

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt about what action you should take, it is recommended that you immediately consult your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 or in the case of recipients outside the United Kingdom, your stockbroker, bank manager, solicitor, accountant or other financial adviser.

If you have sold or transferred all your Ordinary Shares in Acorn Income Fund Limited, please forward this document at once, together with the accompanying Tender Form and Forms of Proxy, to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for onward transmission to the purchaser or transferee.

**Your attention is drawn to the section headed “Risk Factors” contained in Part II of this document.**

Fairfax I.S. PLC, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting for Acorn Income Fund Limited and no one else in connection with the Proposals and will not be responsible to anyone other than Acorn Income Fund Limited for providing the protections afforded to their respective clients or for giving advice in relation to the contents of this document or on any of the matters referred to herein.

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# **ACORN INCOME FUND LIMITED**

*(a company incorporated in Guernsey with registration number 34778)*

**Recommended proposals for  
a Tender Offer by Fairfax I.S. PLC  
for Ordinary Shares, a reduction of the Company’s share capital  
and share premium account, the winding-up of the Company if  
the Tender Offer is not completed, the adoption of new articles of  
association and a change to the Company’s investment policy**

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Notices of Extraordinary General Meetings of the Company, to be held at 11.00 a.m. on 5 January 2007 and 11.05 a.m. on 5 January 2007 at the registered office of the Company are set out at the end of this document. Shareholders will find enclosed Forms of Proxy for use at the EGMs. To be valid the Forms of Proxy must be completed and returned, in accordance with instructions printed thereon, to the Company’s Registrar, Collins Stewart Fund Management Limited, PO Box 8, 2nd Floor, No. 1, Le Truchot, St. Peter Port, Guernsey GY1 4AE as soon as possible but in any event so as to arrive not later than 11.00 a.m. and 11.05 a.m. respectively on 3 January 2007.

The Tender Offer will close at 3.00 p.m. on 3 January 2007 and will only be available to Shareholders on the Register as at the close of business on 3 January 2007. Shareholders who wish to tender Ordinary Shares for purchase in the Tender Offer should ensure that their completed Tender Forms are returned either by post or by hand to Collins Stewart Fund Management Limited at the above address.

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## EXPECTED TIMETABLE

### TENDER OFFER

The Board's proposals are designed to provide for the continuation of the Company while recognising that a number of Shareholders wish to realise their Ordinary Shares for cash. It is intended that the Tender Offer Proposals will be implemented in accordance with the timetable set out below.

	<i>2007</i>
Latest time and date for receipt of Tender Forms	3 January
Tender Offer Record Date	3 January
Tender Offer Calculation Date	3 January
Latest time and date for receipt of Forms of Proxy for the First EGM	11.00 a.m. on 3 January
Result of Tender Offer announced	4 January
First EGM	11.00 a.m. on 5 January
Court hearing of application to confirm reduction of the share premium account of the Company	12 January
Effective date of reduction of the share capital and share premium account of the Company	15 January
Settlement of Tender Offer consideration	17 January

**EXPECTED TIMETABLE**  
**WINDING UP PROPOSALS**

It is proposed that the Company will be placed into members' voluntary liquidation should the Minimum Size Condition not be achieved. If required, the Winding Up Proposals will be implemented in accordance with the timetable set out below (assuming the Tender Offer fails to become wholly unconditional because this Minimum Size Condition has not been achieved).

2007

Latest time and date for receipt of Forms of Proxy for the First EGM	11.00 a.m. on 3 January
Latest time and date for receipt of Forms of Proxy for the Second EGM	11.05 a.m. on 3 January
Suspension of Ordinary Shares from trading on the London Stock Exchange and suspension of listing on the Official List	7.30 a.m. on 5 January
Share registers close	5 January
First EGM	11.00 a.m. on 5 January
Second EGM	11.05 a.m. on 5 January
Effective date for implementation of the liquidation	5 January
Cancellation of listing of the Ordinary Shares on the Official List	8.00 a.m. on 5 February
Initial liquidation distributions	5 February

## DEFINITIONS

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

“Articles”	the articles of association of the Company;
“Bank of Scotland Offshore Facility”	the former loan facility provided to the Company by Bank of Scotland Offshore;
“Business Day”	any day other than a Saturday, Sunday or public holiday in England and Wales;
“CGT”	capital gains tax in the United Kingdom or United Kingdom corporation tax as the context may require;
“C.I. Management Agreement”	the management agreement dated 5 February 1999 (as amended by a supplemental agreement dated 3 January 2001) made between the Company and the Manager;
“Company”	Acorn Income Fund Limited;
“Continuing Shareholders”	Shareholders who retain Ordinary Shares in the Company after completion of the Tender Offer;
“Court”	the Royal Court of Guernsey;
“CREST”	the relevant system (as defined in the CREST Regulations) in respect of which CRESTCo is the operator (as defined in the CREST Regulations) in accordance with which securities may be held and transferred in uncertificated form;
“CRESTCo”	CRESTCo Limited;
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001/3755) as amended from time to time;
“Directors” or “Board”	the board of directors of the Company;
“Extraordinary General Meetings” or “EGMs”	the First EGM and the Second EGM;
“Fairfax”	Fairfax I.S. PLC;
“First EGM”	the extraordinary general meeting of the Company to be held at 11.00 a.m. on 5 January 2007 (or any adjournment thereof), notice of which is set out at the end of this document;
“Form(s) of Proxy”	the form(s) of proxy for use in connection with the EGMs, as the context may require;
“Liquidators”	Messrs Anthony Christian Pickford and James Robert Toynton of RSM Robson Rhodes Corporate Recovery (CI) Limited;
“London Stock Exchange”	London Stock Exchange plc;
“Manager” or “Collins Stewart”	Collins Stewart Fund Management Limited;
“Minimum Size Condition”	the condition of the Tender Offer that, assuming completion of the Tender Offer, the Post Tender Amount must be equal to or greater than £15 million;
“NAV”, “net asset value” or “capital entitlement”	in respect of an Ordinary Share at any given date, the amount which would be attributable to the holder of that Ordinary Share on a winding-up of the Company (valuing assets and providing for liabilities in accordance with the accounting policies of the Company, including income and expenditure referable to the then current financial year of the Company but ignoring any expenses of winding up);

“New Articles”	the articles of association of the Company as proposed to be amended in connection with the Proposals;
“Official List”	the Official List of the UK Listing Authority;
“Ordinary Shares”	ordinary shares of 25p each in the capital of the Company;
“Overseas”	outside the British Isles;
“Overseas Shareholders”	a Shareholder who is a citizen or national of, or resident in, a jurisdiction outside the British Isles;
“Post Tender Amount”	the amount equal to the number of Ordinary Shares in issue immediately following completion of the Tender Offer multiplied by the Tender Price;
“Premier”	Premier Asset Management (Guernsey) Limited;
“Premier Management Agreement”	the management agreement dated 11 December 2006 between the Company and Premier, which is conditional on the Tender Offer becoming unconditional in all respects;
“Proposals”	the proposals described in this document relating to the Tender Offer, the Winding Up Proposals, the reduction of the Company’s capital and share premium account, the adoption of New Articles and the change to the Company’s investment policy;
“Repurchase Agreement”	the agreement between the Company and Fairfax summarised in paragraph 4 of Part V of this document pursuant to which the Company has agreed to repurchase all Ordinary Shares purchased by Fairfax pursuant to the Tender Offer;
“Register”	the register of members of the Company;
“Registrar”	Collins Stewart Fund Management Limited;
“Resolutions”	the resolutions to be proposed at the EGMs;
“Second EGM”	the extraordinary general meeting of the Company to be held at 11.05 a.m. on 5 January 2007 (or any adjournment thereof), notice of which is set out at the end of this document;
“Shareholder”	a registered holder of Ordinary Shares;
“Tender Form”	the tender form accompanying this document for use by Shareholders in connection with the Tender Offer;
“Tender Offer”	the invitation by Fairfax to Shareholders (other than Overseas Shareholders) to tender Ordinary Shares for purchase on the terms and subject to the conditions set out in this document and the Tender Form;
“Tender Offer Calculation Date”	close of business on such date as may be chosen by the Directors, which is expected to be 3 January 2007, on which the Tender Price will be calculated;
“Tender Offer Closing Date”	3 January 2007, being the final day on which Tender Forms may be received;
“Tender Offer Proposals”	the proposals described in this document comprising the Tender Offer, a reduction of the Company’s share capital and share premium account, the adoption of New Articles and the amendment to the investment policy of the Company;
“Tender Offer Resolution”	the resolution to be proposed at the First EGM;

<b>“Tender Price”</b>	the price at which Ordinary Shares will be purchased pursuant to the Tender Offer, calculated as set out on page 9;
<b>“Tender Offer Record Date”</b>	close of business on 3 January 2007;
<b>“Termination Agreement”</b>	the agreement between the Company and Collins Stewart Fund Management Limited conditionally terminating the C.I. Management Agreement and agreeing certain matters relating to fees payable to the Manager;
<b>“UK” or “United Kingdom”</b>	United Kingdom of Great Britain and Northern Ireland;
<b>“Unicorn”</b>	Unicorn Asset Management Limited, the investment adviser to the Manager; and
<b>“Winding Up Proposals”</b>	the proposals for the voluntary winding up of the Company, as described in this document, which take effect only if the Tender Offer fails to complete.

## PART I

### Letter from the Chairman

# ACORN INCOME FUND LIMITED

*(a company incorporated in Guernsey with registration number 34778)*

*Directors:*

David Martin Bralsford  
John Michael McKean  
John Campbell Boothman  
Eitan Milgram

*Registered Office:*

2nd Floor  
No. 1  
Le Truchot  
St Peter Port  
Guernsey  
GY1 4AE

13 December 2006

*To: Shareholders*

Dear Shareholder,

**Recommended proposals for a tender offer for Ordinary Shares, the reduction of the Company's share capital and share premium account, the winding up of the Company in the event that the Tender Offer is not completed, the adoption of new articles of association and an amendment to the Company's investment policy**

#### **Introduction**

The Board announced on 29 September 2006 that it would put forward proposals to Shareholders which would provide the opportunity for Shareholders to reduce their investment in the Company at close to net asset value.

The Board together with its advisers has reviewed a number of proposals that were presented to it and consulted widely with Shareholders. During that process it has become apparent that a number of Shareholders would like to continue their investment in the Company. In light of the feedback from Shareholders, I am writing to you today with details of the Board's proposals which in summary are designed to:

- provide for the continuation of the Company under the new overall management of Premier Asset Management (Guernsey) Limited and the continued management of the smaller companies portfolio by Unicorn;
- provide for a Tender Offer for Ordinary Shares and the attendant reduction of the share capital and share premium account of the Company to create sufficient distributable reserves out of which to purchase the Ordinary Shares; and
- provide for a default mechanism whereby if acceptances under the Tender Offer are such that the Post Tender Amount is less than £15 million then the Company will no longer be considered to be viable in size, and the Company will, subject to Shareholder approval, be liquidated.

The purpose of this document is to set out the background and reasons for the Proposals and why the Board, which has received independent advice from Fairfax, is unanimously recommending that you vote in favour of the resolutions to be proposed at the Extraordinary General Meetings to be held on 5 January 2007, notices of which are set out at the end of this document.

#### **The Proposals**

In structuring the Proposals, the Board has sought to provide a mechanism to continue the Company and provide some assurance as to its minimum size, while also recognising that there are a number of Shareholders who wish to realise their investment in the Company for cash. For these reasons, the Board is proposing a Tender Offer for Ordinary Shares and a default mechanism whereby, should the Minimum Size Condition not be achieved, the Company would be placed into members' voluntary liquidation.



In order that either the Tender Offer or the Winding Up Proposals may be implemented without the need for further documentation or delay, details of both transactions are set out in this document and appropriate general meetings are being convened as explained below.

### *The Tender Offer*

There is no maximum number of Ordinary Shares which may be purchased under the Tender Offer. However if the number of Ordinary Shares tendered is such that the Post Tender Amount would be less than £15 million and therefore the Minimum Size Condition is not achieved, the Tender Offer will not proceed and instead the Company will, subject to Shareholder approval, be put into liquidation.

Shareholders (other than Overseas Shareholders) are being invited to tender some or all of their Ordinary Shares to Fairfax who will, as principal, purchase the Ordinary Shares tendered at the Tender Price and, following the completion of those purchases, sell them on to the Company at the Tender Price by way of an on-market transaction, such market being the London Stock Exchange. All Ordinary Shares which the Company acquires from Fairfax following the Tender Offer will be cancelled on acquisition. All transactions will be carried out on the London Stock Exchange.

Both the Manager and Unicorn have been instructed by the Board to realise assets so that the Company has sufficient cash out of which to meet the expected level of the Tender Offer. As of 11 December 2006 the Company had £38.7 million in cash or cash equivalent securities.

The Tender Price will be calculated by taking the aggregate net asset value of the Ordinary Shares on the Tender Offer Calculation Date and deducting an amount equal to the expected expenses of the Tender Offer Proposals. The resultant figure will be divided by the total number of Ordinary Shares in issue so as to produce the Tender Price. As at the close of business on 11 December 2006 the net asset value per Ordinary Share was 201.79p<sup>1</sup> taking into account the estimated costs of the Tender Offer Proposals (including the termination fee payable to Collins Stewart Fund Management Limited) and the contribution to the costs of the transaction from Premier (assuming assets after completion of the Tender Offer of £20 million). For illustration purposes only, based on these figures the Tender Price would be 201p per Ordinary Share.

### *Conditions of the Tender Offer*

The Tender Offer is being made by Fairfax I.S. PLC on behalf of the Company. Fairfax will, as principal, purchase the Ordinary Shares tendered by means of on-market purchases and immediately upon completion of those purchases sell them to the Company. The Company has entered into a repurchase agreement dated 11 December 2006 with Fairfax to give effect to this subject to the Tender Offer becoming wholly unconditional. Further details of the Repurchase Agreement are summarised in paragraph 4 of Part V of this document.

The Tender Offer is subject to certain conditions, and may be suspended or terminated in certain circumstances, as set out in paragraphs 2 and 8 of Part IV of this document. In particular, the Tender Offer is subject to the condition that assuming completion of the Tender Offer there would be sufficient number of Ordinary Shares in issue which when multiplied by the Tender Offer Price would give an amount equal to or in excess of £15 million. Shareholders should also note that completion of the Tender Offer is conditional on the approval of Shareholders by special resolution at the First EGM and the approval of the Court. Accordingly, it is anticipated that the Tender Offer Calculation Date for the Tender Price will be on or around 3 January 2007 and that settlement of the consideration for Ordinary Shares purchased under the Tender Offer will occur on or as soon as practicable after 17 January 2007.

Shareholders' attention is drawn to the letter from Fairfax set out in Part III and to Parts IV and V of this document which together with the accompanying Tender Form constitute the terms and conditions of the Tender Offer. Details of how to tender Ordinary Shares can be found in Part IV of this document.

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<sup>1</sup> Source: Company

### *Funding for the Tender Offer*

Under Guernsey law (The Companies (Purchase of Own Shares) Ordinance, 1998 (the “Ordinance”)), a company may, with the appropriate authority from its shareholders, purchase its own shares. The Company is seeking authority from its Shareholders to repurchase its shares so as to be able to implement the Tender Offer as well as to implement its discount protection mechanisms described below. Whilst the Ordinance permits a company in certain circumstances to purchase shares out of capital, the more normal and practicable method of financing such purchases is to fund them out of distributable profits. It is proposed that, subject to obtaining the relevant Shareholder approvals referred to below, the Company will apply to the Court to confirm a reduction of the Company’s share capital and share premium account in order to create a distributable reserve out of which Ordinary Shares may be purchased.

The authorised and issued share capital of the Company is £7,400,000.50. The Company currently has an amount of £17,079,000 standing to the credit of its share premium account. The Board proposes to reduce the Company’s share capital by £7,104,000.48 by cancelling 24 of the 25p nominal capital per share and also reduce the Company’s share premium account by £17,000,000. The Board will credit such amounts to a distributable reserve so that the Company has sufficient funds, together with its other reserves, to implement the Tender Offer.

The Court will need to be satisfied that the interests of the Company’s creditors will not be prejudiced as a result of the reduction of the share capital and share premium account and the Company will take such steps in that regard as it deems appropriate and as required by the Court.

### *Winding Up Proposals*

As set out above, the Board proposes that the Company should only continue if it is a viable size, which it has determined would require the Post Tender Amount to be not less than £15 million.

In the event that the conditions of the Tender Offer are not satisfied, it is proposed that the Company be placed into voluntary liquidation and that the Company’s assets (after payment of the liabilities and after deducting the costs of implementing the Winding Up Proposals) on such winding up be distributed.

On the basis of the net asset value as at the close of business on 11 December 2006 of approximately £59.5 million<sup>2</sup>, it is currently estimated that the net assets available for distribution to Shareholders on a liquidation would be approximately £59.5 million or 201p per Ordinary Share. This assumes the successful realisation of all the investments at carrying values, no claims arising and the estimated costs of the Winding Up Proposals (see “Expenses” below).

Shareholders should note that the amount finally distributed to them may be different due to a variety of factors including movements in the value of the underlying assets, the level at which assets can be realised, settlement of any currently unknown or contingent liabilities and ongoing costs associated with running the Company and the realisation process.

If the Winding Up Proposals are implemented no dividends will be declared or recommended.

Shareholders should note that if the Minimum Size Condition is not satisfied then the Tender Offer will not proceed. However, the Company will only be put into liquidation if shareholders vote in favour of the resolution to be proposed at the Second EGM. If that resolution is not passed with the requisite majority of 75 per cent. of the votes cast then the winding up of the Company will not proceed. If this were to occur then there would be no return of capital and the Board would have to make alternative proposals.

### *Liquidation and Dealings*

It is proposed that the Liquidators be appointed as liquidators of the Company. Assuming that the liquidation of the Company is approved by Shareholders as proposed in this document and in the absence of unforeseen circumstances, the Liquidators envisage that they should be in a position to make distributions by 5 February 2007 to Shareholders of an amount equal to the surplus assets of the Company after reserving for creditor claims, if any, not previously agreed and paid, and the costs of the Winding Up Proposals.

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2 Source: Company

Dealings in the Ordinary Shares on the London Stock Exchange will be suspended at the opening of business on 5 January 2007 and on the same date the listing on the Official List of the UK Listing Authority will be suspended. The Company will subsequently apply for the listing on the Official List to be cancelled.

#### *Expenses*

The expenses incurred in relation to the Tender Offer, including financial advice and other professional advice, are estimated to amount to £187,500.

The expenses incurred in relation to the Winding Up Proposals, including financial advice, other professional advice and the Liquidators' fees and expenses, are estimated to amount to £212,500.

The payment of fees to the Directors will cease when the Liquidators are appointed, and no payments for loss of office will be made.

#### **Investment Outlook**

Since the beginning of the Company's financial year on 1 January 2006, the portfolio has performed well with the net asset value increasing from 176.04p as at 31 December 2005. Although some of the early gains were given up when the market corrected in May/June of this year, the portfolio has recovered well and as at 11 December 2006 (being the latest practicable date prior to the publication of this document) the unaudited net asset value was 201.79p.

In anticipation of the Tender Offer, the Board instructed Collins Stewart and Unicorn to realise assets from the portfolio. As a consequence cash has been built up and the Bank of Scotland Offshore Facility repaid in full. As the Company's market exposure has been reduced and its cash position increased, then the Company will be unable to fully benefit from any further market gains. However, as at 11 December 2006 (being the latest practicable date prior to the publication of this document), £21.5 million was invested in UK smaller companies, thereby providing investors with a continuing market exposure. The balance of the assets of £38.7 million is being held in cash or near cash equivalents.

#### **Appointment of Premier and termination arrangements with Collins Stewart**

On 29 September 2006 the Board announced that the Company had served protective notice on the Manager of the Company in relation to the termination of the C.I. Management Agreement. Following completion of the Tender Offer, it is proposed that Premier will be appointed as the Company's managers in place of the Manager. The smaller companies portfolio will continue to be managed by Unicorn.

The Board believes that the proposal put forward by Premier and Unicorn will allow for the Company's assets to be managed in a substantially similar way to the way it is currently managed, reflecting the views of those Shareholders who wish to continue with their investment in the Company.

The Board has recently been in negotiations with the Manager surrounding the basis on which the C.I. Management Agreement would be terminated. It has been agreed that, conditional upon the Tender Offer becoming unconditional in all respects, the Manager's appointment will be terminated with immediate effect upon the date on which such condition is satisfied. The Termination Agreement provides that the Manager shall be paid a sum of £150,000 in respect of the performance fee for the period ending 31 December 2006 and a sum of £187,500 for the balance of the outstanding notice period under the C.I. Management Agreement. In the event that the Tender Offer does not become wholly unconditional, the Manager's appointment under the current C.I. Management Agreement shall continue in full force and effect. However the Company will continue to pay the Manager the sum of £150,000 in respect of the performance fee for the period to 31 December 2006 and the Manager will have no further claim for any performance fees.

The Company has entered into a conditional contract with Premier (the Premier Management Agreement). This agreement provides that conditional upon the Tender Offer becoming wholly unconditional, Premier will be appointed as manager to the Company. The agreement provides that the fixed management fee will be equal to 0.7 per cent. per annum of the Company's gross

assets and there will be a performance fee of 15 per cent. of any excess over a total return of 10 per cent. per annum. In that agreement, Premier has also agreed to cap the total expense ratio of the Company at 1.5 per cent. of gross assets (excluding performance fees and non-routine professional fees). To the extent that the Company's annual expenses exceed 1.5 per cent. of the gross assets in any particular year, then Premier will reduce its fees received or receivable for that year accordingly but subject always to it receiving a fixed annual fee of not less than £50,000. In addition, Premier may delegate the performance of the administration functions under the Premier Management Agreement and, in such circumstances, it shall be entitled to charge the Company an additional administration fee equal to 0.12 per cent. per annum of the Company's gross assets subject to a minimum annual payment of £55,000. This fee may be reviewed from time to time.

Premier has also agreed to make a contribution to the expenses of this transaction equivalent to 0.65 per cent. of the value of the Post Tender Amount conditional upon completion of the Tender Offer.

### **On-going Investment Policy**

The Company's existing investment policy is to allocate approximately 75 per cent. of its assets to a smaller companies portfolio, with the balance invested in an income portfolio. It is proposed that this should be amended so that approximately 70 per cent. of the Company's assets will be allocated to the smaller companies portfolio with the balance allocated to the income portfolio. The exact amount allocated between each portfolio will be reviewed and, if appropriate, the amount allocated to the smaller companies portfolio may be increased.

The smaller companies portfolio will continue to be managed by Unicorn and will principally be invested in UK equities with a market capitalisation of under £1 billion. Unicorn will focus on companies with experienced and well motivated management products or services supplying growth markets, sound operational and management controls, good cash generation and a progressive dividend. Unicorn intends to target a yield on this part of the portfolio of around 3.75 per cent. per annum.

Premier will manage the income portfolio. The objectives of this part of the portfolio will be to maximise income with the objective of capital protection. The portfolio will include sterling denominated fixed interest securities including corporate bonds, preference and permanent interest bearing shares, convertibles, reverse convertibles, debentures and other similar securities. The income portfolio may also contain higher yielding shares of other investment companies, including property investment companies, however these will not exceed 15 per cent. of the overall portfolio (at the time of acquisition). The target yield on this part of the portfolio will initially be around 8 per cent. per annum.

Although this investment policy is broadly in line with the Company's existing investment policy there is an amendment to the investment policy of the Company's income portfolio as it will now allow the Company to invest in reverse convertible bonds and property investment companies in addition to the other securities referred to in the paragraph above which securities the Company was able to invest in under the previous investment policy for the income portfolio. The investment policy also provides for a slightly lower allocation to the smaller companies portfolio. Accordingly, the Directors believe that as there will be some changes to the way in which the income portfolio is managed that it is appropriate that Shareholders should approve this investment policy. Consequently, a resolution is being proposed at the First EGM to approve this investment policy.

### **Borrowings**

The Company repaid the Bank of Scotland Offshore Facility in full on 15 November 2006. In the event that the Tender Offer completes and the Company continues in existence, the Board intends that the Company should enter into further borrowings with a suitable lender. The Board intends to fix the permitted amount of borrowings by the Company at not more than 30 per cent. of the gross asset value of the Company at the time the borrowings are entered into.

## **Dividends**

If the Tender Offer proceeds and the Company continues it is estimated that for the period from 1 January 2007 to 31 December 2007 in the absence of unforeseen circumstances the Company should pay a dividend of 8p. This is a dividend estimate only and should not be treated as a forecast of profits.

## **Discount Protection**

The Directors believe that it is important that once the Tender Offer has been completed that the Ordinary Shares do not trade on a wide discount to net asset value. In this respect:

- the Company will take powers, which it will seek to renew annually, to make purchases of its Ordinary Shares. It is proposed that Ordinary Shares acquired by the Company will initially be held in treasury and may be sold by the Company out of treasury should the opportunity arise. The Board will look to use these powers to manage the discount to net asset value;
- the Company's Articles will be amended to provide Shareholders with the opportunity at the Annual General Meeting to be held in 2011 to vote whether the Company should continue as an investment company. At the same time, it is proposed to remove the current article 134(3) which requires the Company to convene an EGM to wind-up the Company in circumstances where the Company serves notice to terminate the appointment of its investment manager; and
- Premier has undertaken to actively market the Company's shares and will include the Company within its ISA and savings products.

## **Board Changes**

I have been Chairman of the Company since it was launched in January 1999. Upon completion of the Tender Offer I feel that it is appropriate that I should stand down. John Boothman, who has been a director of the Company for 3 years has agreed to become Chairman in my place. Eitan Milgram has also agreed to stand down once the Tender Offer has been completed. The Board intends to appoint a further director to replace me and Eitan Milgram once the Tender Offer has been completed and will make a further announcement in respect of this.

## **Adoption of New Articles**

In connection with the Proposals, the Company is proposing to adopt New Articles which are in substantially the same form as the Company's existing Articles, save for the inclusion of new articles to permit the Company to issue Ordinary Shares in uncertificated form in accordance with the CREST Regulations and the provision allowing for a continuation vote as referred to above. A further modification to the existing Articles is to provide that Ordinary Shares bought back by the Company may be held in treasury. Such shares can then be resold by the Company in the market at a later date.

The full terms of the New Articles are available for inspection from the date of this document until the close of the EGMs at the addresses given in paragraph 6 of Part V of this document and during and at least 15 minutes prior to, the relevant EGM.

## **CREST**

Currently the Company's Ordinary Shares are held in Euroclear and Clearstream. At the time when the Company was first launched Shareholders were unable to transfer their shares within CREST. The Directors believe that Shareholders should have the opportunity to use CREST.

CREST is a paperless settlement system enabling securities to be held otherwise than by a certificate and transferred otherwise than by written instrument in accordance with the CREST Regulations. The Directors have applied for the Ordinary Shares to be admitted to CREST with effect from 18 January 2007 and CRESTCo has agreed to such admission. Accordingly settlement of transactions in the Ordinary Shares following 18 January 2007 may take place within the CREST system, should Shareholders so wish.

CREST is a voluntary system and holders of Ordinary Shares who wish to continue to hold Ordinary Shares in Euroclear or Clearstream will be able to do so.

### **Action to be taken by Shareholders**

#### *Extraordinary General Meetings of the Shareholders*

Both the Tender Offer and Winding Up Proposals are subject to Shareholder approval. Shareholders will find at the end of this document notices convening the EGMs. The First EGM is convened to be held at 11.00 a.m. on 5 January 2007 and the Second EGM is convened to be held at 11.05 a.m. on 5 January 2007.

The special resolution to be proposed at the First EGM is, as required by Guernsey law, seeking the consent of the Shareholders to the reduction of the Company's share capital and share premium account, the purchase of Ordinary Shares and the adoption of New Articles. In addition, for the reasons given in the section headed "On-going Investment Policy", the special resolution is seeking approval for the amendment of the investment policy of the Company. The approval of Shareholders of the reduction of the Company's share premium account is also subject to the confirmation of the Court.

The resolution to be proposed at the Second EGM is, as required by Guernsey law, to put the Company into liquidation and to provide the Liquidators with certain powers. Provided the special resolution is passed, the winding-up of the Company will become effective upon the entry by H.M. Greffier of such resolution in the Register of Companies in accordance with the Companies (Guernsey) Laws 1994-1996. This is expected to happen on the day that the resolution is passed. If the Winding Up Proposals are not approved, it is the intention of the Directors to hold further discussions with the major Shareholders.

Under the Articles of the Company, two Shareholders present in person or by proxy will constitute a quorum. Each of the special resolutions to be proposed at the EGMs requires not less than 75 per cent. of Shareholders voting to vote in favour for each to be passed.

### **Registered Shareholders**

#### *Forms of Proxy*

Shareholders will find enclosed Forms of Proxy for use at the EGMs. Whether or not Shareholders propose to attend the EGMs they are requested to complete and return the Forms of Proxy in accordance with the instructions printed thereon as soon as possible, and in any event, so as to be received by not later than 48 hours before the EGMs are held. The completion and return of the Forms of Proxy will not prevent Shareholders from attending and voting in person at the EGMs should they so wish.

#### *Tender Offer*

Shareholders will find enclosed a Tender Form to be used by them in connection with the Tender Offer. Shareholders who wish to participate in the Tender Offer should complete and return this form, in accordance with the instructions printed thereon as soon as possible, and in any event, so as to be received by no later than 3.00 p.m. on 3 January 2007.

***Shareholders who do not wish to sell their Ordinary Shares in the Tender Offer should not return their Tender Forms.***

#### ***Shareholders whose Ordinary Shares are held through Euroclear or Clearstream***

Shareholders who wish to exercise their right to vote at the EGMs and/or accept the Tender Offer should contact the relevant party under which their Ordinary Shares are held (i.e. Euroclear or Clearstream).

Shareholders wishing to attend the EGMs in person must obtain a proxy issued by the relevant party under which their Ordinary Shares are held (i.e. Euroclear or Clearstream).

## **Taxation**

A UK resident or ordinarily resident Shareholder who sells Ordinary Shares in the market to a market participant for purchase by the Company will be treated, for the purposes of UK taxation, as though the Shareholder had sold them in the normal way to a third party.

The above information on the taxation consequences of the disposal of Ordinary Shares is based on the law and practice currently in force in the United Kingdom. It may not be applicable to certain Shareholders including non-UK tax resident insurance companies, dealers in securities and Shareholders who are not beneficial owners. If any Shareholder is in doubt as to his taxation position, he is strongly recommended to consult a professional adviser without delay.

## **Additional Information**

Your attention is drawn, in particular, to the “Risk Factors” set out in Part II of this document and the information set out in Parts III to V of this document.

Whether or not you decide to tender all or any of your Ordinary Shares will depend, among other things, on your view of the Company’s prospects and your own individual circumstances including your tax position.

If you are in any doubt as to the action you should take, you should consult an appropriately qualified independent financial adviser, authorised under the Financial Services and Markets Act 2000, without delay.

## **Recommendation and voting intentions**

The Board, which has been advised by Fairfax, considers that the Proposals are in the best interests of the Company and its Shareholders as a whole and accordingly recommends that all Shareholders vote in favour of the resolutions to be proposed at the EGMs.

Yours faithfully

**David Bralsford**  
**Chairman**

## PART II

### Risk Factors

In addition to the other relevant information set out in this document, the Directors consider that the following specific risk factors should be considered carefully by Shareholders in evaluating prior to deciding how to cast their votes at the EGMs and whether or not to participate in the Tender Offer.

**If you are in any doubt about the action you should take, you should consult a suitably qualified independent person authorised under the Financial Services and Markets Act 2000.**

#### The Company

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

The past performance of the Company or the Manager is not a guide to the future performance of either.

#### Shares

Investors contemplating an investment in Ordinary Shares should recognise that the market value of and the income derived from such shares can fluctuate and may not always reflect their underlying value.

Investment in the Company should be regarded as long term in nature. There can be no guarantee that any appreciation in the value of the Company's investments will occur and investors may not get back the full value of their original investment. Due to the potential difference between the middle-market price of the Ordinary Shares and the price at which Ordinary Shares can be sold, there is no guarantee that the realisable value of the Ordinary Shares will reflect their market price.

#### Discount

The discount to NAV at which the Ordinary Shares may trade is determined by a number of factors over which the Board has no control. While the Board intends to implement an active discount management policy, the ability of the Board to implement such a policy is dependent on, *inter alia*, the ability to purchase Ordinary Shares in the market, the ability to fund any Ordinary Shares buybacks, the authority to buy back Ordinary Shares being renewed annually, and the Board's absolute discretion over the making and timing of any buybacks.

#### Dividends

There can be no assurance as to the future of dividends. Dividend growth on the Ordinary Shares will depend on dividend growth in the underlying portfolio. Dividend cuts by companies within the portfolio could result in the Ordinary Shares yielding less in future years. Any change in the tax treatment of dividends paid or received by the Company may reduce the level of yield received by Ordinary Shareholders.

#### Borrowings

The terms of the Company's bank borrowings may entitle the lender to require early repayment and in such circumstances the Company's ability to maintain dividend levels, and the net asset value attributable to the Ordinary Shares, could be adversely affected.

Shareholders should be aware that, whilst the use of borrowings should enhance the net asset value of the Ordinary Shares where the value of the Company's underlying assets is rising, it will have the opposite effect where the underlying asset value is falling. Furthermore, should any fall in the



underlying asset value or expected revenues result in the Company breaching the financial covenants contained in any bank financing documents the Company may enter into, the Company may be required to repay such borrowings in whole or in part together with any attendant costs.

#### **Risks associated with the Tender Offer**

As a result of the Tender Offer, the issued share capital of the Company will be reduced and the Company will be smaller. Consequently the fixed costs of the Company will be spread over fewer Ordinary Shares and the Company's total expense ratio will increase.

If the Tender Offer does not proceed for any reason and the Winding Up Proposals do not proceed, the Company would bear costs in relation to the Tender Offer and the winding up proposals.

#### **Investment Trusts**

The Company may invest in investment trusts which are public limited companies quoted on the London Stock Exchange. The price of their shares depends on supply and demand and is not necessarily the same as the value of the underlying assets per share. It may be higher 'at a premium' or lower 'at a discount'. The discount and premium varies continuously and represents an additional measure of risk and reward. Investment trusts can borrow money (gearing) which can be used to make further investments. In a rising market, gearing can enhance returns, however in a falling market losses can be multiplied.

#### **Investment Objective**

The returns and yields referred to in this document are based on a number of assumptions which may not materialise. There can be no guarantee that the Company will achieve its investment objective.

#### **Accounting Policy**

Shareholders should be aware that the Company's accounting policy of charging 75 per cent. of the Company's management fees and financing costs, together with 100 per cent. of any performance fee which becomes payable, to the Company's capital account may result in a diminution in the asset value of the Company.

#### **Economic conditions**

Changes in economic conditions in the UK (for example, interest rates, rates of inflation, industry conditions, political and diplomatic events and other factors) could substantially and adversely affect the Company's prospects.

#### **General**

The Company's portfolio is constructed without reference to any stockmarket index. It is therefore likely that there will be periods when its performance will be quite unlike that of any index and there can be no assurance that such divergence will be wholly or even primarily to the Company's advantage. The Ordinary Shares are an unsuitable investment for those who seek investments that are in some way correlated to a stockmarket index.

PART III

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# FAIRFAX

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Fairfax I.S. PLC, 46 Berkeley Square, Mayfair, London W1J 5AT  
Telephone 020 7598 5368 Corporate Finance Facsimile 020 7460 4379  
Trading Floor Facsimile 020 7460 4369 Email: info@fairfaxis.com

13 December 2006

*To Shareholders*

*Dear Shareholder,*

As explained in the letter from your Chairman in Part I of this document, Shareholders (other than Overseas Shareholders) are being given the opportunity to tender some or all of their Ordinary Shares for purchase in the Tender Offer. The purpose of this letter is to set out the principal terms and conditions of the Tender Offer.

Fairfax hereby invites Shareholders (other than Overseas Shareholders) on the Register on the Tender Offer Record Date to tender Ordinary Shares for purchase by Fairfax in cash at the Tender Price. All tenders of Ordinary Shares shall be made on the terms and subject to the conditions set out in Part IV of this document and the accompanying Tender Form, which terms and conditions are deemed to be incorporated herein and form part of the Tender Offer.

The Tender Offer is being made for the Company's issued Ordinary Shares. Shareholders may tender whatever number of Ordinary Shares they wish but if such number of Ordinary Shares are tendered such that the Post Tender Amount falls below £15 million, it is instead proposed that the Company will be placed into members' voluntary liquidation under the Winding Up Proposals. Each Shareholder will be entitled to sell some or all of his Ordinary Shares under the Tender Offer to Fairfax.

### Conditions of Tender

The Tender Offer will not proceed unless it becomes unconditional. The following are the principal conditions of the Tender Offer (the full conditions are set out in Part IV of this document):

- the passing of the Tender Offer Resolution at the First EGM;
- assuming completion of the Tender Offer there being a sufficient number of Ordinary Shares remaining in issue that, when multiplied by the Tender Price, the aggregate amount thereby arising is equal to or greater than £15 million;
- the Court having approved the reduction of share capital and share premium account as provided for in the Tender Offer Resolution not later than 20 Business Days after 5 January 2007; and
- the Tender Offer not being terminated in accordance with the provisions set out in paragraph 8 of Part IV of this document.

### Procedure for tendering Ordinary Shares

Shareholders who wish to tender Ordinary Shares should complete the Tender Form in accordance with the instructions set out therein and return the completed Tender Form in accordance with the instructions printed thereon so as to be received not later than 3.00 p.m. on 3 January 2007.

Fairfax I.S. PLC is authorised and regulated by the Financial Services Authority and is  
a member of the London Stock Exchange  
Registered office: 7 Queen Street, London W1J 5PB  
Company Registration No. 5496355 Registered in England and Wales  
VAT Registration number 868 5147 82

**Shareholders should note that, once tendered, Ordinary Shares may not be sold, transferred, charged or otherwise disposed of.**

Full details of the procedure for tendering are set out in Part IV of this document and in the Tender Form.

#### **Validity of Tender Forms**

Tender Forms which are received after 3.00 p.m. on the Tender Offer Closing Date or which at that time are incorrectly completed or not accompanied by all relevant documents or instructions may be rejected and returned to Shareholders or their appointed agent. Fairfax reserves the right to treat as valid Tender Forms which are not entirely in order.

#### **Termination of the Tender Offer**

The Tender Offer may be terminated in the circumstances described in paragraph 8 of Part IV of this document.

#### **Settlement**

Subject to the Tender Offer becoming unconditional, payment of the Tender Price due to Shareholders whose tenders under the Tender Offer have been accepted is expected to be despatched, as appropriate on or as soon as practicable after 17 January 2007, as described in Part IV of this document.

Yours faithfully

**A.P. Richards**  
*For and on behalf of*  
Fairfax I.S. PLC

## PART IV

### Terms and conditions of the Tender Offer

#### 1. Tenders

- 1.1 All Shareholders (other than Overseas Shareholders) may tender Ordinary Shares for purchase by Fairfax on the terms and subject to the conditions set out in this document and the accompanying Tender Form (which together with this document constitute the Tender Offer). Shareholders are not obliged to tender any Ordinary Shares.
- 1.2 The Tender Offer is made at the Tender Price, calculated in accordance with paragraph 3 below.
- 1.3 The consideration for each tendered Ordinary Share acquired by Fairfax pursuant to the Tender Offer will be paid in accordance with the settlement procedures set out in paragraph 5 below.
- 1.4 Upon the Tender Offer becoming unconditional and unless the Tender Offer has been suspended or terminated in accordance with the provisions of paragraph 2 or paragraph 8 below, Fairfax will accept the offers of Shareholders validly made in accordance with this Part IV.

#### 2. Conditions and Suspension

- 2.1 The Tender Offer is conditional on the following (together the “Conditions”):
  - 2.1.1 assuming completion of the Tender Offer there being a sufficient number of Ordinary Shares remaining in issue such that, when multiplied by the Tender Price the aggregate amount thereby arising is equal to or greater than £15 million;
  - 2.1.2 the passing of the Tender Offer Resolution not later than 10 Business Days after 5 January 2007;
  - 2.1.3 the Court having approved the reduction of share capital and share premium account as provided for in the Tender Offer Resolution not later than 20 Business Days after 5 January 2007;
  - 2.1.4 Fairfax being satisfied that the Company has paid the aggregate Tender Price into an account in accordance with the Repurchase Agreement;
  - 2.1.5 the Tender Offer not having been terminated in accordance with paragraph 8 of this Part IV prior to the fulfilment of the condition referred to in sub-paragraph 2.1.4 above; and
  - 2.1.6 no Shareholder being required by The Panel on Takeovers and Mergers to make a mandatory offer pursuant to Rule 9 of the City Code on Takeovers and Mergers as a result of the Tender Offer (if it were completed).
- 2.2 Fairfax will not purchase the Ordinary Shares pursuant to the Tender Offer unless the Conditions have been satisfied. The Conditions, other than sub-paragraph 2.1.4 above, may not be waived by Fairfax. If the Conditions are not satisfied prior to the close of business 20 Business Days after 5 January 2007 Fairfax may postpone the completion of the Tender Offer for up to a further 10 Business Days, after which time the Tender Offer, if not then completed, will lapse.

#### 3. Calculation of the Tender Price

For the purposes of the Tender Offer, the Tender Price (rounded down to four decimal places) will be calculated by taking the aggregate net asset value of the Ordinary Shares as at the Tender Offer Calculation Date, deducting an amount equal to the expected expenses of the Tender Offer Proposals and dividing the resultant figure by the total number of Ordinary Shares in issue.

#### **4. Procedure for tendering Ordinary Shares**

- 4.1 If you are the registered holder of Ordinary Shares then, you must complete, sign and return the accompanying Tender Form in accordance with this paragraph 4 and the instructions printed on the Tender Form, which shall be deemed to form part of the Tender Offer.
- 4.2 If you hold your Ordinary Shares through Euroclear or Clearstream and wish to tender your Ordinary Shares then you must instruct Euroclear or Clearstream in accordance with their procedures.

##### *Validity of Tender Forms*

- 4.3 Notwithstanding the powers in paragraph 9.5 below, Fairfax reserves the right to treat as valid only Tender Forms which are received entirely in order by 3.00 p.m. on the Tender Offer Closing Date in respect of the entire number of Ordinary Shares tendered. The Tender Offer Record Date for the Tender Offer is close of business on 3 January 2007.

Notwithstanding the completion of a valid Tender Form, the Tender Offer may be suspended, terminated or lapse in accordance with the Terms and Conditions set out in this Part IV.

The decision of Fairfax as to which Ordinary Shares have been validly tendered shall be conclusive and binding on all Shareholders.

If you are in any doubt as to the procedure for tendering Ordinary Shares, please contact Elysium Fund Management by telephone on 01481 731987.

#### **5. Settlement**

- 5.1 Settlement of the consideration to which any Shareholder is entitled pursuant to valid tenders accepted by Fairfax is expected to be made on or around 17 January 2007.

##### *Ordinary Shares held in Euroclear or Clearstream*

- 5.2 Fairfax will make payment to Euroclear and Clearstream who will then be responsible for making payment to the underlying Shareholders.

#### **6. Tender Form**

Each Shareholder by whom, or on whose behalf, a Tender Form is executed irrevocably undertakes, represents, warrants and agrees to and with Fairfax (for itself and as trustee for the Company) (so as to bind him, his personal representatives, heirs, successors and assigns) that:

- 6.1 the execution of the Tender Form shall constitute an offer to sell to Fairfax such number of Ordinary Shares inserted in Box 2 of the Tender Form, in each case on and subject to the terms and conditions set out or referred to in this document and the Tender Form and that, once lodged, such offer shall be irrevocable;
- 6.2 such Shareholder has full power and authority to tender, sell, assign or transfer the Ordinary Shares in respect of which such offer is accepted (together with all rights attaching thereto) and, when the same are purchased by Fairfax, Fairfax will acquire such Ordinary Shares with full title guarantee and free from all liens, charges, encumbrances, equitable interests, rights of pre-emption or other third party rights of any nature and together with all rights attaching thereto on or after the Tender Offer Closing Date, including the right to receive all dividends and other distributions declared, paid or made after that date;
- 6.3 the execution of the Tender Form will, subject to the Tender Offer becoming unconditional, constitute the irrevocable appointment of any director or officer of Fairfax as such Shareholder's attorney and/or agent ("attorney"), and an irrevocable instruction to the attorney to complete and execute all or any instruments of transfer and/or other documents at the attorney's discretion in relation to the Ordinary Shares referred to in sub-paragraph 6.1 above in favour of Fairfax or such other person or persons as Fairfax may direct and to deliver such instrument(s) of transfer and/or other documents at the discretion of the attorney,

- together with the Share certificate(s) and/or other document(s) relating to such Ordinary Shares, for registration within six months of the Tender Offer becoming unconditional and to do all such other acts and things as may in the opinion of such attorney be necessary or expedient for the purpose of, or in connection with, the Tender Offer and to vest in Fairfax or its nominee(s) or such other person(s) as Fairfax may direct such Ordinary Shares;
- 6.4 such Shareholder agrees to ratify and confirm each and every act or thing which may be done or effected by Fairfax or any of its directors or any person nominated by Fairfax in the proper exercise of its or his or her powers and/or authorities hereunder;
- 6.5 such Shareholder shall do all such acts and things as shall be necessary or expedient and execute any additional documents deemed by Fairfax to be desirable, in each case to complete the purchase of the Ordinary Shares and/or to perfect any of the authorities expressed to be given hereunder;
- 6.6 such Shareholder has not received or sent copies or originals of this document, the Tender Form or any related documents in, into or from any state of the US, Canada, Australia or Japan and has not otherwise utilised in connection with the Tender Offer, directly or indirectly, the mails or any means or instrumentality (including, without limitation, facsimile transmission, telex and telephone) of interstate or foreign commerce, or of any facility of a national securities exchange, of any state of the US, Canada, Australia or Japan, that the Tender Form has not been mailed or otherwise sent in, into or from any State of the US, Canada, Australia or Japan and that such Shareholder is accepting the Tender Offer from outside any state of the US, Canada, Australia or Japan;
- 6.7 on execution the Tender Form takes effect as a deed;
- 6.8 the execution of the Tender Form constitutes such Shareholder's submission to the jurisdiction of the courts of England in relation to all matters arising out of or in connection with the Tender Offer or the Tender Form;
- 6.9 the despatch of a cheque or other appropriate form of payment in respect of the Tender Price to a Shareholder at his registered address or such other address as is specified in the Tender Form will constitute a complete discharge by Fairfax of its obligations to make such payment to such Shareholder; and
- 6.10 a reference in this paragraph 6 to a Shareholder includes a reference to the person or persons executing the Tender Form and in the event of more than one person executing a Tender Form, the provisions of this paragraph will apply to them jointly and to each of them.
- 7. Additional provisions**
- 7.1 Each Shareholder may tender some of or all of their holding of Ordinary Shares on the Tender Offer Closing Date.
- 7.2 Ordinary Shares acquired by Fairfax under the Tender Offer will be market purchases in accordance with the rules of the London Stock Exchange and UK Listing Authority.
- 7.3 Ordinary Shares sold by Shareholders pursuant to the Tender Offer will be acquired with full title guarantee and free from all liens, charges, encumbrances, equitable interests, rights of pre-emption or other third party rights of any nature and together with all rights attaching thereto on or after the Tender Offer Closing Date, including the right to receive all dividends and other distributions declared, paid or made after that date.
- 7.4 Unless suspended or terminated in accordance with the provisions of this Part IV, the Tender Offer will close at 3.00 p.m. on 3 January 2007 and it is expected that on 4 January 2007 the Company will make a public announcement of the total number of Ordinary Shares tendered and, on or around 4 January 2007 the Company will make a public announcement of the Tender Price.

- 7.5 Each Shareholder who tenders or procures the tender of Ordinary Shares will thereby be deemed to have agreed that, in consideration of Fairfax agreeing to process his tender, such Shareholder will not revoke his tender or withdraw his Ordinary Shares. Shareholders should note that once tendered Ordinary Shares may not be sold, transferred, charged or otherwise disposed of.
- 7.6 Any omission to despatch this document or the Tender Form or any notice required to be despatched under the terms of the Tender Offer to, or any failure to receive the same by, any person entitled to participate in the Tender Offer shall not invalidate the Tender Offer in any way or create any implication that the Tender Offer has not been made to any such person.
- 7.7 No acknowledgement of receipt of any Tender Form will be given. All communications, notices and remittances to be delivered by or sent to or from Shareholders (or their designated agents) will be delivered by or sent to or from such Shareholders (or their designated agents) at their own risk.
- 7.8 All powers of attorney and authorities on the terms conferred by or referred to in this Part IV or in the Tender Form are given by way of security for the performance of the obligations of the Shareholders concerned and are irrevocable in accordance with section 4 of the Powers of Attorney Act 1971.
- 7.9 All tenders must be made on the relevant prescribed Tender Form, duly completed in accordance with the instructions set out thereon which constitute part of the terms of the Tender Offer. A Tender Form will only be valid when the procedures contained in these terms and conditions and in the Tender Form are complied with. The Tender Offer and all tenders will be governed by and construed in accordance with English law. Delivery or posting of a Tender Form will constitute submission to the jurisdiction of the English Courts.
- 7.10 The instructions, terms, provisions and authorities contained in or deemed to be incorporated in the Tender Form shall constitute part of the terms of the Tender Offer. The definitions set out in this document apply to the terms and conditions set out in this Part IV.
- 7.11 Subject to paragraphs 9 and 10 below, the Tender Offer is open to Shareholders on the Register on the Tender Offer Record Date, and will close at 3.00 p.m. on the Tender Offer Closing Date. No Tender Form received after that time will be accepted.
- 7.12 The decision of Fairfax as to which Ordinary Shares have been successfully tendered shall be conclusive and binding on all Shareholders.
- 7.13 Further copies of this document and the Tender Form may be obtained on request from the Registrar and Fairfax at the addresses set out on page 1 of the Tender Form.

## **8. Termination of the Tender Offer**

- 8.1 If the Company (acting through the Directors) shall at any time prior to Fairfax effecting the purchase as principal of the tendered Ordinary Shares notify Fairfax in writing that in its reasonable opinion the completion of the purchase of Ordinary Shares under the Tender Offer would have unexpected adverse fiscal consequences (whether by reason of a change in legislation or practice or otherwise) for the Company or its Shareholders if the Tender Offer were to proceed, Fairfax shall be entitled at its complete discretion by a public announcement and subsequent written notice to Shareholders to withdraw the Tender Offer, and in such event the Tender Offer shall cease and determine absolutely.
- 8.2 There is no maximum number of Ordinary Shares which may be purchased under the Tender Offer. However if the number of Ordinary Shares tendered is such that the net asset value of the Company, assuming completion of the Tender Offer, would be less than £15 million and therefore the Minimum Size Condition is not achieved, the Tender Offer will not proceed and instead the Company will be put into liquidation.

## **9. Miscellaneous**

- 9.1 Any changes to the terms, or any suspension, extension or termination of the Tender Offer will be followed as promptly as practicable by a public announcement thereof no later than 1.00 p.m. on the business day following the date of such changes. Such an announcement will

be released to the Company Announcements Office of the London Stock Exchange. References to the making of an announcement by the Company includes the release of an announcement on behalf of the Company by Fairfax to the press and delivery of or telephone or facsimile or other electronic transmission of such announcement to the Company Announcements Office of the London Stock Exchange.

- 9.2 Ordinary Shares purchased pursuant to the Tender Offer will, following the completion of the Tender Offer, be acquired from Fairfax by the Company on the London Stock Exchange pursuant to the Repurchase Agreement and such Ordinary Shares will subsequently be cancelled.
- 9.3 Tendering Shareholders will not be obliged to pay brokerage fees, commissions or transfer taxes or stamp duty in the UK on the purchase by Fairfax of Ordinary Shares pursuant to the Tender Offer.
- 9.4 Except as contained in this document, no person has been authorised to give any information or make any representations with respect to the Company or the Tender Offer, and, if given or made, such other information or representations should not be relied on as having been authorised by Fairfax or the Company. Under no circumstances should the delivery of this document or the delivery of any consideration pursuant to the Tender Offer create any implication that there has been no change in the assets, properties, business or affairs of the Company since the date of this document.
- 9.5 Fairfax reserves the absolute right to inspect (either itself or through its agents) all Tender Forms, and may consider void and reject any tender that does not in Fairfax's sole judgement (acting reasonably) meet the requirements of the Tender Offer. Fairfax also reserves the absolute right to waive any defect or irregularity in the tender of any Ordinary Shares. None of Fairfax, the Company, the Registrar or any other person will be under any duty to give notification of any defects or irregularities in tenders or incur any liability for failure to give any such notification.
- 9.6 The provisions of the Contracts (Rights of Third Parties) Act 1999 do not apply to this document.

## **10. Overseas Shareholders**

- 10.1 The Tender Offer is not being made to Overseas Shareholders.
- 10.2 Accordingly, copies of this document, the Tender Forms and any related documents are not being and must not be mailed or otherwise distributed Overseas, including to Shareholders with registered addresses Overseas, or to persons whom Fairfax knows to be custodians, nominees or trustees holding Ordinary Shares for persons Overseas. Persons receiving such documents (including, without limitation, custodians, nominees and trustees) should not distribute or send them Overseas or use such mails or any such means, instrumentality or facility in connection with the Tender Offer, and so doing will render invalid any related purported acceptance of the Tender Offer. Persons wishing to accept the Tender Offer should not use such mails or any such means, instrumentality or facility for any purpose directly or indirectly relating to acceptance of the Tender Offer. Envelopes containing Tender Forms should not be postmarked from Overseas or otherwise despatched Overseas and all accepting Shareholders must not provide Overseas addresses for the remittance of cash or return of Tender Forms.
- 10.3 A Shareholder will be deemed not to have accepted the Tender Offer if (i) such Shareholder is unable to make the representation and warranty set out in paragraph 6.6 of this Part IV; or (ii) such Shareholder inserts in Box 3 of the Tender Form the name and address of a person or agent Overseas to whom he wishes the consideration to which such Shareholder is entitled under the Tender Offer to be sent; or (iii) the Tender Form received from him is in an envelope



postmarked in, or which otherwise appears to Fairfax or its agents to have been sent from, Overseas. Fairfax reserves the right, in its absolute discretion, to investigate, in relation to any acceptance, whether the representation and warranty referred to in paragraph 6.6 above given by any Shareholder is correct and, if such investigation is undertaken and as a result Fairfax determines (for any reason) that such representation and warranty is not correct, such acceptance shall not be valid.

- 10.4 If, in connection with making the Tender Offer, notwithstanding the restrictions described above, any person (including, without limitation, custodians, nominees and trustees), whether pursuant to a contractual or legal obligation or otherwise, forwards this document, the Tender Form or any related offering documents Overseas or uses the mails of, or any means or instrumentality (including, without limitation, facsimile transmission, telex and telephone) of interstate or foreign commerce of, or any facility of a national securities exchange Overseas in connection with such forwarding, such persons should (i) inform the recipient of such fact; (ii) explain to the recipient that such action may invalidate any purported acceptance by the recipient; and (iii) draw the attention of the recipient to this paragraph 10.
- 10.5 The provisions of this paragraph 10 and any other terms of the Tender Offer relating to Overseas Shareholders may be waived, varied or modified as regards specific Shareholders or on a general basis by Fairfax in its absolute discretion but only if Fairfax is satisfied that such waiver, variance or modification will not constitute or give rise to a breach of applicable securities or other law.

## PART V

### General Information

#### 1. The Company

The Company was incorporated with limited liability in Guernsey as a closed end investment company under the Companies (Guernsey) Laws 1994 to 1996, as amended, with registered number 34778 on 5th January 1999.

#### 2. Share capital

2.1 As at 11 December 2006 (being the latest practicable date prior to the date of this document) the authorised share capital and the issued share capital of the Company is as follows:

	<i>Authorised</i>		<i>Issued and fully paid</i>	
	<i>No. of shares</i>	<i>£ nominal</i>	<i>No. of shares</i>	<i>£ nominal</i>
Ordinary Shares	40,000,000	10,000,000	29,600,002	7,400,001

2.2 No share or loan capital of the Company is under option or has been agreed, conditionally or unconditionally, to be put under option.

#### 3. Directors and other interests

3.1 The Directors of the Company are as follows:

D M Bralsford  
J M McKean  
J C Boothman  
E Milgram

all of 2nd Floor, No. 1, Le Truchot, St Peter Port, Guernsey, GY1 4AE.

3.2 The interests of the Directors, their immediate families and, as far as they are aware having made due and careful enquiries, of persons connected with them in the share capital of the Company as at 11 December 2006 (being the latest practicable date prior to the date of this document), all of which are beneficial, were as follows:

	<i>Director</i>	<i>Number of Shares</i>	<i>% of Issued Share Capital</i>
D M Bralsford		150,000	0.51
J M McKean		20,000	0.07

3.3 Save as disclosed in paragraph 3.1 above, the Company is only aware of the following persons as at 11 December 2006 (being the latest practicable date prior to publication of this document) who were directly or indirectly interested in 3 per cent. or more of the issued ordinary share capital of the Company:

<i>Shareholder</i>	<i>Number of Shares</i>	<i>% of Issued Share Capital</i>
Brookdale Group	8,201,488	27.71
Iimia Investment Group plc	2,190,000	7.4
Premier Asset Management	1,952,967	6.6
Charles Stanley Clients	1,644,611	5.56
UBS Laing & Cruickshank	1,630,129	5.51
Citigroup	1,025,000	3.46
Forest Nominees	985,095	3.33
Societe Generale Option Europe	960,000	3.24

#### **4. Repurchase Agreement**

By a repurchase agreement dated 11 December 2006 between the Company and Fairfax, the Company and Fairfax agreed that conditional upon the Tender Offer becoming unconditional in accordance with its terms, Fairfax shall, as principal, purchase on market at the Tender Price Ordinary Shares in respect of which valid Tender Forms have been received, provided that Fairfax shall not purchase any tendered Ordinary Shares unless acceptances under the Tender Offer are such that assuming completion of the Tender Offer the Post Tender Amount is equal to or greater than £15 million.

The Company has agreed that, immediately following the purchase by Fairfax of all successfully tendered Ordinary Shares which it is obliged to purchase pursuant to the Repurchase Agreement, the Company will acquire such Ordinary Shares from Fairfax at the Tender Price. The Repurchase Agreement contains certain warranties, representations and undertakings given by the Company concerning its authority to enter into the agreement and to make purchases of Ordinary Shares pursuant thereto. The Repurchase Agreement also contains an indemnity given in favour of Fairfax in respect of any liability which it may suffer or incur as a result of any breach or alleged breach by the Company of any of the provisions of the Repurchase Agreement or resulting from the proper performance by Fairfax of its duties and obligations under the Repurchase Agreement.

The Repurchase Agreement is conditional upon the Company depositing into a designated account a sum equal to the Tender Price multiplied by the number of validly tendered Ordinary Shares together with any fees and expenses payable to Fairfax.

#### **5. General**

- 5.1 Fairfax has given and not withdrawn its written consent to the issue of this document with references to its name in the form and context in which such references appear.
- 5.2 Each of the proposed Liquidators has given and not withdrawn his written consent to the issue of this document with references to his name in the form and context in which such references appear.
- 5.3 The Company has not been and is not currently engaged in any legal or arbitration proceedings nor, so far as the Company is aware, are there any such legal or arbitration proceedings pending or threatened by or against the Company which may have or have had during the 12 months preceding the date of this document a significant effect on the Company's financial position.
- 5.4 Since 30 June 2006 (being the end of the last financial period of the Company for which interim financial information has been published), there has been no significant change in the financial or trading position of the Company.
- 5.5 The costs and expenses of the Company estimated to be incurred in respect of the Tender Offer, and the Winding Up Proposals if implemented, are set out in Part I of this document.

#### **6. Documents Available for Inspection**

Copies of the following documents will be available for inspection at the registered office of the Company and at the offices of Ozannes at P0 Box 186, 1 Le Marchant Street, St. Peter Port, Guernsey GY1 4HP and Stephenson Harwood at One, St. Paul's Churchyard, London EC4M 85H during business hours on any weekday from the date of this document (Saturdays, Sundays and public holidays excepted) until 5 January 2007:

- (a) the Memorandum and Articles of the Company together with the proposed New Articles;
- (b) the Premier Management Agreement;
- (c) the Repurchase Agreement;
- (d) the Termination Agreement;
- (e) the written consents referred to in paragraph 5 above; and
- (f) this document.

13 December 2006

# ACORN INCOME FUND LIMITED

*(a company incorporated in Guernsey with registration number 34778)*

## Notice of First Extraordinary General Meeting

Notice is hereby given that an Extraordinary General Meeting of Acorn Income Fund Limited (the "Company") will be held on 5 January 2007 at No. 1, Le Truchot, St. Peter Port, Guernsey GY1 at 11.00 a.m. to consider and, if thought fit, pass the following resolution which will be proposed as a special resolution:

### SPECIAL RESOLUTION

THAT:

- (i) conditional upon the Tender Offer (as defined in the circular dated 13 December 2006 a copy of which has been laid at this meeting and signed by the Chairman thereof) becoming wholly unconditional, and subject to confirmation by the Royal Court of Guernsey, the issued share capital of the Company be reduced from £7,400,000.50 to £296,000.02, such reduction to be effected by the cancellation of the sum of 24p per issued Ordinary Share and by reducing the nominal amount of such shares by such amount and that pursuant to such reduction that the issued share capital of the Company be £296,000.02 divided into 296,000,002 Ordinary Shares of 1p each and that the nominal amount so reduced be credited to a distributable reserve account to be established in the books of account which shall be able to be applied in any manner in which the Company's profits available for distribution (as determined in accordance with the Companies (Guernsey) Laws, 1994 to 1996 as amended) are able to be applied and the Company alter its memorandum by reducing the amount of its share capital and of its shares accordingly;
- (ii) conditional upon confirmation by the Royal Court of Guernsey, the share capital of the Company be reduced by cancelling the sum of £17,000,000 standing to the credit of the Company's share premium account and crediting an equivalent amount to the Company's distributable reserves to be established in the Company's books of account which shall be able to be applied in any manner in which the Company's profits available for distribution (as determined in accordance with the Companies (Guernsey) Laws, 1994 to 1996 as amended) are able to be applied, including the purchase of the Company's own shares and the payment of dividends;
- (iii) the Company be generally and subject as hereinafter appears be unconditionally authorised in accordance with The Companies (Purchase of Own Shares) Ordinance, 1998 (the "Ordinance") to make market purchases (within the meaning of Section 5 of the Ordinance) of its Ordinary Shares

### PROVIDED ALWAYS THAT

- (a) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 25,000,000;
- (b) the minimum price which may be paid for an Ordinary Share shall be 10p;
- (c) the maximum price which may be paid for an Ordinary Share shall be an amount equal to £10;
- (d) the authority hereby conferred shall expire not later than 18 months after this resolution is passed unless the authority is renewed in general meeting prior to such time;
- (e) the Company may make a contract to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority referred to in (d) above which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Ordinary Shares pursuant to any such contract; and

- (f) any Ordinary Shares so purchased shall be cancelled or if the Directors so determine and subject to the provisions of The Companies (Purchase of Own Shares) (Treasury Shares) Ordinance, 2006 and any applicable regulations of the United Kingdom Listing Authority, be held as treasury shares;
- (iv) the Articles of Association of the Company, as contained in the draft signed by the Chairman of the meeting for the purposes of identification, be approved and adopted as the Articles of Association of the Company, in substitution for and to the exclusion of all existing Articles of Association; and
- (v) the change to the investment policy of the Company as described in Part I of the circular dated 13 December 2006 of which this notice forms part be and is hereby approved.

By Order of the Board  
**Collins Stewart Fund Management Limited**

*Registered Office:*  
No.1 Le Truchot  
St Peter Port  
Guernsey GY1 4AE

13 December 2006

**Notes:**

1. A Shareholder entitled to attend and vote is entitled to appoint a proxy (or proxies) to attend and, on a poll, vote instead of him. A proxy need not be a Shareholder of the Company.
2. A form of proxy is enclosed for use by Shareholders. Completion and return of the form of proxy will not prevent a Shareholder from subsequently attending the meeting and voting in person if he so wishes.
3. To be effective, the instrument appointing a proxy, and any power of attorney or other authority under which it is signed (or a copy of any such authority certified notarially or in some other way approved by the Directors), must be deposited with the Company's Registrar, not less than 48 hours before the time for holding the meeting or adjourned meeting.
4. Entitlement to attend and vote at the meeting and the number of votes which may be cast thereat will be determined by reference to the Register of Members as at 11.00 a.m. on 3 January 2007.

# ACORN INCOME FUND LIMITED

*(a company incorporated in Guernsey with registration number 34778)*

## Notice of Second Extraordinary General Meeting

Notice is hereby given that an Extraordinary General Meeting of Acorn Income Fund Limited (the “Company”) will be held on 5 January 2007 at No. 1, Le Truchot, St. Peter Port, Guernsey GY1 at 11.05 a.m. (or after the conclusion of the First EGM, whichever is the later) to consider and, if thought fit, pass the following resolution which will be proposed as a special resolution:

### SPECIAL RESOLUTION

THAT:

in the event that and with effect from the date on which the conditions of the Tender Offer set out in the circular dated 13 December 2006, a copy of which has been laid at this meeting and signed by the Chairman thereof, have not been fulfilled:

- (i) the listing on the Official List maintained by the United Kingdom Listing Authority of the Company’s ordinary shares be cancelled and the Company be and is hereby wound up voluntarily and that Messrs Anthony Christian Pickford and James Robert Toynton of RSM Robson Rhodes Corporate Recovery (CI) Limited, Anson Court, La Route des Camps, St Martin, Guernsey GY1 3TF be and are appointed joint liquidators (the “Liquidators”) with the power to act jointly and severally for the purpose of such winding up with all powers conferred on them by law, the articles of association of the Company or by this resolution, such appointment becoming effective on the entry by H.M. Greffier of this resolution in the Register of Companies in accordance with section 81(a) of the Companies (Guernsey) Laws 1994 to 1996;
- (ii) the remuneration of the Liquidators to be fixed on the basis of time spent by them and members of their staff in attending to matters arising prior to and during the winding up of the Company and they are authorised to draw such remuneration monthly or at such longer intervals as they may determine and to pay any expenses properly incurred by them; and
- (iii) the Company’s books and records to be held by the Company Secretary to the order of the Liquidators until the expiry of twelve months after the date of dissolution of the Company, when they may be disposed of.

By Order of the Board  
Collins Stewart Fund Management Limited

*Registered Office:*  
No.1 Le Truchot  
St Peter Port  
Guernsey GY1 4AE

13 December 2006

#### Notes:

1. A Shareholder entitled to attend and vote is entitled to appoint a proxy (or proxies) to attend and, on a poll, vote instead of him. A proxy need not be a Shareholder of the Company.
2. A form of proxy is enclosed for use by Shareholders. Completion and return of the form of proxy will not prevent a Shareholder from subsequently attending the meeting and voting in person if he so wishes.
3. To be effective, the instrument appointing a proxy, and any power of attorney or other authority under which it is signed (or a copy of any such authority certified notarially or in some other way approved by the Directors), must be deposited with the Company’s Registrar, not less than 48 hours before the time for holding the meeting or adjourned meeting.
4. Entitlement to attend and vote at the meeting and the number of votes which may be cast thereat will be determined by reference to the Register of Members as at 11.05 a.m. on 3 January 2007.

