funding the costs of the employment of Brian Myerson by PCP (further details of which are set out in paragraph 5 of Part 5 of this document).

Under the PCH Administrative Services Agreement, PCH will be required to pay £70,000 per annum to Silex in respect of the administrative services referred to in paragraph 2(d) above (including the provision of the services of Brian Padgett, Leonard O'Brian and Marco Felder as Directors). This amount is subject to an annual review. Silex (and persons connected with it) have the benefit of an indemnity from PCH for losses incurred by reason of Silex's provision of services under the PCH Administrative Services Agreement.

Under the PCP Administrative Services Agreement, PCP is required to pay £30,000 per annum to Silex in respect of the administrative services referred to in paragraph 2(d) above. This amount is also subject to an annual review. Silex (and persons connected with it) have the benefit of an indemnity from PCP for losses incurred by reason of Silex's provision of services under the PCP Administrative Service Agreement.

Under a separate agreement with Maitland Management Services S.A., PCH is provided with certain services enabling it to exercise its activities in accordance with its constitutional documents. PCH is liable to pay fees of €3,000 per annum in respect of these services together with a further amount reflecting time devoted by the Maitland Management Services S.A. to the affairs of PCH. Maitland Management Services S.A. (and persons connected with it) have the benefit of an indemnity from PCH for losses incurred by reason of its provision of services under the agreement.

#### **(b) Fees charged by PCP**

PCP will charge fees in respect of the management of Consortium Vehicles and/or Managed Funds of up to 2 per cent. per annum (depending on the size of the relevant Consortium Vehicle and/or Managed Fund) and carried interest of up to 20 per cent. on realised profit, subject to a minimum capital return to investors. That "hurdle rate" will be fixed at different levels for different Consortium Vehicles and/or Managed Funds, in some cases by reference to a securities index and, in other cases, by reference to interest rates. If the hurdle is not reached, no carry is payable to PCP. PCP may offer some discount on these fees to key investors.

#### **(c) Custody arrangements**

Securities belonging to PCH will be held in custody accounts with, and trades effected for the account of PCH will be effected by, one or more international custody and administrative services providers such as Bank of Bermuda (Isle of Man). No appointments in this regard have been made yet. The terms of such appointments, when made, will be reviewed and negotiated by or on behalf of PCH in good faith but are expected to be broadly in line with standard market practice.

#### **4. BUSINESS PLAN**

Initially, the Company expects to invest directly in a small number of quoted companies and for PCP, subject to PCA obtaining FSA authorisation (for which it intends to apply as soon as practicable and, in any event, prior to, or concurrently with, the creation of the first Consortium Vehicle or the raising of the first Managed Fund (whichever is the sooner)), to raise money for Consortium Vehicles to invest alongside it in those companies. Typically, the Group would expect to have one Consortium Vehicle for each investee company. The Consortium Vehicles will be managed by the Group through PCP and PCP will charge an annual management fee and earn any carried interest in the final return received by the investors in the Consortium Vehicles on final realisation of the relevant investment. PCH intends to use a maximum of 50 per cent. of the net proceeds of the Placing for principal investments by PCH alone, in or alongside Consortium Vehicles and/or for potential strategic acquisitions (as referred to below), and to retain the remaining 50 per cent. for working capital purposes.

At the same time, PCP will, subject to PCA obtaining its FSA authorisation, commence work on raising its first Managed Fund with a target amount in excess of £150 million. From the previous experience of Brian Myerson and the Management Team, the Directors anticipate that it would take several months, and possibly more than a year, to raise a Managed Fund of this size. Subject to market conditions, the Directors intend to raise further equity funds in the Company to invest in or alongside the first Managed Fund and then to repeat this process with subsequent Managed Funds. These Managed Funds will be raised and managed by the Group through PCP which will charge an annual management fee and earn any carried interest in the final return received by the investors in the Managed Funds.

The Company may also wish to make suitable strategic acquisitions to strengthen the Group with additional business expertise as well as to increase the Group's client base of investors for the Consortium Vehicles and/or Managed Funds.

#### **5. INVESTMENT APPROACH**

##### **(a) Investment philosophy**

In managing the Managed Funds and the Consortium Vehicles, PCP (having considered advice from PCA) will focus on seeking distressed and/or significantly undervalued opportunities, and then on actively managing the relevant investment.

##### **(b) Activist value investing**

The Directors believe that the principles and disciplines of traditional value investing provide a framework for superior investment performance. However, traditional value investors who identify undervalued companies, but then simply invest in or trade them passively without attempting to effect changes in company operations, are risking the possibility that the full potential of the valuation gap will not be realised.

PCP will attempt to realise this additional value by activist involvement in the operations of the companies in which the Group and the Consortium Vehicles and/or the Managed Funds (acting through PCP) invest, with the goal of seeking to achieve a re-rating of the relevant company's business activities. The Directors believe that this activist investment approach provides a greater likelihood of unlocking the full potential of value investing and is capable of earning returns higher than traditional passive value investing.

In practice, the Directors expect that the investments of the Company (save in relation to any strategic acquisitions to expand the business expertise or investor base of the Group), the Consortium Vehicles and the Managed Funds will occur principally in the following contexts:

- (i) a re-capitalisation or financial restructuring;
- (ii) new strategic plans to deliver increased corporate focus;
- (iii) an operational restructuring to help release the value locked up in a company's assets; and
- (iv) the introduction of new, or replacement of, senior management.

**(c) Investment strategy**

PCP will concentrate on small to medium-sized companies in the UK and Continental Europe with a market capitalisation between approximately £50 million and £1 billion. From time to time, larger capitalised targets may be considered where it is believed that the Group can play an activist role.

PCP will concentrate on asset-backed investments (including companies with strong cashflows) and will not make human capital or high technology investments.

PCP and PCA intend to identify significantly undervalued or distressed companies, which are principally asset-rich companies (including those with strong cash flows) and where PCP believes there is scope to unlock value. The Directors expect that PCP will seek to target companies which have a diverse investor base or where PCP anticipates that other relevant investors will support its activist strategy.

PCP and PCA will make use of their respective strategic, operational and corporate finance skills to manage actively the rights attaching to the relevant investment in order to maximise the value of that investment.

**(d) Acquisition evaluation**

PCP, advised by PCA, intends to gain an in-depth understanding of potential investment situations. The approach to evaluating investments will be “hands-on” with intensive investigation conducted by PCA. PCA will draw upon the extensive experience in investment analysis from the many investments which members of the Investment Committee have previously been involved in or advised upon. PCA’s evaluation process is both time and information intensive, which allows PCA to become intimately familiar with a company’s management, operations and market.

Once PCP or PCA (as the case may be) has identified an investment opportunity, a detailed analysis of the business will follow. This will include an operations review, financial analysis, discussions and analytical process and, before a decision is made to progress to the next stage, a detailed feasibility study. The feasibility study is carried out internally, with reference, where appropriate, to outside consultants and experts.

As part of the investigative process, as much material as possible will be assembled from published sources on a particular investment opportunity. This includes reviewing news services, acquiring copies of investment analysis, broker and company reports, analysing the constitutional documents of the company, the shareholder base of the target company and the company’s financial data. An analysis of the industry generally to understand the macroeconomic drivers for growth, the company’s strategic position in the industry and industry trends will also be undertaken. Industry specialists may be hired who can provide expert advice on or valuation of, for example, property rights or environmental issues.

Once PCP or PCA (as the case may be) has assembled the source material about a company, it will model each potential investment under a variety of scenarios for a number of different time periods, rates of economic growth, and a range of exit values. Returns will also be modelled under a range of capital structures and events, such as restructuring, bankruptcy and recovery.

**(e) Collaboration with other shareholders**

The Directors believe that many institutional shareholders are reluctant to pursue aggressive action for change within under-performing companies. This reluctance to take aggressive action may create an opportunity which PCP intends to identify and exploit.

The Directors believe that only where management is fully accountable to shareholders will the true value and potential of companies be realised. PCP will initially seek to work with existing shareholders of portfolio companies and their boards and management to unlock value on an amicable basis. Where this co-ordinated approach does not prove effective or possible, PCP may pursue its objectives independently.

**(f) Deal flow**

PCA will utilise a computerised screening model specifically to identify target companies which match defined criteria which have been designed to highlight undervalued, mismanaged and/or inefficiently capitalised companies.

In addition to ideas generated internally within the Group, the Directors expect that a consistent flow of potential deals should be provided by the Group's strong network of corporate and institutional contacts in the UK and Continental Europe at a senior level. Furthermore, as a result of the established reputations of Brian Myerson and the Management Team as activist investors and advisers, potential opportunities are often referred to them by existing investors who are discontented with the status quo but do not wish to take an active role themselves.

**6. TRACK RECORD**

Brian Myerson, as the co-founder of Active Value Advisors with Julian Treger (who is not involved in the PCH Group), has been involved in advising in relation to activist investment for fifteen years. As the principal investment advisor to Active Value Fund Managers Limited, Active Value Advisors has advised nine funds and four co-investment vehicles which have invested in distressed and/or significantly underperforming public companies in the United Kingdom, Continental Europe and (in the case of one investment) in South Africa. Total funds raised by the Active Value Group for its activist strategy were £532 million over a period from May 1993 to June 2004. Principally through Active Value Advisors, but also individually and/or through Euro Suisse prior to the establishment of the Active Value Group, Brian Myerson has been a principal advisor in relation to the completion by investment funds or third party investors of more than 30 investments pursuing an activist strategy in the UK and Continental Europe and (in the case of one investment) in South Africa.

This track record (excluding human capital investments which will not form part of the PCH Group's investment strategy) demonstrates:

- (a) a gross annual IRR on realised investments between May 1989 and June 2004 of 22.0 per cent., compared against the following equivalent gross annual IRRs:

FTSE All Share Index (total return)	7.7 per cent.*
FTSE 250 Index (total return)	8.7 per cent.*

- (b) on an absolute basis, a book cost of £260.4 million produced a gross realised profit of £129.6 million or a 49.8 per cent. gross return (in contrast, the FTSE All Share Index (total return) and the FTSE 250 Index (total return) yielded gross profits of £38.2 million (14.7 per cent. return) and £50.7 million (19.5 per cent. return) respectively, on an absolute basis)).

\* Figures for this period up to May 1994 have been derived from the capital only indices plus an income element based upon an assumed yield of 2.5 per cent. per annum.

The gross annual IRR of 22.0 per cent. is calculated before allowance for any management fees or carried interest.

There is no recognised index for small and mid-cap stocks and the size of target company of the Active Value Funds has increased over the period of investing from stocks in the range of £25 million to £300 million to larger stocks generally in the range of £300 million to £700 million. Accordingly, the Directors believe that the most representative index covering the scale of the Active Value Group's target companies is the FTSE All Share Index (total return).

The Active Value Funds currently have a number of unrealised investments. Brian Myerson and the Management Team consider that the current value of these investments is considerably less than their potential realisable value since they believe that there is more value to gain as a result of pursuing an activist investment strategy in the companies concerned. The aggregate book cost of these investments (excluding human capital investments) was £153.0 million and the total return on these investments as at 31 August 2004 was £154.9 million, based on the mid-market prices of the investments concerned on that date, as calculated by the Active Value Funds' administrators and derived from the relevant prevailing market quotations, plus any dividends received to that date.

## 7. RETAIL STORES

The Company has entered into an agreement to acquire 1,270,475 ordinary shares of 25 pence each in Retail Stores (representing 5.6 per cent. of the issued share capital of Retail Stores) from Concerto in consideration of which the Company will, conditional on Admission, issue 2,728,416 PCH Shares to Concerto, such shares being the Consideration Shares, which are identical in all respects to the existing PCH Shares. Concerto is an entity ultimately controlled by the Nicholas Trust, a discretionary family trust of which Brian Myerson is a potential beneficiary.

Retail Stores, through its wholly-owned subsidiary, Liberty plc, owns the Liberty retail brand and the famous department store on Regent Street in Central London. Its shares are admitted to trading on AIM and, as at 14 October 2004, Retail Stores had a market capitalisation of £48,596,450 (based on a market price of £2.15 per share). 68 per cent. of the issued share capital of Retail Stores is owned by Marylebone Warwick Balfour Group plc, a property company listed on the Official List.

A summary of the turnover and loss before tax of Retail Stores for the years ended 30 June 2003 and 30 June 2004 and net assets as at 30 June 2003 and 30 June 2004 (as contained in Retail Stores' preliminary statement for the twelve months ended 30 June 2004) is set out below:

	<i>12 months to 30.6.04</i>	<i>12 months to 30.6.03 (restated)</i>
Turnover	£39.527m	£40.070m
Loss before tax	£6.192m	£4.648m
	<i>As at 30.6.04</i>	<i>As at 30.6.03</i>
Net assets	£47.3m	£51.0m

Further details of the Retail Stores Acquisition are set out in paragraph 13(d) of Part 5 of this document.

In connection with the Contribution Agreement, the Company has agreed, in accordance with a deed of variation (further details of which are set out in paragraph 13(d) of Part 5 of this document) to accede to the Retail Stores Shareholders Agreement, made between Concerto, Retail Stores and Marylebone Warwick Balfour Group plc.

As a party to the Retail Stores Shareholders Agreement, the Company would have the right, for so long as (a) Brian Myerson remains the Chief executive officer of PCH and (b) he or any person connected with him (including Concerto) remains the holder of PCH Shares representing not less than 30 per cent. of the issued share capital of PCH (or 28.5 per cent. to the extent that such holding is reduced solely by the exercise of the options disclosed in this document), to appoint three directors of Retail Stores. If Brian Myerson ceases to be the chief executive officer of PCH or the holding of PCH Shares by Brian Myerson and persons connected with him falls below such thresholds, the Company shall only have the right to appoint two directors of Retail Stores.

In addition, any transfer by PCH of its shareholding in Retail Stores will be subject to pre-emption rights in favour of Marylebone Warwick Balfour Group plc.

Further details of the Retail Stores Shareholders Agreement are set out in paragraph 13(d) of Part 5 of this document.

## 8. DETAILS OF THE PLACING

The Company is proposing to raise approximately £11.0 million (net of expenses) through a placing arranged and underwritten by Numis Securities of 6,250,000 PCH Shares at 200 pence per share.

The obligations of Numis Securities under the Placing Agreement, and therefore the Placing, are conditional upon, *inter alia*, Admission taking place by 8.30 a.m. on 3 November 2004 (or such later date, being not later than 8.30 a.m. on 12 November 2004 as the Company and Numis shall agree). The Placing Agreement

contains provisions entitling Numis to terminate the Placing Agreement at any time prior to Admission in certain limited circumstances.

The Placing Shares will represent approximately 69.4 per cent. of the enlarged issued ordinary share capital of the Company at Admission. On Admission, the Company will have a market capitalisation of approximately £18 million at the Placing Price.

## **9. DIRECTORS AND SENIOR MANAGEMENT**

The Board comprises Brian Myerson, David Cooley, Marco Felder, Leonard O'Brien and Brian Padgett. Brian Myerson is the chief executive officer of the PCH Group and the other four members of the Board are all non-executive Directors.

The Directors were each appointed as directors of the Company on 8 October 2004.

**It is intended that at least two independent non-executive directors will be appointed to the Board before 31 December 2004. Any such appointment is subject to the approval of PCH Shareholders.**

Brief biographies of the Directors are set out below:

### **(a) Directors**

#### **(i) Brian Alan Myerson, *Chief Executive Officer***

Brian Myerson (aged 45) graduated from the University of Witwatersrand in Johannesburg in 1985 with a Bachelor of Commerce degree and a LLB in law. In 1986, he moved to London. Since that time, he has worked in the securities and investment advisory industry.

He began his career with Jesup & Lamont International Limited as a Risk Arbitrage and Corporate Finance Executive, where he was responsible for management of the UK risk arbitrage book including the running of the company's principal positions. Together with a team from Jesup & Lamont, he founded and was managing director of a European Government bond broking business called Euro Suisse Securities Limited. He was instrumental in setting up the Yamato Equity Warrant Fund in Luxembourg and several Euro Suisse operating subsidiaries. He was also responsible for the corporate finance and investment advisory business at Euro Suisse.

In 1989, Brian Myerson led a consortium in an investment in the non-voting shares of Aquascutum Group PLC. The consortium relied on certain special share rights under the articles of association of Aquascutum to break the non-voting share structure. This tactic resulted in the board deciding to sell the company, thereby realising significant value for all shareholders. He subsequently led a family investment in Liberty plc, ultimately resulting in a change of control of that company. Liberty is now owned by Retail Stores. The shares in Retail Stores to be acquired by the Company, conditional on Admission, originate from the interest in Liberty plc initially acquired by Concerto, as referred to in paragraph 7 of this Part 1.

The investment advisory division of Euro Suisse, headed by Brian Myerson, was joint advisor to the first activist fund of the Active Value Group, with a company controlled by Julian Treger. In 1994, Euro Suisse's investment advisory division and Julian Treger's company merged to form Active Value Advisors. Active Value Advisors is the investment advisor to the manager of the Active Value Funds, which invest in distressed and/or significantly underperforming public companies in the United Kingdom, Continental Europe and (in the case of one investment) in South Africa.

#### **(ii) David John Cooley, *Non-executive Director; Chief Operating Officer, PCA***

David Cooley (aged 58) has worked in the securities industry since 1965. Together with three colleagues, he established a UK representative office on behalf of a New York Stock Exchange member firm. This office specialised in international securities arbitrage. He was the director responsible for risk management and compliance.

In 1987, together with Brian Myerson and others, he established Euro Suisse. Euro Suisse was active in securities arbitrage, was an inter-dealer broker in European government bonds and provided institutional investment advice. Following the creation of Active Value Advisors, Mr Cooley was appointed chief operating officer. He will be chief operating officer of PCA.

**(iii) *Brian Sean Padgett, Non-executive Director; Fund Management and Administration, PCP***

Brian Padgett (aged 37) is a director of Active Value Fund Managers Limited and is based in Geneva, Switzerland. He has worked for Active Value Fund Managers Limited in Switzerland since 1997 and is responsible for the day-to-day operations of that company. Prior to working for the Active Value Group, he was chief financial officer of ABSA Financial Services (Jersey) Limited, the offshore division of ABSA Bank Limited. Mr Padgett established PFM Investment Management SA, a private wealth management company, in Switzerland in 1995. He qualified as a chartered accountant in 1994. Brian Padgett is joint managing director of, and has a 10 per cent. interest in, Silex which is the sole director of PCP.

**(iv) *Leonard Joseph O'Brien, Non-executive Director; Financial Reporting and Management, PCH and PCP***

Leonard O'Brien (aged 35) qualified as a chartered accountant in 1996 with KPMG, Dublin. From 1996 to 1999, he worked with the Stonehage Financial Services Group (incorporating the Chesterfield Group), and served as a director on the boards of Regal Trustees Limited and Aegis Trust Company Limited. From 2000 to 2002, he acted as a Membre de Direction of Barclays Bank (Suisse) SA, Geneva. In 2002, Mr O'Brien joined the Silex Financial Services Group where he is joint managing director of, and has a 10 per cent. interest in, Silex which is the sole director of PCP.

**(v) *Marco Felder, Non-executive Director***

Marco Felder (aged 30) is a manager of New Haven Trust Company Limited and is based in Schaan, Liechtenstein. He has worked for New Haven Company Limited in Liechtenstein since August 2003 and is responsible for the support and administration of key clients. Prior to working for New Haven Trust Company Limited, he worked for six years for two different trust companies (Attender Anstalt and Töndury & Partner AG), both based in Liechtenstein. During his studies, he was director and chairman of Maveco Handels und Vermietungs AG, a small Liechtenstein based import and distribution company active in the sector of construction machinery.

Mr Felder studied economics for four years at the University of Lausanne, Switzerland, and for one year at the University of Uppsala, Sweden and, following graduation, joined New Haven Trust Company Limited.

**(b) Senior management**

In addition to David Cooley and Brian Padgett, the following individuals will also be members of the Management Team:

**(i) *George Lindsay Andrew May, Chief Investment Officer, PCA***

George May (aged 43) graduated in 1983 from Exeter University with a Bachelor of Science (Honours) in Chemical Engineering. After employment with Coopers & Lybrand LLP and subsequently with Ultramar plc, he joined Brian Myerson and David Cooley at Euro Suisse in 1989, initially as an accountant but subsequently in the investment advisory division.

He worked closely with Mr Myerson on a number of complex transactions, including Aquascutum Group PLC and Liberty plc. He joined Active Value Advisors, where he heads the research department, when it was first established in 1994. His principal role will be to analyse and model potential investments and he is a key member of the advisory team. Mr May holds the Investment Management Certificate from the UK Society of Investment Professionals.

**(ii) Andrew James Peggie, Legal and Corporate Affairs, PCA**

James Peggie (aged 34) is a UK practising solicitor and is general counsel at Active Value Advisors. He advises on all legal aspects of its business and, in particular, gives both legal and general corporate finance advice pertaining to the investments made by the Active Value Funds and the process undertaken to unlock their investments' value. He is an integral part of the investment process at Active Value Advisors and will be so at PCA. Before joining in November 1999, James worked as a solicitor in the corporate finance department in the London office of the international law firm of Sinclair Roche & Temperley (now Stephenson Harwood) for three years during which time he advised the Active Value Group.

He has a Bachelor of Arts (Honours) and Master of Arts from Oxford University in Classics and received a Distinction from The College of Law in The Law Society's Legal Practice Examination.

The Management Team comprises David Cooley, George May, James Peggie and Brian Padgett.

## **10. TRANSITIONAL ARRANGEMENTS**

PCA has entered into an agreement with Active Value Advisors to meet certain of Active Value Advisors' costs during the AV Realisation Period. PCA has entered into the agreement in recognition of Active Value Advisors allowing certain of its employees to become employees of PCP or PCA or to provide services to those companies during the AV Realisation Period and allowing those individuals to use its office space and facilities in the performance of their services for the PCH Group. Under the agreement, PCA will meet 50 per cent. of Active Value Advisors' employment costs of each of David Cooley and George May and, it is expected, 33 per cent. of Active Value Advisors' employment costs of James Peggie (the actual percentage being based on the percentage of James Peggie's time spent on matters relating to the PCH Group). PCA will also meet 50 per cent. of Active Value Advisors' costs of providing secretarial services to Brian Myerson for so long as he uses those services and the costs incurred by Active Value Advisors in providing office space and facilities to those individuals working on matters relating to the PCH Group, for so long as they provide those services. All of these costs, which in aggregate are expected to amount to approximately £223,000 per annum, will be invoiced and paid quarterly.

## **11. LOCK-IN ARRANGEMENTS**

Concerto, the Directors and the Management Team have given undertakings that, save in certain limited circumstances, they will not dispose of any of their PCH Shares for a period of one year from the date of Admission, except with the permission of Numis. After the expiry of this period, each of Concerto, the Directors and the Management Team have also agreed that any disposal of their PCH Shares will be subject to orderly market provisions.

## **12. REASONS FOR ADMISSION AND USE OF PROCEEDS**

PCH is seeking admission of the PCH Shares to trading on AIM in order to provide funds for principal investment (a) by PCH itself (acting through PCP) or alongside Consortium Vehicles, (b) depending on the size of commitment required, in the first Managed Fund, (c) for any strategic acquisitions for principal investment and (d) for working capital in relation to the Group's fund management activities.

The Group intends to apply up to 50 per cent. of the net proceeds of the Placing for investment purposes and the balance for working capital purposes.

## **13. SHARE INCENTIVE AND BONUS PLANS**

The Company has established the Principle Capital Holdings S.A. Discretionary Share Option Plan and the Principle Capital Holdings S.A. Discretionary Bonus Plan.

Under the DSOP, the Company may grant options to eligible employees of the PCH Group to acquire PCH shares. The maximum number of PCH Shares which may be put under option under the DSOP is 3 per cent. of the issued share capital of PCH from time to time. The exercise price per PCH Share under for each option granted after Admission will be the market value of a PCH Share determined by the Board (subject to the

agreement of the Inland Revenue in the case of options granted under the Inland Revenue approved part of the DSOP). It is intended that George May and David Cooley will each be granted an option under the DSOP over 1 per cent. of the issued share capital of PCH at Admission prior to but conditional on Admission. The exercise price for each PCH Share under these options will be the Placing Price. Under separate arrangements, it is intended that James Peggie and Brian Padgett will also each be granted an option over 1 per cent. of the issued share capital of PCH at Admission. The separate arrangements are required because Messrs Peggie and Padgett are not employees of the PCH Group and, accordingly, are not eligible to be granted options under the DSOP. The exercise price for each PCH Share under their options will be the Placing Price and the other terms of their options will be as similar as practicable to the terms of the options granted under the DSOP.

Under the Bonus Plan and under separate arrangements in the case of James Peggie and Brian Padgett because they are not employees of the PCH Group, 5 per cent. of the profits of the Company before tax, depreciation, amortisation, exceptional items and bonuses will be allocated at the end of each financial year to a bonus pool. Payments will be made out of the bonus pool in the following proportions:

Brian Myerson (28.8 per cent.), George May (5.3 per cent.), David Cooley (5.3 per cent.), James Peggie (5.3 per cent.) and Brian Padgett (5.3 per cent.). The Remuneration Committee, once constituted, will determine how to allocate the remainder of the bonus pool amongst eligible employees.

Further details of the DSOP, the Bonus Plan and the arrangements with James Peggie and Brian Padgett are contained in paragraphs 7 to 10 of Part 5 of this document.

#### **14. CURRENT TRADING AND PROSPECTS**

The Company has not traded since the date of its incorporation and its trading and prospects for the twelve months following Admission will be dependent on the Directors identifying appropriate investments and successfully acquiring interests in such investments.

The costs incurred by the Company in respect of Admission will be met by the Company.

Upon Admission, the Directors will begin to procure the implementation of the business plan, more particularly described in paragraph 3 above. Based on the previous experience and the track record of Brian Myerson and the Management Team, the Directors view the prospects of the Company with confidence.

#### **15. FINANCIAL INFORMATION ON PCH**

The Company's accounting reference date is 31 December. The first audited financial statements of PCH and consolidated financial statements of the PCH Group will be prepared for the period from 29 December 2003 (being the date of incorporation) to 31 December 2004. These financial statements will be prepared in pounds sterling, the Company's reporting currency, in accordance with generally accepted accounting principles in the United Kingdom.

In accordance with rules 16 and 17 of the AIM Rules, the Company will also publish half-yearly reports, the first of which will be for the six month period ending 30 June 2005.

#### **16. DIVIDEND POLICY**

The PCH Shares rank *pari passu* for all dividends or other distributions declared, paid or made in respect of the share capital of the Company.

The Directors intend that, to the extent not required for working capital within the Group, all cash proceeds received by the Company by way of dividend, interest or repayment of capital or otherwise, will be returned to investors by way of dividend or invested alongside Consortium Funds and/or in the Managed Funds.

Details of the PCP dividend policy are set out in paragraph 13(e) of Part 5 of this document.

## **17. DIRECTORS' DEALINGS**

The Directors intend to comply with rule 19 of the AIM Rules relating to directors' dealings as applicable to AIM companies and will also take all reasonable steps to ensure compliance by the Company's applicable employees.

## **18. TAXATION**

General information regarding Luxembourg and UK taxation in relation to the Admission and the Placing is set out in paragraph 6 of Part 5 of this document. **If you are in any doubt as to your tax position, you should consult your own independent financial adviser immediately.**

## **19. ADMISSION, SETTLEMENT AND DEALINGS**

As the Company is an overseas company, the PCH Shares cannot be held or transferred directly in CREST. However, PCH Shares may be held electronically through CREST by way of a "Depositary Instrument". Depositary Instruments are independent uncertificated securities constituted under English law which represent PCH Shares on a one for one basis. They will be issued by Capita IRG Trustees Limited upon application by holders of PCH Shares, against deposit of the underlying PCH Shares. The PCH Shares represented by the Depositary Instruments will be registered in the Company's register of members in the name of a trustee, who will hold the PCH Shares on trust for the investors who hold the Depositary Instruments which represent such PCH Shares. Holders of Depositary Instruments will be entitled to receive notices of meetings and other notices issued by the Company, exercise the voting rights attached to the underlying shares and receive all dividends paid by the Company from time to time to holders of PCH Shares. Depositary Instruments can be credited to the same member account as all the other CREST investments of any particular investor. This means that, from a practical point of view, PCH Shares held through Depositary Interests will be held and transferred in the same way as other companies' shares participating in CREST. The Depositary Instruments are expected to have the same security code (ISIN) as the underlying PCH Shares which, following Admission, will be admitted to trading on AIM. CREST is a voluntary system and PCH Shareholders who wish to settle in materialised form can continue to trade by means of stock transfer forms and hold paper share certificates.

In general, the Depositary Instruments held in uncertificated form under CREST will be subject to the rules, regulations and procedures governing CREST and its system members from time to time. Ownership of a Depositary Instrument held in uncertificated form under CREST may only be transferred in compliance with procedures of CREST in effect from time to time.

## **20. CONFLICTS MANAGEMENT**

By virtue of the structure of the PCH Group and the shareholdings of both the Management Team and Concerto in PCP, potential conflicts of interest may arise from time to time. These could include, for example, where Brian Myerson or a member of the Management Team is involved in the management of, or has an interest in, a company in which PCH and/or the Group is considering an investment, or the terms on which such an investment is realised or on which it will provide services to PCH and/or the Group. In order to manage and minimise such potential conflicts of interest, the Directors have adopted a PCH conflicts management policy, which addresses dealings between PCH, the Directors and the Management Team and the exercise of PCH's rights as a shareholder in PCP.

The terms of such conflicts management policy provide that, amongst other things:

- (a) by virtue of his interest in both Silex and Concerto, Brian Myerson may not vote as a Director in respect of any consideration by the Board of (i) the PCH Administrative Services Agreement (further details of which are set out in paragraph 13(h) of Part 5 of this document) or (ii) the exercise of PCH's rights as a shareholder in respect of: any matter which could have an effect on PCH's economic interest in PCP (including any matter in respect of which the interests of Concerto and PCH as shareholders of PCP could differ), any decision relating to Silex Management in its capacity as the sole director of PCP (including any decision to remove it as a director of PCP) or any alteration to or the renewal or

replacement of the Advisory Agreement or of the PCP Administrative Services Agreement (further details of which are set out in paragraphs 13(g) and 13(i) respectively of Part 5 of this document); and

- (b) by virtue of their shareholding in PCP, David Cooley and Brian Padgett may not vote in their capacity as Directors in respect of any consideration by the Board of the exercise of PCH's rights as a shareholder in PCP pursuant to the PCP Shareholders Agreement in respect of any matter which could have an effect on PCH's economic interest in PCP (including any matter in respect of which the interests of David Cooley and Brian Padgett as shareholders in PCP could differ); and
- (c) by virtue of their interest in Silex, Brian Padgett and Leonard O'Brien may not vote in their capacity as Directors in respect of any consideration by the Board of (i) the PCH Administrative Services Agreement (further details of which are set out in paragraph 13(h) of Part 5 of this document or (ii) the exercise of PCH's rights as a shareholder in respect of: any alteration to or the renewal and replacement of the PCP Administrative Services Agreement (further details of which are set out in paragraph 13(i) of Part 5 of this document) or any decision relating to Silex Management in its capacity as the sole director of PCP (including any decision to remove it as a director of PCP).

In addition, the PCP Shareholders Agreement provides that a shareholder who is interested (as more fully defined in the PCP Shareholders Agreement) in a matter requiring the approval of the PCP shareholders may not vote in respect of such a matter.

The terms on which Brian Myerson and the Management Team will provide services to the PCH Group provide for management of such conflicts of interest as may arise between duties owed by them to the Active Value Funds. Brian Myerson and the Management Team believe that the scope for such conflicts of interest is minimal on the basis that the Active Value Funds are in their realisation phase. To the extent that conflicts of interest arise during the AV Realisation Period, however, they will be resolved in favour of the Active Value Funds.

Brian Myerson was until recently Executive Chairman of AVASA, a South African company listed on the Johannesburg Stock Exchange. He resigned as a director of AVASA on 4 October 2004. A discretionary family trust, of which Brian Myerson is a potential beneficiary, currently owns 22 per cent. of the issued share capital of AVASA. AVASA's business strategy is to take advantage of activist investment opportunities in South Africa.

It is possible that the Group will extend its activities to South Africa in the future. The Group would not do this until the potential conflict between Brian Myerson's interest in AVASA and PCH is resolved to the satisfaction of PCH and its nominated adviser.

## **21. CORPORATE GOVERNANCE**

The Directors recognise the importance of sound corporate governance commensurate with the status of the Company as a company admitted to trading on AIM, as well as taking into account the interests of PCH shareholders. Following the appointments of two independent non-executive Directors, which are intended to be made before 31 December 2004, the Directors will establish an audit committee to receive and review internal financial reports from PCH and from the auditors relating to the interim and annual accounts and to the Group's system of internal financial control. The Directors will also, at such time, establish a remuneration committee which will determine the terms and conditions of service of any executive Director and the allocation of options over PCH Shares.

## Part 2

### RISK FACTORS

An investment in the Company involves a high degree of risk. Accordingly, in relation to an investment decision concerning PCH Shares, you are advised to consult an investment adviser authorised under the Financial Services and Markets Act 2000 who specialises in the acquisition of shares and other securities. In addition to the other information contained in this document, the following risk factors affecting the Company should be considered carefully.

It should be noted that this list is not exhaustive and that other risk factors may apply. In particular, the Company's performance is likely to be affected by changes in the market and/or economic conditions and in legal, accounting, regulatory and tax requirements. There can be no guarantee that the Company will achieve its investment objectives.

#### **1. Limited trading history**

The Company was incorporated on 29 December 2003 and, as at the date of Admission, will have made only one investment, being the Retail Stores Acquisition. The Company therefore has no operating history or trading record. The Company's prospects should be considered in light of the risks associated with companies in their early stages of development.

#### **2. Prospective investments**

The value of an investment in the Company is materially dependent upon PCP raising Managed Funds and/or funds in the Consortium Vehicles. There can be no guarantee that PCP will be successful in raising such funds and no guarantee can be given as to the return which may be generated on any investment made by PCH and managed by PCP.

#### **3. Foreign exchange risk**

An investment made by the Company and/or the Consortium Vehicles and/or the Managed Funds may be made in countries other than the United Kingdom (in the case of PCH, throughout Continental Europe). The assets of any such foreign investment are likely to be denominated in currencies other than pounds sterling. The value of any such investment would, therefore, be affected by any fluctuations in foreign exchange rates. Neither PCH, PCP, PCA nor any of their directors or advisers will have any responsibility to hedge or otherwise manage currency risk, and returns on such investment may be adversely affected as a result.

#### **4. Dependence on key staff**

The Company's performance is dependent on the ability of Brian Myerson and other PCH key individuals retained or employed within the Group to select appropriate investments and to influence the management of the business in which the Company and/or the Consortium Vehicles and/or the Managed Funds invests. If one or more of them ceases to work for, or provide services to, the Group, the Company's business may be adversely affected.

#### **5. Past performance**

The past performance of the Active Value Funds and the investment track record of Brian Myerson and/or the Management Team is not a guarantee of future performance by the PCH Group. The investment track record of Brian Myerson through his involvement with Active Value Advisors was achieved under the joint control and supervision of Brian Myerson and Julian Treger. Julian Treger will not be involved in the PCH Group.

#### **6. Further equity issues**

The Company may in the future seek to raise further equity funds through the issue of additional PCH Shares. Any equity funds raised will have a dilutive effect on existing shareholdings.

## **7. Trading on AIM and liquidity**

The share prices of publicly traded companies can be volatile. The price of shares is dependent upon a number of factors, some of which are general or market specific, others which are sector specific and others which are specific to the Company. It may be the case that the market price of the Company's shares does not fully reflect the underlying net asset value of the Company.

Although the PCH Shares will be traded on AIM, this should not be taken as implying that there will always be a liquid market in PCH Shares. In addition, the market for shares in smaller public companies is less liquid than for larger public companies. Therefore, an investment in PCH Shares may be difficult to realise and the share price may be subject to greater fluctuations than might otherwise be the case.

The PCH Shares will be quoted on AIM rather than on the Official List of the UK Listing Authority. An investment in shares quoted on AIM may carry a higher risk than an investment in shares quoted on the Official List as the AIM Rules are less demanding than the rules of the Official List. Investors should be aware that the value of the PCH Shares may be volatile and may go down as well as up and investors may not recover their original investment.

## **8. Incentive fee**

The performance-based carried interest may create an incentive for PCP to make investments which are riskier and more speculative than would be the case in the absence of such a performance-based fee.

## **9. Changes in applicable law**

The Group must comply with various legal requirements, including those imposed by the securities laws, tax laws and pension laws in various jurisdictions. If any of those laws change, the legal, regulatory and taxation requirements and treatments to which the Group and its shareholders may be subject could differ materially from the current requirements.

## **10. General market risk**

The performance of the investments of the Company and/or the Consortium Vehicles and/or the Managed Funds may be adversely affected by general market sentiment or economic trends which bear little or no relationship to the underlying fundamentals of the companies concerned.

## **11. Risk of illiquidity of investments**

The ability to sell investments held by the Company and/or the Consortium Vehicles and/or the Managed Funds may be adversely affected due to insufficient trading activity or, indeed, actual trading halts in the markets in which the securities held by the Group and/or the Consortium Vehicles and/or the Managed Funds are traded. In such circumstances it may take time to liquidate the positions of the Company and/or the Consortium Vehicles and/or the Managed Funds and the market prices obtained may be substantially different from those indicated at the time when the decisions to liquidate were taken. The Group and/or the Consortium Vehicles and/or the Managed Funds may from time to time invest their money in private funds where there is no market.

## **12. Institutional risk**

The institutions, including brokerage firms and banks, custodians and administrative and executive service providers, with which the Group (directly or indirectly) does business, or to which securities have been entrusted for custodial purposes may encounter financial difficulties which impair the operational capabilities or the capital position of the Company and/or the Consortium Vehicles and/or the Managed Funds.

## **13. Counterparty and settlement risk**

Transactions by PCP on behalf of the Group will not be limited to transactions on, or effected under the rules of, major securities exchanges and it is possible that some trades will be effected off-exchange, directly with counterparties. The Group and/or the Consortium Vehicles and/or the Managed Funds will take a credit risk

on the parties with which it trades and therefore the Group and/or the Consortium Vehicles and/or the Managed Funds acting through PCP will seek to transact only with major established counterparties. The Group and/or the Consortium Vehicles and/or the Managed Funds 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 Group and/or the Consortium Vehicles and/or the Managed Funds.

#### **14. Small and medium capitalisation companies**

The Group may invest in the shares of companies with small to medium-sized market capitalisations. While the Directors believe they often provide significant potential for appreciation, those stocks, particularly small-capitalisation stocks, involve higher risk in some respects than do investment in stocks of larger companies. For example, prices of small-capitalisation and even medium-capitalisation stocks are often more volatile than prices of large-capitalisation stocks and the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to investors) is higher than for larger, “blue-chip” companies. In addition, due to thin trading in some small-capitalisation stocks, an investment in those stocks may be illiquid.

#### **15. Investments in undervalued securities**

One of the objectives of the Group is to invest in undervalued securities. The identification of investment opportunities in undervalued securities is a difficult task, and there is no assurance that such opportunities will be successfully recognised. While investments in undervalued securities offer the opportunities for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from the Company’s investments and/or those of the Consortium Vehicles and/or Managed Funds may not adequately compensate for the business and financial risks assumed.

The Group and/or the Consortium Vehicles and/or the Managed Funds, acting through PCP, may make certain speculative investments in securities which PCP believes to be undervalued; however, there are no assurances that the securities purchased will in fact be undervalued. In addition, the Company and/or the Consortium Vehicles and/or the Managed Funds may be required to hold such securities for a substantial period of time before realising their anticipated value. During this period, a proportion of the money available for investment by the Company and/or the Consortium Vehicles and/or the Managed Funds would be committed to the securities purchased, thus possibly preventing the Company and/or the Consortium Vehicles and/or the Managed Funds from investing in other opportunities.

#### **16. Investment strategies**

The Group may employ certain strategies which depend upon the reliability and accuracy of the analytical models performed by, amongst others, PCP and PCA. To the extent such models (or the assumptions underlying them) and/or strategies do not prove to be correct, the Group and/or the Consortium Vehicles and/or the Managed Funds may not perform as anticipated, which could result in substantial losses, which will affect the Company’s revenues and in turn might adversely affect the value of the Company.

## Part 3

### ACCOUNTANTS' REPORT ON PCH

The Directors  
Principle Capital Holdings S.A.  
6 rue Adolphe Fischer  
L-1520 Luxembourg

The Directors  
Numis Securities Limited  
Cheapside House  
138 Cheapside  
London  
EC2V 6LH

18 October 2004

Dear Sirs

#### **Principle Capital Holdings S.A.**

We report on the financial information set out below. This financial information has been prepared for inclusion in the admission document dated 18 October 2004 of Principle Capital Holdings S.A. ('the Company').

#### *Basis of preparation*

The financial information set out in the paragraphs below is based on the financial statements of the Company from incorporation to 31 August 2004 prepared on the basis described in note 1 to which no adjustments were considered necessary.

#### *Responsibility*

Such financial statements are the responsibility of the directors of the Company.

The directors of the Company are responsible for the contents of the admission document dated 18 October 2004 in which this report is included.

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

#### *Basis of opinion*

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board of the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

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

### *Opinion*

In our opinion the financial information gives, for the purposes of the admission document, a true and fair view of the state of affairs of the Company as at the 31 August 2004.

We consent to the inclusion in the admission document dated 18 October 2004 of this report and accept responsibility for this report for the purposes of paragraph 45(1)(b)(iii) of Schedule 1 of the Public Offers of Securities Regulations 1995.

### **Profit and loss account**

The profit and loss account of the Company for the period from incorporation to 31 August 2004 is as follows:

	<i>Notes</i>	<i>8 months to 31 August 2004 £</i>
Other income		–
Expenses		(1,155)
Loss on exchange		(638)
Net loss		<u>(1,793)</u>

### **Balance sheet**

The balance sheet of the Company at 31 August 2004 is as follows:

	<i>Notes</i>	<i>£</i>
<b>Current Assets</b>		
Cash		556
Debtors	4	18,578
		<u>19,134</u>
<b>Current Liabilities</b>		
Creditors		(3,378)
<b>Net Assets</b>		<u>15,756</u>
<b>Represented by:</b>		
Share Capital	5	17,549
Accumulated losses		(1,793)
		<u>15,756</u>

## Cash flow statement

The cash flow statement of the Company for the period from incorporation to 31 August 2004 is as follows:

	<i>8 months to 31 August 2004</i>
<i>Notes</i>	<i>£</i>
<b>Cash flows from operating activities</b>	
Cash generated from operations	(1,793)
<b>Net cash flows used in operating activities</b>	<u>(1,793)</u>
<b>Cash flows from investing activities</b>	
Investment in subsidiary	(16,889)
Loan	(1,689)
<b>Net cash flows used in investing activities</b>	<u>(18,578)</u>
<b>Cash flows from financing activities</b>	
Issue of shares	17,549
Loan from parent company	3,378
<b>Net cash flows from financing activities</b>	<u>20,927</u>
<b>Net change in cash and cash alternatives</b>	<u>556</u>
<b>Cash brought forward</b>	<u>–</u>
<b>Cash carried forward</b>	<u>556</u>

## Notes

### 1 Accounting policies

The financial information has been prepared in accordance with UK GAAP. The balance sheet has been prepared in accordance with the historical cost convention.

#### *Loss on exchange*

Exchange losses are incurred due to the Company reporting in pounds sterling. Share capital is translated at the exchange rate on date of incorporation. Balance sheet items are translated at the rate of exchange as at 31 August 2004. All other transactions are translated at the average exchange rate over the period from the date of incorporation to 31 August 2004.

- 2 The Company was incorporated on 29 December 2003. On 8 October 2004, the Company changed its name from Tabula Holdings Eight S.ar.l to Principle Capital Holdings SA. The Company has not yet commenced business, no audited statements have been made up and no dividends have been declared or paid since the date of incorporation.

### 3 Investment in subsidiary undertaking

Tabula Holdings Ten S.ar.l was acquired on 30 December 2003 for £17,595 (€25,000). It was sold on 29 January 2004 for €25,000.

	<i>£</i>
Cost of investment	(17,595)
Net proceeds of sale	17,057
Exchange loss	<u>(538)</u>

No ownership was retained by the Company at 31 August 2004. The disposal had no commercial effect as the subsidiary had not commenced trading. The only loss attributable to the subsidiary is the exchange loss incurred on sale of the subsidiary undertaking.

4 Debtors

	<i>At 31 August 2004 £</i>
Other Debtors	
Net proceeds due from sale of subsidiary	16,889
Loan repayable within one year	1,689
	<hr/> 18,578 <hr/>

5 Share capital

The Company was incorporated on 29 December 2003 with an issued share capital of €25,000 (£17,549), comprising 1,000 ordinary shares of €25 (£17.55). The issued share capital on 31 August 2004 was 1,000 ordinary shares of €25 (£17.55) each. On 8 October 2004, the issued share capital of the Company was converted from euros to pounds sterling and increased by Euro 6,000 to be represented by 21,390 shares with a par value of £1 each. Euro 1,500 was paid up on 8 October 2004. On 8 October 2004, shares held by Tabula Holdings Six S.ar.l. were transferred to Concerto and one PCH share was transferred to Silex Nominees Limited and, as at the date of this document, Concerto owns 21,389 PCH Shares and Silex Nominees Limited owns one PCH Share. On 8 October 2004, the authorised share capital of the Company was increased to 12,500,000 shares with a par value of £1 each.

6 Parent company

As at 31 August 2004, the immediate parent company is Tabula Six Holdings S.ar.l., which is incorporated in Luxembourg.

As at 31 August 2004, the ultimate parent company is Paladin Limited which is incorporated in Liberia.

7 Post Balance Sheet Events

(a) *Investment in Retail Stores PLC*

On Admission to AIM, the Company will enter into an agreement to buy 1,270,475 shares at £2.15 in Retail Stores PLC. This represents 5.6 per cent. of the issued share capital of Retail Stores PLC. In consideration of the transfer to the Company of the Retail Stores PLC shares, the Company will issue 2,728,416 shares at £1 each to Concerto, which, together with the 21,389 shares received by Concerto as referred to in paragraph 5 above representing approximately 30.6 per cent. of the issued share capital of the Company on admission to AIM.

(b) *PCA and PCP acquisitions*

On 8 October 2004, the Company acquired, conditional on Admission, 100 shares of US\$1 each in Principle Capital Partners Limited at par value. On 8 October 2004, the Company also acquired the one share of £1 nominal value in Principle Capital Advisors Limited at par value.

Yours faithfully

KPMG Audit Plc

## Part 4

### TERMS AND CONDITIONS OF THE PLACING

#### 1. Introduction

These terms and conditions apply to persons making an offer to subscribe for Placing Shares under the Placing (which may include Numis or its nominee(s)) and shall be referred to and incorporated into by such reference and agreement into any letter (“Placing Letter”) pursuant to which any such person agrees to subscribe for Placing Shares. For the purpose of any Placing Letter these terms and conditions shall be read and construed in the context of any Placing Letter as though set out and repeated therein.

Each person to whom these conditions apply, as described above, who confirms his agreement to Numis (on behalf of itself and the Company) to subscribe for Placing Shares (an “Investor”) hereby agrees with each of Numis and the Company to be bound by these terms and conditions as being the terms and conditions upon which Placing Shares will be issued and sold under the Placing. An Investor shall, without limitation, become so bound if Numis confirms to the Investor its allocation of Placing Shares. Following such confirmation, each Investor undertakes to promptly return a completed form of confirmation in the form supplied by Numis (the “Form of Confirmation”).

#### 2. Agreement to acquire Placing Shares

Conditional on (i) Admission occurring on or prior to 3 November 2004 (or such later date as Numis and the Company may agree (not being later than 12 November 2004)) and (ii) receipt by Numis of the Form of Confirmation, an Investor agrees to subscribe for, at the Placing Price, the number of Placing Shares allocated to such Investor under the Placing in accordance with the arrangements described in Part 1 of this document. To the fullest extent permitted by law, each Investor acknowledges and agrees that it will not be entitled to exercise any remedy of rescission at any time. This does not affect any other rights such Investor may have.

#### 3. Payment for Placing Shares

Each Investor undertakes to pay the Placing Price for the Placing Shares issued to such Investor in such manner as shall be directed by Numis.

In the event of any failure by any Investor to pay as so directed by Numis, the relevant Investor shall be deemed hereby to have appointed Numis or any nominee of Numis to sell (in one or more transactions) any or all of the Placing Shares in respect of which payment shall not have been made as directed by Numis and to have directed Numis to use the proceeds of sale in satisfaction, in whole or in part, of such payment and shall indemnify on demand Numis in respect of any liability for stamp duty and/or stamp duty reserve tax arising in respect of any such sale or sales.

#### 4. Representations and warranties

By receiving this document, and upon Numis making the confirmation in paragraph 1 above each Investor confirms, represents, warrants and undertakes to Numis (for Numis and on behalf of the Company) on the terms and subject to the conditions set out in this Part 4:

- (a) that the exercise by Numis of any of its rights or discretions under the Placing Agreement shall be within the absolute discretion of Numis and Numis need not have any reference to the Investor and shall have no liability to the Investor whatsoever in connection with any decision to exercise or not to exercise any such right or discretion and each Investor agrees that they have no rights against Numis, the Company or any of their respective directors and employees under the Placing Agreement pursuant to the Contracts (Rights of Third Parties) Act 1999;

- (b) in agreeing to subscribe for Placing Shares under the Placing, each Investor is relying on the Admission Document and not on any information or representation or warranty in relation to the Company or any of its subsidiaries or any of the Placing Shares other than as contained in the Admission Document;
- (c) that neither the Investor nor, as the case may be, their clients expect Numis to have any duties or responsibilities to the Investor (nor their clients) similar or comparable to the duties of “best execution” and “suitability” imposed by The Conduct of Business Source Book contained in The Financial Services Authority’s Handbook of Rules and Guidance, and that Numis is not acting for the Investor or its clients, and that Numis will not be responsible for providing protections afforded to customers or the Investor;
- (d) that, save in the event of fraud on the part of Numis (and to the extent permitted by the Rules of the Financial Services Authority), neither Numis, its ultimate holding company nor any direct or indirect subsidiary undertakings of that holding company, nor any of their respective directors and employees shall be liable to the Investor for any matter arising out of Numis’ role as placing agent or otherwise in connection with the Placing and that where any such liability nevertheless arises as a matter of law the Investor will immediately waive any claim against any of such persons which you may have in respect thereof;
- (e) in the case of a person who confirms to Numis on behalf of an Investor an agreement to subscribe for Placing Shares that person represents and warrants that he has the authority to do so on behalf of the Investor;
- (f) it is not and is not applying as nominee or agent for, a person who is, or may be, mentioned in any of sections 67, 70, 93 or 96 of the Finance Act 1986 (depository receipts and clearance services). For the avoidance of doubt, if this confirmation is incorrect, additional stamp duty or SDRT may be payable for which neither Numis or the Company will be responsible and if, as a result, any of those persons is obliged by law to pay any such stamp duty or SDRT, they shall be entitled to receive the same from you;
- (g) it is not a national or resident of the United States, Canada, Australia, the Republic of Ireland, the Republic of South Africa or Japan or a corporation, partnership or other entity organised under the laws of the United States, Canada, Australia, the Republic of Ireland, the Republic of South Africa or Japan and that the Investor, its affiliates and any person acting on its behalf, will not offer, sell, renounce, transfer or deliver directly or indirectly any of the Placing Shares in the United States, Canada, Australia, the Republic of Ireland, the Republic of South Africa or Japan or to or for the benefit of any person resident in the United States, Canada, Australia, the Republic of Ireland, the Republic of South Africa or Japan and the Investor acknowledges for itself and for any of its affiliates and any person acting on its behalf that the Placing Shares have not been and will not be registered under the United States Securities Act of 1933, as amended and the relevant exemptions are not being obtained from the Securities Commission of any province of Canada and that the same are not being offered for sale and may not be, directly or indirectly, offered, sold, transferred or delivered in the United States, Canada, Australia, the Republic of Ireland, the Republic of South Africa or Japan;
- (h) it is entitled to subscribe for the Placing Shares comprised in its allocation under the laws of all relevant jurisdictions which apply to such Investor and that such Investor has fully observed such laws, obtained all governmental and other consents which may be required thereunder or otherwise and complied with all necessary formalities; and
- (i) that it is a person of a kind described in Article 12(1), or Article 19(5) or Article 49(2) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.

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

If the Company, Numis or any of their respective agents request any information about an Investor’s agreement to subscribe for Placing Shares, such Investor must promptly disclose it to them.

## **6. Miscellaneous**

The rights and remedies of Numis and the Company under these terms and conditions are in addition to any rights and remedies which would otherwise be available to each of them and the exercise or partial exercise of one will not prevent the exercise of others.

On application, each Investor may be asked to disclose, in writing or orally, to Numis:

- (i) if he is an individual, his nationality; or
- (ii) if he is a discretionary fund manager, the jurisdiction in which the funds are managed or owned.

All documents will be sent at the Investor's risk. They may be sent by post to such Investor at an address notified to Numis.

Each Investor agrees to be bound by the Articles (as amended from time to time) once the Placing Shares which such Investor has agreed to subscribe for have been issued to such Investor.

The contract to subscribe for Placing Shares and the appointments and authorities mentioned herein will be governed by, and construed in accordance with, the laws of England. For the exclusive benefit of the parties mentioned under paragraph 1 above, each Investor irrevocably submits to the exclusive jurisdiction of the English courts in respect of these matters. This does not prevent an action being taken against an Investor in any other jurisdiction.

In the case of a joint agreement to subscribe for Placing Shares, references to an Investor in these terms and conditions are to each such Investor and the Investors' liability is joint and several.

Monies received from Investors pursuant to the Placing will be held in accordance with the terms and conditions of the Form of Confirmation issued by Numis until such time as the Placing Agreement becomes unconditional. If the Placing Agreement does not become unconditional by 12 November 2004, application monies will be returned without interest.

## Part 5

### ADDITIONAL INFORMATION

#### 1. Responsibility

To the best of the knowledge of the Directors, who have taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and makes no omission likely to affect the import of such information. The Directors, whose names, functions and business address are set out on page 4 of this document, accept responsibility for the information contained in this document.

#### 2. Information on PCH

- (a) The Company was incorporated in Luxembourg on 29 December 2003 with registered number 98144. The principal legislation under which the Company operates is the Luxembourg law on commercial companies of 1915 (as amended) and the law of 31 July 1929.
- (b) The Company's principal place of business is 6 rue Adolphe Fischer, L-1520 Luxembourg.
- (c) The Company is a joint stock corporation and the liability of the members is limited.
- (d) The Company is the holding company of the Group, which comprises PCA, a wholly-owned subsidiary incorporated in England, and (conditional on Admission) PCP, incorporated in the British Virgin Islands and a 70 per cent. subsidiary of the Company.

#### 3. Share capital and interests

- (a) The issued share capital of the Company on incorporation was €25,000 represented by 1,000 shares of €25 par value registered in the name of Tabula Holdings Six S.ar.l. On 8 October 2004, the issued share capital of the Company was converted from euro to pound sterling and increased by €6,000 to be represented by 21,390 shares with a par value of £1 each. On 8 October 2004, the authorised share capital of the Company was increased to 12,500,000 shares with a par value of £1 each.
- (b) On 8 October 2004, the PCH Shares held by Tabula Holdings Six S.ar.l. were transferred to Concerto and one PCH Share was transferred to Silex Nominees Limited and, as at the date of this document, Concerto owns 21,389 PCH Shares and Silex Nominees Limited owns one PCH Share. Save as set out in paragraph (h) below, no Directors nor any person connected with any of them has any interest in any Shares.
- (c) Pursuant to the Retail Stores Acquisition, PCH has agreed, conditional on Admission, to issue 2,728,416 PCH Shares to Concerto in consideration for the transfer of the shares in Retail Stores held by Concerto. Further details of the Contribution Agreement are set out in paragraph 13(d) of this Part 5.
- (d) Pursuant to the Placing, PCH will issue, conditional on Admission, 6,250,000 PCH Shares to investors who have agreed to participate in the Placing and, following the issue of such PCH Shares, the Directors will take such steps as may be required to amend the Articles to reflect the increase in the issued share capital of the Company.
- (e) The PCH Shares will rank *pari passu* in all respects including the right to receive all dividends and other distributions declared, made or paid on the PCH Shares from the date of this document.
- (f) Following Admission, the PCH Shares may be held in either certificated or in uncertificated form by way of Depositary Instruments, further details of which are set out in section 19 of Part 1 of this document.
- (g) Save as disclosed in this document:
  - (i) no share or loan capital of the Company has been issued or is proposed to be issued;

- (ii) no person has any preferential subscription rights for any share capital of the Company;
  - (iii) no share or loan capital of the Company is under option or agreed conditionally or unconditionally to be put under option; and
  - (iv) no commissions, discounts, brokerages or other special terms have been granted by the Company since its incorporation in connection with the issue or sale of any share or loan capital of the Company.
- (h) The interests of the Directors, all of which are beneficial save where otherwise stated, in the PCH Shares shortly after Admission are expected to be as follows:

<i>Director</i>	<i>Number of PCH Shares</i>	<i>Percentage of issued share capital on Admission</i>
Brian Myerson*	2,749,805	30.6
David Cooley	Nil	Nil
Leonard O'Brien	Nil	Nil
Marco Felder	Nil	Nil
Brian Padgett	Nil	Nil

\*Brian Myerson is interested in the 2,749,805 PCH Shares transferred to Concerto on 8 October 2004 or, conditional on Admission, to be issued to Concerto by way of the Retail Stores Acquisition, as he is a potential beneficiary of the Nicholas Trust, which owns Concerto.

- (i) On the assumption that the persons who have indicated to Numis an interest in subscribing for the Placing Shares subscribe to the full amount of their participation, the following persons (other than Concerto and the Directors whose interests are set out in paragraph (h) above) will be interested, directly or indirectly, in 3 per cent. or more of the Company's issued share capital immediately following Admission.

<i>Name</i>	<i>Number of PCH Shares</i>	<i>Percentage of issued share capital on Admission</i>
Jupiter Asset Management	1,800,000	20
Moore Europe Capital Management	1,057,500	11.75
Old Mutual Asset Management	520,650	5.79
New Star Asset Management	500,000	5.56
Framlington Investment Management	375,000	4.17
Rathbones	375,000	4.17
Reichmuth & Co	280,000	3.11
HSBC Investment Management	339,675	3.77

This is on the assumption that Numis will not, directly or indirectly, be interested in 3 per cent. or more of the issued share capital of the Company as a result of not being able to place all of the Placing Shares and excludes any PCH Shares held by Numis in its capacity as a market maker. If the Company becomes aware that Numis is, at or shortly after Admission, interested in 3 per cent. or more of the issued share capital of the Company, that any of the persons listed above are no longer subscribing for Placing Shares and/or any other person(s) will be subscribing for Placing Shares, the Company will make an appropriate announcement in accordance with its obligations under the AIM Rules.

- (j) No Director or any member of a Director's family has a related financial product referenced to PCH Shares.
- (k) Save as disclosed in this paragraph, and so far as the Directors are aware, there are no persons who, directly or indirectly, jointly or severally, exercise or could exercise control over the Company.

- (l) Immediately following Admission, the interests of PCH, Concerto and the Management Team in PCP will be as follows:

<i>Name</i>	<i>Number of PCP shares</i>	<i>Percentage of issued share capital</i>
PCH*	7,000	70.00
Concerto	1,724	17.24
David Cooley	319	3.19
George May	319	3.19
Brian Padgett	319	3.19
James Peggie	319	3.19

\*In addition, PCH will hold 100 shares of US\$1 each in PCP. These shares are not entitled to vote and do not carry any rights to dividends of PCP.

#### 4. Directors

- (a) The current directorships and partnerships of the Directors and the directorships and partnerships held by them over the previous five years are as follows:

##### *Directors*

<i>Name</i>	<i>Directorships and partnerships</i>	
	<i>Current</i>	<i>Past</i>
<b>Brian Alan Myerson</b>	Active Value Advisors Limited Retail Stores PLC Liberty plc Shawford Park Helicopters Limited Marylebone Warwick Balfour Group plc	Dell Limited (The) AVASA Holdings Limited Shawford Park Polo Limited JAB Holdings Limited Illuminator plc Illuminator Holdings Limited Illuminator Investments Limited Multimedia Trustees Limited Illuminator Fund Management Limited BNB Resources plc Content Management Corporation Limited Illuminator General Partner 1 Limited The Multimedia Corporation Limited Millionairemadness.com Limited Illuminator Founder Partner 1 Limited RM Auctions, Inc. Illuminator-MWB Europe Limited Primedia Limited Communis plc STR Realisations Limited Sage Group Limited Sage Life Limited Sage Unit Trusts Limited
<b>David John Cooley</b>	None	Communis plc John Mansfield Timber Limited

### *Directorships and partnerships*

<i>Name</i>	<i>Current</i>	<i>Past</i>
<b>Brian Sean Padgett</b>	Active Value Fund Managers Limited Silex Trust Company Limited Silex Management Limited Silex Administration S.A. Compass Services Europe S.A. Azure Fund Managers Limited SP Director's Worldwide Limited Azure Fixed Income Fund Limited	S P Administration S.A. S P Trustees (BVI) Limited PFM Investment Management Limited Lenco Holdings (Pty) Limited SP (Secretaries) Resources Limited
<b>Leonard Joseph O'Brien</b>	Silex Corporate Secretaries Limited Silex Holdings Limited Silex Trust Company Limited Silex Management Limited Silex Nominees Limited SP (Directors) Worldwide Limited XO2 International Holdings Limited	Seymour Pierce Trustees S.A. SP Administration S.A. PFM Investment Management Limited Lenco Holdings (Pty) Limited
<b>Marco Felder</b>	None	Maveco Handels und Vermietungs AG

- (b) Save as disclosed in this document, none of the Directors has any business interests or activities outside the PCH Group which are significant with respect to the PCH Group.
- (c) None of the Directors has any unspent convictions for indictable offences nor have any of the Directors been the subject of any public criticisms by statutory or regulatory authorities (including recognised professional bodies) and none of them has ever been disqualified by a court from acting as a director of, or from acting in the management or conduct the affairs, of any company.
- (d) None of the Directors has been a director of a company at the time of, or within the 12 months preceding the commencement of, a receivership, liquidation, administration, company voluntary arrangement or a composition or arrangement with creditors of that company or a partner of a partnership at the time of or within 12 months preceding any compulsory liquidation, administration, receivership or partnership voluntary arrangement of that partnership. None of the Directors is or has been bankrupt or has been made an individual voluntary arrangement with his creditors, or suffered the appointment of a receiver over any of his assets.

### **5. Directors' service contracts, remuneration and benefits in kind**

The following Directors have service agreements with PCH and PCA which are effective from Admission as follows:

- (a) Brian Alan Myerson is chief executive officer of PCH. Under this appointment he will receive an annual fee of £20,000. His appointment is generally terminable by either party giving 12 months' notice in writing. If there is a change of control, PCH must give 18 months' notice of termination in writing. He will also be employed by PCP, receiving an annual salary of £230,000. The notice periods under his service agreement with PCP will be the same as those under his appointment with PCH. Following the AV Realisation Period he will be entitled to membership of a private healthcare scheme (providing cover for his spouse and children under 18), permanent disability and death in service insurance scheme, excess travel insurance and an income protection plan. In addition, he will participate in the Bonus Plan and is entitled to participate in the DSOP (further details of the Bonus Plan and DSOP are set out in paragraphs 7 and 9 of Part 5 of this document). Following the AV Realisation Period, he will be entitled to 30 days holiday each year.
- (b) David John Cooley is the chief operating officer of PCA. His service agreement with PCA is terminable by him giving three months' notice in writing and by PCA giving 12 months' notice in writing. If there is a change of control in PCA, the agreement is terminable by PCA giving 18 months' notice. During the AV Realisation Period, he will continue his current employment with Active Value Advisors. PCA

will, pursuant to his service agreement, pay him an annual salary of £45,000. At the end of the AV Realisation Period (or his ceasing to be employed by AVA, whichever is the earlier), he will become employed on a full time basis by PCA at an annual salary of £125,000. If his service agreement is terminated, he is required to resign as a Director of the Company and PCA. He will also be entitled to membership of a private healthcare scheme (providing cover for his spouse and children under 18), a permanent disability and death in service insurance scheme, excess travel insurance and an income protection plan. In addition, he is entitled to participate in the Bonus Plan and will participate in the DSOP under which he will receive an option to acquire 1 per cent. of the issued share capital of PCH as at Admission (further details of the, Bonus Plan and DSOP are set out in paragraphs 7 and 9 of Part 5 of this document). Following the AV Realisation Period, he will be entitled to 30 days holiday each year.

- (c) George Lindsay Andrew May is the chief investment officer of PCA. His service agreement with PCA is terminable by him giving three months' notice in writing and by PCA giving 12 months' notice in writing. If there is a change of control in PCA, the agreement is terminable by PCA giving 18 months' notice. During the AV Realisation Period, he will continue his current employment with Active Value Advisors. PCA will, pursuant to his service agreement, pay him an annual salary of £25,000. At the end of the AV Realisation Period (or his ceasing to be employed by AVA, whichever is the earlier), he will become employed on a full time basis by PCA at an annual salary of £125,000. He will also be entitled to membership of a private healthcare scheme (providing cover for his spouse and children under 18), a permanent disability and a death in service insurance scheme, excess travel insurance and an income protection plan. In addition he is entitled to participate in the Bonus Plan and will participate in the DSOP, under which he will receive an option to acquire 1 per cent. of the issued share capital of PCH as at Admission (further details of the Bonus Plan and DSOP are set out in paragraphs 7 and 9 of Part 5 of this document). Following the AV Realisation Period, he will be entitled to 30 days holiday each year.

The following non-executive Directors have agreed terms of appointment with PCH:

- (i) David John Cooley is a non-executive Director of PCH. His appointment letter states that he will be appointed for an initial period of 3 years, although his appointment as a Director may be terminated by either party giving the other one month's notice in writing. He is required to provide his services to PCH for 12 days per year. He receives no annual fee. He is required to attend annual and extraordinary general meetings of PCH and monthly Board meetings as well as any additional meetings of the non-executive Directors. His reasonable expenses are reimbursed by PCH.
- (ii) Brian Sean Padgett is a non-executive Director of PCH. His appointment letter states that he will be appointed for an initial period of 3 years, although his appointment as a Director may be terminated by either party giving the other one month's notice in writing. He is required to provide his services to PCH for 12 days per year. He receives no annual fee. He is required to attend annual and extraordinary general meetings of PCH and monthly Board meetings as well as any additional meetings of the non-executive Directors. His reasonable expenses are reimbursed by PCH. He will also be granted an option to acquire 1 per cent. of the issued share capital of PCH as at Admission (see paragraph 8 of Part 5 of this document). The terms of that option, which will be granted prior to but conditional on Admission, will be similar to the terms of options granted under the DSOP. He will also participate in a bonus arrangement which is on similar terms to the Bonus Plan (see paragraph 10 of Part 5 of this document).
- (iii) Leonard O'Brien is a non-executive Director of PCH. His appointment letter states that he will be appointed for an initial period of 3 years, although his appointment as a Director may be terminated by either party giving the other one month's notice in writing. He is required to provide his services to PCH for 12 days per year. He receives no annual fee. He is required to attend annual and extraordinary general meetings of PCH and monthly Board meetings as well as any additional meetings of the non-executive Directors. His reasonable expenses are reimbursed by PCH.
- (iv) Marco Felder is a non-executive Director of PCH. His appointment letter states that he will be appointed for an initial period of 3 years, although his appointment as a Director may be terminated by either party giving the other one month's notice in writing. He is required to provide his services to PCH for 12 days

per year. He receives no annual fee. He is required to attend annual and extraordinary general meetings of PCH and monthly Board meetings as well as any additional meetings of the non-executive Directors. His reasonable expenses are reimbursed by PCH.

## **6. Taxation**

### **(a) Luxembourg taxation**

#### *(i) Company*

As a 1929 holding company, PCH is not subject to any form of taxation in Luxembourg other than the “*taxe d’abonnement*” and the “*droit d’apport*” (“capital duty”). The “*taxe d’abonnement*” is an annual subscription tax levied at a rate of 0.2 per cent. on the total value of the Shares, determined by reference to the average trading price of PCH Shares on AIM in the preceding year, payable quarterly in arrears. The “*droit d’apport*” is a capital duty (applied at the rate of 1 per cent.) generally payable on the value of any contribution to PCH in exchange for the issue of PCH Shares by it. Dividend payments to PCH’s shareholders will not be subject to Luxembourg dividend withholding tax.

#### *(ii) PCH Shareholders*

PCH has been advised that, except for taxation of capital gains realised by individual shareholders who hold directly and indirectly, together with their spouse and minor children, an interest in PCH of more than 10 per cent. of its share capital and who sell the whole or part of such interest within six months after having acquired it for consideration and who are not entitled to relief under the terms of any applicable double taxation treaty, the sale of PCH Shares will not give rise to any liability to taxation in Luxembourg.

The treatment described above does not apply, however, in the case of any shareholder fiscally domiciled, resident (or, in certain circumstances, formerly resident) or having a permanent establishment in Luxembourg.

Under current Luxembourg law, no stamp duty or other tax will be payable on any transfer of Shares.

#### *(iii) Capital duty payable by PCH on the Retail Stores Acquisition and the Placing*

Article 1 of the Luxembourg law of 29 December 1971 concerning capital duty imposes a capital duty on contributions of assets (including cash) made to the capital (including share premium account) of PCH. Capital duty is charged at a rate of 1 per cent. and it is for PCH to pay this tax to the Luxembourg *Administration de l’Enregistrement*. Accordingly, the Retail Stores Acquisition (further details of which are set out in paragraph 13(d) of this Part 5), and the Placing will be subject to 1 per cent. capital duty. The Directors of PCH estimate that the capital duty payable from these transactions will be £27,500 and £125,000 respectively.

### **(b) UK Taxation**

The statements set out below are intended only as a general guide to current UK law and UK Inland Revenue practice and apply to UK residents holding shares in a non-UK tax resident company beneficially as investments and do not apply to certain other categories of person such as dealers. The summary does not purport to be a complete analysis or listing of all the potential UK tax consequences of holding PCH Shares. If you are in any doubt as to your tax position or if you may be subject to tax in another jurisdiction, you are strongly recommended to consult an appropriate professional adviser. This summary is based upon UK law and UK Inland Revenue practice as in effect at the date of this document, each of which may be subject to change, perhaps with retrospective effect.

(i) *UK taxation of dividends on shares in a non-UK tax resident company*

In the event that a non-UK tax resident company pays dividends on its shares, the future holders of shares who become beneficially entitled to any dividend declared by a non-UK tax resident company will generally be liable to UK income tax or corporation tax on the gross amount of any such dividends.

(ii) *UK taxation of capital gains*

A disposal of shares in a non-UK tax resident company by a holder who is resident or ordinarily resident in the United Kingdom or who carries on a trade, profession or vocation in the United Kingdom through a branch or agency (in the case of an individual) or permanent establishment (in the case of a company) to whom the shares are attributable may give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of capital gains.

Special rules were introduced by the UK Finance Act 1998 relating to disposals by individuals at a time when they are temporarily not resident or ordinarily resident in the United Kingdom.

(iii) *UK stamp duty and stamp duty reserve tax (SDRT)*

No United Kingdom stamp duty or SDRT should be payable on an agreement to transfer PCH Shares. However, transfers of Depositary Instruments listed on AIM and settled in paperless form through CREST will attract an SDRT charge at 0.5 per cent. of the consideration. (Further details of Depositary Instruments are set out in paragraph 19 of Part 1 of this document).

No United Kingdom stamp duty or SDRT should be payable to register a transfer of the PCH Shares in a register kept in Luxembourg. However, United Kingdom stamp duty, together with interest and any applicable penalties, would be payable in the event that it became necessary to rely upon any transfer of PCH Shares in any United Kingdom court proceedings (other than criminal proceedings), but only where such transfer was executed in the United Kingdom or relates to any matter or thing done or to be done in the United Kingdom.

## **7. The Principle Capital Holdings S.A. Discretionary Share Option Plan**

### **(a) General**

The DSOP allows the Company to grant options to acquire PCH Shares to eligible employees. It is intended that options granted under the DSOP may either be Inland Revenue approved (up to the prescribed limit) or unapproved options.

Up to 3 per cent. of the issued share capital of the Company is available to be put under option under the DSOP.

It is intended that 2 per cent. of the share capital of the Company will be put under option under the DSOP on the date of admission (the "Initial Options"), with a further 1 per cent. reserved for incentivising future management. It is intended that options over 1 per cent. of the issued share capital of the Company will be granted under the DSOP on Admission to both David Cooley and George May.

### **(b) Eligibility**

Under the DSOP, options may be granted to any person who is a director or employee of the Company or a participating group company. Participants will be selected on a discretionary basis and will not normally include full-time Directors or employees who are within six months of retirement.

### **(c) Option price**

For the options granted after Admission, the option price will not be less than the average of the market values of a PCH Share over the three dealing days before the date of grant or the market value of a PCH Share on the dealing day before the date of grant or the market value at any earlier time agreed by the Board and, in the case of options granted under the Inland Revenue approved part, the Inland Revenue.

For options granted on or before Admission (i.e. the Initial Options) under the unapproved part, the exercise price will be the value of a PCH Share determined by the Board. It is intended that the exercise price of such options shall be the Placing Price.

**(d) Performance conditions**

The exercise of options may be subject to the satisfaction of a performance condition, which will be objective and stated at the date of grant. It is not intended that the Initial Options will be subject to a performance condition.

**(e) Exercise of options**

Options normally become exercisable on the second anniversary of the date of grant, subject to the satisfaction of any performance conditions, and remain exercisable until 10 years after the date of grant. However, earlier exercise is permitted, to the extent that any applicable performance condition has been satisfied, if an optionholder dies or his employment ends for any reason other than a reason justifying summary dismissal. On the occurrence of any of those events options will become exercisable for a period of 12 months and then lapse.

In the event of a takeover or scheme of arrangement (not being an internal reorganisation) options will become exercisable, *pro rata* to the extent that any performance condition is met at that time.

**(f) Exchange of options**

If there is a change of control of the Company following a general offer to acquire the whole of the issued share capital of the Company or all the PCH Shares, or following a compromise or arrangement, optionholders may be given the opportunity to exchange their options for options over ordinary shares in an acquiring company.

**(g) Adjustments of options**

If there is a capitalisation, a rights issue, a consolidation, a subdivision, a reduction or any other variation in the share capital of the Company, the Board may make the adjustments it considers appropriate to the number of PCH Shares under option and the option price.

**(h) General provisions**

Options are personal to optionholders and, except on the death of an optionholder, cannot be assigned, transferred or charged.

The rules of the DSOP can be amended at any time by the Board.

No options can be granted more than ten years after the date on which the board authorises the adoption of the DSOP.

**(i) Provisions relating only to UK Inland Revenue approved options**

It is intended to seek UK Inland Revenue approval for the grant of UK Inland Revenue approved options, which are those satisfying the requirements of Schedule 4 to the UK Income Tax (Earnings and Pensions) Act 2003. UK Inland Revenue approved options are essentially subject to the same provisions as summarised above. The main differences relate to the following:

- (i) Individual limit: an employee cannot be granted an approved option which would, at the time it is granted, enable the employee to acquire shares under approved option schemes (which are not savings-related) exceeding the UK Inland Revenue limit from time to time, which is currently £30,000; and
- (ii) UK Inland Revenue approval: any amendment to a key feature of the DSOP or any adjustment to the terms of options would require the prior approval of the UK Inland Revenue.

## **8. Individual options for James Peggie and Brian Padgett**

Both James Peggie and Brian Padgett will also be granted an option, prior to but conditional on Admission, to acquire 1 per cent. of the ordinary share capital of PCH at Admission. The exercise price for each PCH Share will be the Placing Price and the terms of the options will be as similar as practicable to those options granted under the DSOP, as described above.

## **9. The Principle Capital Holdings S.A. Discretionary Bonus Plan**

### **(a) Bonus Pool and allocation**

At the end of each financial year, 5 per cent. of the profits of the Company before tax, depreciation, amortisation, exceptional items and bonuses will be allocated to a “bonus pool”. At the end of each financial year, payments will be made out of the bonus pool in the following proportions: Brian Myerson (28.8 per cent.), George May (5.3 per cent.) and David Cooley (5.3 per cent.) (together the “Primary Eligible Employees”). The Remuneration Committee will decide how to allocate the remainder of the bonus pool amongst eligible employees.

### **(b) Eligibility**

Any person who is an employee or director of the Company or any of its subsidiaries will be eligible to receive a payment out of the bonus pool.

### **(c) Leavers**

If one of the Primary Eligible Employees ceases to be an employee or director of the Company or any of its subsidiaries for a reason justifying summary dismissal, he will have no entitlement under the Bonus Plan. If one of the Primary Eligible Employees ceases to be an employee or director of the Company or any of its subsidiaries for any other reason, he will be entitled to receive a pro-rata amount of the amount otherwise due to him, calculated by reference to the period of the financial year for which he remained in employment.

### **(d) New Founders**

If a new Founder is brought in (within the meaning given in the PCP Shareholders Agreement), Brian Myerson will give up such proportion of his entitlement under the Bonus Plan as is equal to the proportion that the shares in PCP which Concerto will transfer to such Founder in accordance with the PCP Shareholders Agreement bears to the total number of shares in PCP held by Concerto (subject to a maximum amount of 2.8 per cent.). Each of the other Primary Eligible Employees will also give up such proportion of their entitlement under the Bonus Plan as is equal to the proportion that the shares in PCP which Concerto will transfer to such Founder in accordance with the PCP Shareholders Agreement bears to the total number of shares in PCP held by Concerto (subject to a maximum amount of 0.5 per cent.). The new Founders will become eligible employees for the purpose of the Bonus Plan. Further details of the transfer of shares in PCP to such Founder are set out in paragraph 13(e) of this Part 5.

## **10. Bonus for James Peggie and Brian Padgett**

Each of James Peggie and Brian Padgett will be entitled to a payment equal to 5.3 per cent. of the bonus pool referred to in paragraph 9 above. Their entitlement to the bonus will be on terms as similar as practicable to the terms of the entitlement of the Primary Eligible Employees under the Bonus Plan, including their giving up a proportion of their entitlement if a new Founder is brought in.

## **11. Selling restrictions**

- (a) The distribution of this document and the offering and sale of PCH Shares in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions, including those in the paragraphs that follow. Any

failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

(b) United States

**NO ACTION HAS BEEN TAKEN TO PERMIT THE DISTRIBUTION OF THIS ADMISSION DOCUMENT IN ANY JURISDICTION WHERE ACTION WOULD BE REQUIRED FOR SUCH PURPOSE. ACCORDINGLY, NO PERSON RECEIVING A COPY OF THIS ADMISSION DOCUMENT IN ANY TERRITORY MAY TREAT THE SAME AS CONSTITUTING AN INVITATION OR OFFER TO PURCHASE PCH SHARES.**

The PCH Shares have not been registered and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”) or the securities laws of any state or other political subdivision of the United States and may not be offered, sold, transferred or delivered, directly or indirectly, in the United States or to, or for the account or benefit of U.S. persons. Accordingly, the Placing Shares are being sold to persons (other than U.S. Persons) (each as defined under Regulation S under the Securities Act) outside the United States in reliance on Regulation S under the Securities Act. For the avoidance of doubt, the definition of U.S. Persons includes “Benefit Plan Investors” which means (a) an employee benefit plan (as defined in Section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, as amended (“ERISA”) whether or not subject to ERISA, and specifically including pension plans maintained outside of the U.S.), (b) a plan described in Section 4975(e)(1) of the Internal Revenue Code or (c) any entity whose underlying assets include plan assets within the meaning of 29 C.F.R. Section 2510.3–101 of the regulations (“Plan Asset Regulations”) adopted under ERISA by reason of a plan’s investment in the entity under the Plan Asset Regulations. PCH has not been registered under the U.S. Investment Company Act of 1940, as amended (“Investment Company Act”). In addition, until 40 days after Admission, an offer or sale of any of the PCH Shares within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if the offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

## **12. Articles of incorporation of PCH**

Set out below is a summary of certain provisions of the Articles. Persons seeking a detailed explanation of any provisions of Luxembourg law or the differences between it and the laws of England and Wales or any jurisdiction with which they may be more familiar are recommended to seek specific legal advice.

(a) **Objects clause**

The object of the Company is the holding of participations, in any form whatsoever, in Luxembourg or foreign companies, and any other form of investment, and the management, control and development of such participating interests. The Company may in particular acquire negotiable or non negotiable securities of any kind whatsoever, either by way of contribution, purchase, subscription, option or in any other manner, and may dispose of the same by sale, transfer, exchange or otherwise.

The Company shall not itself carry out directly any industrial activity or maintain a commercial establishment open to the public.

(b) **General meetings and voting rights**

The annual general meeting of the Company will be held each year at 12.00 p.m. on the last Friday in June (or, if not a business day, the next preceding business day) at the Company’s registered office or any other place in Luxembourg. General meetings may be convened by the Directors, shareholders holding one fifth of the issued share capital of the Company or by the statutory auditor of the Company. Each general meeting shall be called by at least last fourteen days notice. Any meeting called to amend the Articles of the Company or to dissolve or liquidate the Company shall be called by at least twenty-one days’ notice. The notice shall specify the time and place of the meeting and the general nature of the business to be transacted. Each shareholder shall be entitled to attend, speak and vote at general meetings and to appoint a proxy to attend and vote instead of him.

Except as required by Luxembourg law or in the Articles, shareholder resolutions will be passed by a simple majority. The Articles may only be amended by a resolution passed by shareholders holding a majority of two thirds of the shares represented at the meeting. No resolution to alter the Articles or to liquidate or dissolve the Company shall be passed without a quorum of shareholders holding more than one half of the issued capital of the Company. At an adjourned meeting the proposed amendments can be validly adopted, without any quorum requirements, by a majority of two thirds of the shares present or represented at such a meeting. The quorum at other general meetings is two shareholders entitled to vote.

**(c) Rights attaching to the shares**

The PCH Shares shall form one class of shares and shall rank *pari passu* in respect of payment of dividends, voting, entitlement to liquidation proceeds and otherwise. The balance of proceeds on any liquidation shall be allocated equally between the shares.

**(d) Disclosure of interests in shares**

A shareholder is required to notify the Company where, to his knowledge, he acquires an interest (or ceases to have an interest) in PCH Shares equal to 3 per cent. or more of the Company's share capital. This obligation also arises where there is an increase or decrease in the percentage level of a shareholder's interest in PCH Shares above three per cent. For the purposes of the Articles, an interest includes the right to subscribe for or convert into PCH Shares and any other interest, including the right to control the exercise of any right conferred on a PCH Share.

A shareholder served with a notice of disclosure pursuant to the Articles, but who has failed to provide information requested in the requisite period, shall not be entitled, in respect of those shares, to attend or to vote (either personally or by proxy) at any meeting of the Company, or to receive any dividend or other distribution, or to transfer or agree to transfer any of those shares or any rights in them.

The restrictions shall continue for the period specified by the Directors, being not more than one year after the earlier of notice to the Company that the shares in question have been sold or compliance with the notice.

**(e) Issuance of shares**

The Directors may from time to time for a period of five years from the date of publication of the notarial deed in the Luxembourg Memorial C, Recueil Special des Societes et Associations (or as extended by shareholders) granting the directors the authority to increase the Company's issued share capital up to its authorised capital in that period free from pre-emptive rights. The shareholders may resolve to increase or decrease the Company's authorised or issued share capital or the directors' authority to increase the Company's issued share capital.

The Company may by resolution of its shareholders consolidate or subdivide all or any of its shares, convert any of its shares into shares of another class and attach to them any preferential, qualified, special deferred rights, privileges or conditions.

Fully paid shares shall, subject to any applicable law, be redeemable at the discretion of the Board and, upon redemption, may be cancelled or held in treasury.

**(f) Transfer of shares**

Except as stated below, shares shall not be subject to any restriction in respect of transfer and shall be transferable free of charge.

The Directors may refuse to accept a transfer of the Company's shares (other than pursuant to a normal stock exchange transaction) if they believe that the transfer was executed where:

- (i) the shareholder concerned did not act of his own volition;
- (ii) the transfer was executed pursuant to a confiscating or expropriatory act of a foreign authority; or

- (iii) the transfer was executed pursuant to compulsory transfer under the laws of a foreign jurisdiction for no consideration or for a consideration which would be regarded as inadequate in normal business practice.

Shares held in certificated form may be transferred by written transfer in a form acceptable to the Directors. Shares held in uncertificated form may be transferred in accordance with the practices of the relevant system. Any written instrument of transfer must be signed by or on behalf of the transferor and the transferee. The registration of transfer of shares may be suspended and the share register closed for not more than 30 days in any year.

**(g) Directors**

The Company shall be managed by a Board consisting of at least three Directors and not more than such number of directors as specified from time to time by shareholders at a general meeting. As at the date of this document, the maximum number of directors so specified is seven. A Director may be appointed by shareholders for no more than three years but shall be eligible for re-election. Directors may be dismissed at any time at a general meeting. In the event of a vacancy of the Board arising other than on the occasion of a general meeting, the remaining Directors may appoint a replacement whose term of office shall expire at the next general meeting.

The Board shall have full power to perform all such acts as are necessary or useful to further the objects of the Company. All matters not expressly reserved for general meetings by law or by the Articles fall within the scope of the Board's authority and power.

The Board may from time to time give delegate all or part of its powers to an executive or other committee whether or not comprising Directors and to one or more Directors, managers or agents. The Board shall determine the powers and special remuneration attached to this delegation of authority. If authority for day-to-day management is delegated to a single Director, the prior consent of shareholders is required.

**(h) Indemnities**

Provided that there is no gross negligence or wilful act or default, on the part of a Director and other officer, servant or agent of the Company, the Company shall indemnify such persons against, and it shall be the duty of the Board out of the funds of the Company to pay all damages, charges, costs, losses and expenses which any such Director, officer, servant or agent may incur or become liable to by reason of any contract entered into or act or deed done or omitted by him as such Director, officer, servant or agent in connection with the Company.

**(i) Discharge from liability of directors, officers and the auditors**

After adoption of the financial statements, the annual general meeting may by separate vote discharge the Directors and independent auditor from any and all liability to the Company in respect of any loss or damage arising out of or in connection with any acts or omissions by or on the part of the Directors and/or the independent auditor made or done in good faith without gross negligence. A discharge shall not be valid should the balance sheet contain any omission or any false or misleading information distorting the real state of affairs of the Company or record the execution of acts not permitted under the Articles of the Company unless they have been specifically indicated in the convening notice.

**(j) Directors' interests**

A Director shall not be prevented from counting in the quorum or voting on any matter concerning another entity of which he is a director, officer or employee. In the event that any Director has a personal interest in any transaction of the Company, such Director shall notify the Board of such interest and shall not form part of any quorum nor vote on any such transaction. Such Directors' interest shall be reported to shareholders at the next general meeting.

**(k) Dividends**

The Company may, acting through its shareholders at the annual general meeting, determine and approve dividends out of surplus profits. The Company may also declare interim and scrip dividends. A dividend may only be declared if the Company is able to meet the criteria of the liquidity law laid down by relevant provisions of Luxembourg law.

**13. Material contracts**

The following contracts have been entered into by PCH and its subsidiaries otherwise than in the ordinary course of business since their incorporation and are, or may be, material:

- (a) The Placing Agreement pursuant to which Numis has agreed to act as agent of PCH and to use all reasonable endeavours to procure places for the Placing Shares at the Placing Price and to the extent that it fails to procure places, shall itself subscribe for such Placing Shares. The obligations of Numis are conditional, *inter alia*, on Admission occurring by 8.30 a.m. on 3 November 2004 or such later time and date as PCH and Numis may agree (but in any event not later than 8.30 a.m. on 12 November 2004).

The Placing Agreement contains warranties and an indemnity from the Company and warranties and an indemnity from each of Brian Myerson, David Cooley, Brian Padgett and Concerto in favour of Numis. The liability of the Company and Brian Myerson, David Cooley, Brian Padgett and Concerto under the warranties and indemnity are limited in time and amount.

The Placing Agreement contains termination provisions for the period prior to Admission if, *inter alia*, there has been a material breach of the warranties given by the Directors and PCH to Numis which Numis considers to be material in the context of the Placing.

PCH will bear all expenses incidental to the Placing including the Registrar's fees, other professional advisers' fees and printing expenses (together with any related value added tax). PCH has also agreed to pay to Numis a commission of four per cent. of a sum equal to the aggregate value at the Placing Price of the Placing Shares placed on behalf of PCH.

- (b) The Nominated Adviser Agreement pursuant to which the Company has appointed Numis to act as nominated adviser to the Company for the purposes of the AIM Rules. The appointment commenced on the date of the Nominated Adviser Agreement and is for an initial period of 12 months and continues thereafter subject to either party serving a prior written notice of termination. The Nominated Adviser Agreement contains certain undertakings and indemnities given by the Company in respect of, amongst other things, compliance with applicable laws and regulations and contains an obligation to provide Numis with certain information while it remains its nominated adviser.
- (c) The Numis Option Agreement pursuant to which, conditional on Admission, PCH has granted to Numis an option to subscribe for up to 89,998 PCH Shares which represent one per cent. of PCH's issued ordinary share capital following Admission exercisable at the discretion of Numis at the Placing Price in whole or in part. The option is exercisable by notice in writing to PCH given at any time, and from time to time, up to the fifth anniversary of Admission.
- (d) The Contribution Agreement, pursuant to which the Company will, conditional only on Admission, acquire 1,270,475 ordinary shares of Retail Stores, representing approximately 5.6 per cent. of the issued share capital of Retail Stores as at 14 October, 2004 (being the latest practicable date prior to the date of this document). The consideration for the Retail Stores Acquisition is the issue by the Company of 2,728,416 PCH Shares, representing approximately 30.3 per cent. of the enlarged issued share capital of the Company immediately following Admission.

In connection with the Retail Stores Acquisition, the Company has entered into a Deed of Variation dated 18 October, 2004 made between the Company, Retail Stores and Marylebone Warwick Balfour Group plc ("MWB") pursuant to which the Company has agreed, on becoming the holder of Retail Stores shares, to be bound by the terms of the Retail Stores Shareholders Agreement in place of Concerto. In accordance with the Retail Stores Shareholders Agreement, the Company has the right,

for so long as it is the holder of the shares in Retail Stores acquired from Concerto and, for so long as Brian Myerson remains the chief executive officer of PCH and he or any person connected with him (including Concerto) remains the holder of PCH Shares representing not less than 30 per cent. of the issued share capital of PCH (or 28.5 per cent. to the extent that such holding is reduced solely by the exercise of the options disclosed in this document), to appoint or remove three directors of Retail Stores. If Brian Myerson ceases to be the chief executive officer of PCH or the holding of PCH Shares by Brian Myerson and persons connected with him falls below such thresholds, the Company shall only have the right to appoint two directors of Retail Stores.

As at the date of this document, Brian Myerson is a director of Retail Stores. In addition, MWB has the right to appoint and remove three directors of Retail Stores and the Company and MWB may jointly nominate any additional directors of Retail Stores. The rights conferred on each of MWB and the Company in respect of the appointment of the directors of Retail Stores shall cease in the event of the admission of Retail Stores to listing on the Official List. In addition, the Company may not, save in certain circumstances, transfer any of its shares in Retail Stores without having first offered such shares to MWB at the proposed transfer price;

- (e) The PCP Shareholders Agreement, which is conditional only on Admission, and which regulates certain matters between the shareholders of PCP and the conduct of PCP's business and, in accordance with the PCP Shareholders Agreement:
- (i) certain matters relating to the conduct of the business of PCP, including the adoption of (and any departure from) the annual business plan of PCP and any alteration to the issued share capital of PCP are reserved for the approval of the holders of not less than 92 per cent. of the issued shares for the time being in PCP (other than the shares in PCP held by a person who is interested (as more fully defined in the PCP Shareholders Agreement) in the matter the subject of the requested approval). As at the date of this document, PCP has not adopted a business plan. As the holder of 70 per cent. of the issued share capital of PCP at Admission, PCH will not be able to amend unilaterally the business plan of PCP (when adopted) without the co-operation of other PCP shareholders holding more than 8 per cent. of the issued share capital of PCP for the time being, which must include Concerto, as the holder of approximately 17 per cent. of the issued share capital of PCP at Admission. The Directors have agreed that, in light of the potential conflicts of interest which could arise in respect of the interest of PCH and the other shareholders in PCP, the exercise of PCH's voting discretion as a shareholder of PCP is subject to the conflicts management policy adopted by the Board and shortly described in paragraph 20 of Part 1 of this document;
  - (ii) PCH may not transfer its shares in PCP other than to a wholly-owned subsidiary of PCH;
  - (iii) in the event of a material and persistent breach of the PCP Shareholders Agreement by PCH, PCH may be required by the other PCP shareholders to either (A) acquire the shares in PCP held by the other shareholders at the then fair price for the PCP shares (as determined by an independent valuer and in accordance with the guidelines set out in the PCP Shareholders Agreement) or (B) transfer its shares in PCP at a price equal to 75 per cent. of the then fair price of its PCP shares;
  - (iv) in the event of a change of control of PCH, PCH may (A) require that the other shareholders of PCP transfer their PCP shares to PCH at the then fair value or (B) be required by the other shareholders of PCP to transfer its shares in PCP to the other shareholders at a price equal to the then fair price;
  - (v) if a shareholder of PCP who is also an employee, secondee, consultant, contractor or director of any member of the PCH Group ceases to be such an employee, secondee, consultant, contractor or director, he may be required by the other shareholders (by way of approval of the PCP shareholders holding not less than 92 per cent. of the PCP shares then in issue, other than the shares held by such shareholder) to transfer his shares in PCP to the other shareholders (on a proportionate basis) at the then fair price, if his departure was not for a reason justifying summary dismissal, or, if his departure was for a reason justifying summary dismissal, at a price equal to 75 per cent. of the then fair price. If such shareholder is not required to so transfer his shares in

PCP within 120 days of him ceasing to be an employee, secondee, consultant, contractor or director of any member of the PCH Group other than for a reason justifying summary dismissal, he may require that PCH acquire his PCP shares at the then fair price. As at the date of this document, all of the shareholders in PCP other than Concerto and the Company are PCP shareholders to whom the provisions described in this paragraph (v) would apply;

- (vi) the PCP shareholders other than the Company may freely transfer a certain proportion of their shares in PCP to any person who becomes an employee, secondee, consultant, contractor or director of any member of the PCH Group at any time following Admission. Concerto may transfer up to 164 PCP shares to any such person (reducing Concerto's interest in PCP to 15.60 per cent. of the issued share capital of PCP immediately following Admission) and the other shareholders in PCP (other than the Company) may transfer up to 31 PCP shares to any such person (reducing their respective interest in PCP to 2.88 per cent. of the issued share capital of PCP immediately following Admission). If all such PCP shares were transferred to the same person, that person would hold 2.88 per cent. of the issued share capital of PCP immediately following Admission; and
- (vii) PCP is required, to the extent permitted by law and subject to its cash and regulatory minimum capitalisation requirements (if any), to distribute by way of dividend in respect of each financial year all of its profits for that year;
- (f) The Management Agreement pursuant to which PCP will provide a range of discretionary investment management services to PCH. The key service to be provided by PCP under this agreement is the consideration of recommendations relating to specific investments provided to it by PCA. Recommendations will be approved or declined as PCP deems appropriate. PCP also has responsibility for overseeing arrangements for the execution of these investments by third party brokers and custodians. PCP is entitled to a fee from PCH in respect of these services equivalent to the cost to PCP of the full salary and benefits payable to Brian Myerson. The Management Agreement also contains mutual confidentiality provisions requiring both parties to keep all information relating to PCH and its investments confidential. The Management Agreement may be terminated by PCH on one year's notice after one year. Prior to that time, PCH may only terminate the Management Agreement for default by PCP. PCP has the benefit of an indemnity from PCH in respect of losses sustained by it or its employees or agents and for all losses and damages incurred by reason of PCP's provision of services under the Management Agreement;
- (g) The Advisory Agreement pursuant to which PCA provides certain investment advisory services to PCP. At present, PCA is not applying for authorisation in respect of the provision of these services under Part IV of the Financial Services and Markets Act 2000 since there is an exemption from the requirement for authorisation available in respect of investment advisory services between companies which are members of the same group. FSA authorisation will be sought prior to or concurrently with the creation of the first Consortium Vehicle and the raising of the first Managed Fund (whichever is the sooner and, in any event, as soon as reasonably practicable after Admission).

PCA will have responsibility for sourcing investment opportunities and presenting to the Investment Committee. If approved by the Investment Committee, PCA will pass on its recommendations to PCP. The Investment Committee consists of Brian Myerson, David Cooley, George May, Brian Padgett and James Peggie. PCA is entitled to a fee from PCP in respect of these services on a 'cost plus' basis. The Advisory Agreement also contains provisions relating to the management of potential conflicts of interest with other funds or investments (including Active Value Group) with whom it is involved. The Advisory Agreement contains mutual confidentiality provisions requiring both parties to keep all information relating to PCH and its investments confidential.

The Advisory Agreement may be terminated by PCP if the Management Agreement is terminated. If the Advisory Agreement is terminated, PCP will contribute an amount necessary to cover the wind-up costs of PCA. PCA has the benefit of an indemnity from PCP in respect of losses sustained by it or its employees or agents and for all losses and damages incurred by reason of PCA's provision of services under the Advisory Agreement.

Distribution of profits made by PCA will be at the absolute discretion of its board of directors. While any distributions made will be made by way of dividend to its sole shareholder, PCH, the directors of PCA may decide not to distribute some or all of the profits made by PCA but instead apply the same to reserves and/or future working capital requirements and/or FSA financial resources requirements;

- (h) The PCH Administrative Services Agreement pursuant to which Silex has agreed to act as administrator and operator of PCH's business. Silex will provide company secretarial, regulatory, financial reporting and other administrative services. The PCH Administrative Services Agreement also provides for the management of any conflicts of interest that may arise with other funds or investments with which it is involved. Silex is entitled to an annual fee for these services of £70,000 per annum (subject to annual review), more particularly described in paragraph 3 of Part 1 of this document. Silex has the benefit of an indemnity from PCH in respect of losses sustained by it or its employees or agents from all losses and damages incurred by reason of Silex's provision of services under the PCH Administrative Services Agreement;
- (i) The PCP Administrative Services Agreement pursuant to which Silex has agreed to act as administrator and operator of PCP's business. Silex arranges the services of Silex Management as corporate director (being the sole director of PCP). Through Silex Management, PCP will be entitled to the services of three or more experienced investment professionals who will have responsibility for making determinations of recommendations submitted to PCP by PCA under the Advisory Agreement. The PCP Administrative Services Agreement also contains provisions relating to the management of potential conflicts of interest with other funds or investments (including Active Value Group) with whom it is involved. The PCP Administrative Services Agreement contains mutual confidentiality provisions requiring both parties to keep all information relating to PCP and its investments confidential. Silex is entitled to an annual fee in respect of these services of £30,000 per annum (subject to annual review). Silex has the benefit of an indemnity from PCP in respect of losses sustained by it or its employees or agents from all losses and damages incurred by reason of Silex's provision of services under the PCP Administrative Services Agreement; and
- (j) PCA entered into an agreement with Active Value Advisors dated 18 October 2004 pursuant to which PCA has agreed to pay a proportion of the costs of the salary and benefits paid to, and various other costs incurred by Active Value Advisors during the AV Realisation Period in respect of, James Peggie, David Cooley and George May in consideration of Active Value Advisors allowing its employees to provide services to the PCH Group during the AV Realisation Period and to use its office space and facilities in the performance of their services for the PCH Group. Further details of this agreement are set out in paragraph 10 of Part 1 of this document.

#### **14. Track record**

Examples of investments made by certain of the Active Value Group managed funds (and the strategy employed in extracting value from these investments) include the following:

- (a) August 1993 – Active Value Group managed funds and a co-investment vehicle acquired a shareholding in Signet Group plc which was highly leveraged with a complex capital structure. The funds acquired a significant stake in one class of preference shares and subsequently the Active Value Group led a consortium to acquire 20 per cent. of the ordinary shares of that company. Following a financial restructuring of the investee company, the managed funds and co-investment vehicle realised their investment from June 1997 to June 1998 through open market sale transactions and achieved a gross IRR of 36 per cent.;
- (b) May 1995 – Active Value Group managed funds acquired a shareholding in Scholl plc and formed a consortium to implement a proposed restructuring as a result of which that company sold its non-core assets and reduced its costs. In May 1997, the Active Value Group managed funds realised their investment for a gross IRR of 35 per cent.;
- (c) August 1996 – Active Value Group managed funds and a co-investment vehicle acquired a shareholding in Kenwood Appliances plc which was identified as an undervalued opportunity trading on a low

multiple. Following unsuccessful attempts to persuade the board to agree a restructuring, an operational review was eventually implemented. This resulted in the sale of the company at a 37 per cent. premium to the company's then depressed share price. The cost of the managed funds' and co-investment vehicle's investment was £14 million and the realised proceeds were £8 million resulting in a negative gross IRR of -12 per cent.;

- (d) July 1997 – Active Value Group managed funds acquired a small company in the undervalued timber product sector which then acquired Waddington plc and acquired a division of Rexam plc. The company was renamed communisis plc and the Active Value Group managed funds realised their stake in the open market from November 2000 to March 2002, achieving a gross IRR of 25 per cent.; and
- (e) May 2000 – Active Value Group managed funds acquired a shareholding in Wembley plc and pressed its board for a sale of the company. After an extended process, the Active Value Group managed funds transferred their shares in April 2004 to an offeror for the company, achieving a gross IRR of 14 per cent. The offer lapsed and Wembley plc remains independent.

## **15. Working capital**

In the opinion of the Directors, having made due and careful enquiry, the working capital available to the Company and the Group is, and will, from the time the PCH Shares are admitted to trading on AIM, be sufficient for its present requirements (that is, for at least twelve months from Admission).

## **16. Litigation**

There are no active, pending or threatened legal or arbitration proceedings against, or being brought by, the Company or any member of the PCH Group which are having or may have a significant effect on the PCH Group's financial position.

## **17. General information**

- (a) There are no patents or other intellectual property rights, licences or particular contracts which are of fundamental importance to the PCH Group's business.
- (b) The gross proceeds of the Placing receivable by the Company will be £12.5 million and the net proceeds, after deduction of expenses, are estimated at £11.0 million. The total costs and expenses relating to Admission and the Placing payable by the Company are estimated to be £1,348,000 plus capital duty of £152,500 and any applicable value added tax.
- (c) No persons (excluding Directors, professional advisers, Silex, Active Value Advisors and George May) have received, directly or indirectly, from the Company and no persons have entered into contractual arrangements to receive, directly or indirectly, from the Company on or after Admission:
  - (i) fees totalling £10,000 or more;
  - (ii) securities in the Company with a value of £10,000 or more; or
  - (iii) any other benefit with a value of £10,000 or more at the date of Admission.

Details of Silex, Active Value Advisors and George May and of the fees and other amounts payable to them by the PCH Group are contained in paragraphs 2, 3, 9(b), 10 and 13 of Part 1 of this document and in paragraphs 5, 9 and 13 of this Part 5.

- (d) Numis, KPMG Audit PLC and Capita IRG Trustees Limited have given and not withdrawn their respective written consent to the issue of this document with the inclusion of the references to their respective names in the form and context in which they appear.
- (e) Copies of this document will be available free of charge at the offices of Numis Securities Limited, Cheapside House, 138 Cheapside, London EC2V 6L4 from the date of this document until one month after the date of Admission.

**18. Documents available for inspection**

Copies of the following documents will be available for inspection, during normal business hours, on any weekday (Saturdays, Sundays and public holidays excepted) at the offices of Allen & Overy LLP, One New Change, London EC4M 9QQ until Admission:

- (a) the articles of incorporation of the Company;
- (b) the material contracts referred to in paragraph 13 above; and
- (c) the consent letters referred to in paragraph 17(d) above.

Dated 18 October 2004