

A copy of this document, which comprises the prospectus relating to 3i Group plc ("3i" or the "Company") prepared in accordance with the Prospectus Rules made under section 84 of the Financial Services and Markets Act 2000 (the "Prospectus"), has been made available to the public in accordance with the provisions of the Prospectus Rules.

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The Directors, whose names appear on page 13 of this document, and the Company, whose registered office is 16 Palace Street, London SW1E 5JD, are responsible for the information given in the Prospectus. The Directors and the Company declare that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

Application will be made to the UK Listing Authority for the Consolidated Ordinary Shares and the B Shares to be admitted to the Official List and to London Stock Exchange plc for the Consolidated Ordinary Shares and the B Shares to be admitted to trading on London Stock Exchange plc's market for listed securities. Admission to the Official List together with admission to trading on London Stock Exchange plc's market for listed securities will constitute admission to official listing on a stock exchange. It is expected that Admission will become effective and that dealings in the Consolidated Ordinary Shares and the B Shares will commence on London Stock Exchange plc's market for listed securities at 8.00 am on 17 July 2006.



3i Group plc

(registered in England and Wales under number 1142830)

Introduction of up to 610,000,000 B Shares to the Official List and admission to trading on the London Stock Exchange

The date of this document is 6 July 2006.

This document does not constitute an offer to sell or the solicitation of an offer to buy any security. The distribution of this document in jurisdictions other than the UK may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of such jurisdictions.

None of the B Shares has been or will be registered under the US Securities Act of 1933 or any state securities laws of the United States. Accordingly, none of the B Shares may be offered, transferred or sold in the United States or elsewhere by Shareholders unless pursuant to a transaction that has been registered under the US Securities Act of 1933 and the relevant state securities laws or that is not subject to the registration requirements of the US Securities Act of 1933 or such laws, either due to an exemption therefrom or otherwise.

None of the B Shares nor this document has been approved, disapproved or otherwise recommended by any US federal or state securities commission nor have such authorities confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

Excluded Overseas Shareholders, including US Shareholders, will only be entitled to receive the net proceeds from the involuntary sale pursuant to the Initial Purchase Offer or otherwise of any B Shares which they would otherwise have been entitled to retain and will not be able to make any election in respect of such B Shares. In addition, for US Shareholders who have previously executed an undertaking in respect of any Ordinary Shares purchased or held by them, any B Shares which those Shareholders would otherwise be entitled to retain will be treated as Ordinary Shares purchased by them for the purpose of such undertaking.

FOR A DISCUSSION OF CERTAIN RISK FACTORS WHICH SHOULD BE TAKEN INTO ACCOUNT WHEN CONSIDERING HOLDING AN INVESTMENT IN THE B SHARES, SEE PAGES 6 TO 9 OF THIS DOCUMENT.



Forward-looking statements

This document may contain certain statements about the future outlook for the Group as opposed to those relating to historical or current facts, such as statements concerning the Group's future portfolio and changes in it, development of business strategy, dividends and other distributions to Shareholders, gearing and future performance. The Company believes its expectations are based on reasonable assumptions, but any statements about the future outlook are inherently subject to risks and uncertainties that could cause actual outcomes and results to be materially different from expectations. Such risks and uncertainties include, but are not limited to, those described in Part II ("Risk factors relating to the Company and the B Shares") on pages 6 to 9 of this document.

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Part I. Summary

THE FOLLOWING INFORMATION SHOULD BE READ AS AN INTRODUCTION TO THE PROSPECTUS

Any decision as to whether to invest in B Shares should be based on consideration of this Prospectus as a whole. Where a claim relating to the information contained in the Prospectus is brought before a court, you might, under the national legislation of the European Economic Area member states, have to bear the costs of translating the Prospectus before the legal proceedings are initiated. Civil liability attaches to the Directors and to the Company, who are responsible for this Summary, but only if the Summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus.

1. Introduction

The Company is a quoted private equity investment company, with a focus on buyouts, growth capital and venture capital. Its Buyouts business line invests primarily in European mid-market buyout transactions; its Growth Capital business line invests in growth capital opportunities in Europe, Asia and the US; and its Venture Capital business line invests mainly in Europe and the US.

2. Reasons for and background to the Proposals

The Board believes that the level of gearing at 31 March 2006 of 1%, which was down from 15% a year earlier, does not represent the most efficient use of Shareholders' capital. The Board has considered projected cash outflows and inflows over the medium term in the context of its aim to achieve an average Gearing Ratio across the business cycle of between 30% and 40%. It has also considered the most efficient methods by which a return of cash could be made. The Board has concluded that it is in Shareholders' best interests to make a return of cash of £700 million and to effect this by means of a bonus issue of listed B Shares.

3. Summary of the Proposals

The Proposals comprise, subject to the satisfaction of certain conditions, the issue of B Shares, the Share Capital Consolidation and the B Share Offers.

3.1 B Share issue

B Shares will be issued on the basis of:

one B Share for each Existing Ordinary Share

held at the Record Date.

3.2 Share Capital Consolidation

In order to reflect the return of value represented by the issue of the B Shares, the Existing Ordinary Shares will be consolidated and sub-divided on 17 July 2006 so that Shareholders will receive:

11 Consolidated Ordinary Shares for every 13 Existing Ordinary Shares

that they hold at the Record Date.

3.3 B Share Offers

The general guidance on the UK tax treatment in the following paragraphs is only a summary and is based on current law and practice as at the date of this document. If Shareholders are in any doubt as to their tax position or they are subject to tax in a jurisdiction other than the UK, they should consult an appropriate professional adviser without delay.

The issue of the B Shares is expected to be followed by opportunities for Shareholders to realise the value of their B Shares by participating in certain offers which are expected to be made to purchase those B Shares. Shareholders (other than Excluded Overseas Shareholders) may elect to have all or some of their B Shares purchased under the Initial Purchase Offer, or to hold all or some of their B Shares which they may then elect for purchase later through the Company Offer or the Future Purchase Offers which are expected to be made.

Initial Purchase Offer

Under the Initial Purchase Offer, relevant Shareholders may elect to have all or some of their B Shares purchased by one of the Brokers, acting as principal, on 24 July 2006, at 127 pence per B Share, free of all dealing expenses and commissions.

The payment UK tax resident individual Shareholders will receive pursuant to the Initial Purchase Offer should generally be treated as capital for UK tax purposes.

Company Offer

Under the Company Offer, relevant Shareholders may elect to have all or some of their B Shares purchased by the Company, acting through the agency of Dresdner Kleinwort Wasserstein Securities Limited, on 4 September 2006, at 127 pence per B Share, free of all dealing expenses and commissions.

The payment UK tax resident individual Shareholders will receive pursuant to the Company Offer should generally be treated as income for UK tax purposes.

Future Purchase Offers

Shareholders who elect to retain all or some of their B Shares beyond the Initial Purchase Offer and the Company Offer will be entitled to receive a cumulative preferential dividend (on a notional value of 127 pence per B Share) at a rate per annum of 3.75% paid annually in arrears in respect of the B shares they retain.

It is expected that the Future Purchase Offers will be made by a counterparty acting as principal in both July 2007 and July 2008 at 127 pence per B Share, free of all dealing expenses and commissions, but there can be no certainty that either of the Future Purchase Offers will be made.

Payments received by UK tax resident individual Shareholders pursuant to the Future Purchase Offers should generally be treated as capital for UK tax purposes (subject to changes in applicable UK tax law).

4. Key information

4.1 Summary historical financial information

The financial information set out below has been extracted without material adjustments from the Annual Report and Accounts 2006, the Annual Report and Accounts 2005 and the Annual Report and Accounts 2004. The financial information for the year to 31 March 2005 reported under IFRS is unaudited and is included within the Annual Report and Accounts 2006.

		Reported under IFRS		Reported under UK GAAP	
		Year to/As at 31 March 2006	Year to/As at 31 March 2005 Restated ¹	Year to/As at 31 March 2005	Year to/As at 31 March 2004
Total recognised income and expense for the year/Total return	£m	831	501	512	531
Total return as % of opening shareholders' funds	%	22.5	15.2	15.9	18.1
Net assets	£m	4,006	3,699	3,637	3,395
Diluted NAV per Ordinary Share	pence	739	614	603	553
Dividend per Ordinary Share					
– Interim dividend	pence	5.5	5.3	5.3	5.1
– Special dividend	pence	40.7	–	–	–
– Proposed dividend/Final proposed dividend	pence	9.7	9.3	9.3	8.9
Net borrowings	£m	56	545	526	936
Gearing Ratio	%	1	15	14	28

1. Restated to reflect the adoption of IFRS. These figures are unaudited.

There has been no significant change in the financial or trading position of the Group which has occurred since 31 March 2006, the end of the last financial year for which audited financial information has been published in relation to the Group.

4.2 Unaudited capitalisation and indebtedness statement

The following table shows the indebtedness of the Group as at 31 May 2006 based upon the Group's unaudited financial records (which included the May 2006 management accounts) at this date and its indebtedness and capitalisation at 31 March 2006 based upon the Annual Report and Accounts 2006.

	As at 31 May 2006 (unaudited) £m	As at 31 March 2006 £m
Total current debt		
– Guaranteed	–	–
– Secured	–	–
– Unguaranteed/Unsecured	422	398
– Total current debt	422	398
Total non-current debt		
– Guaranteed	–	–
– Secured ¹	22	24
– Unguaranteed/Unsecured	1,600	1,608
– Total non-current debt	1,622	1,632
Total	2,044	2,030
Cash	70	65
Cash equivalents	746	782
Liquidity	816	847
Current financial receivable	1,344	1,127
Current bank debt	–	–
Current portion of non-current debt	–	–
Other current financial debt	422	398
Current financial debt	422	398
Net current financial surplus	1,738	1,576
Non-current bank loans	148	148
Bonds issued	1,452	1,460
Other non-current loans	22	24
Non-current financial indebtedness	1,622	1,632
Net financial surplus/(indebtedness)	116	(56)
Capitalisation as at 31 March 2006		
Share capital		292
Share premium		376
Other reserves ²		(35)
Total		633

1. Secured borrowings comprise limited recourse funding from Kreditanstalt für Wiederaufbau, a German federal bank. Repayment of the funding, which individually finances investment assets, is dependent upon the disposal of the associated assets.

2. Other reserves includes capital redemption reserve, share based payment reserve and own share reserve.

There has been no material change to the Group's capitalisation since 31 March 2006.

In addition, as at 31 May 2006, the Group had committed undrawn facilities of £488 million.

4.3 Operating and financial review

The Group achieved total returns on opening shareholders' funds of 22.5% in the financial year to 31 March 2006; 15.2% in the financial year to 31 March 2005; and 18.1% in the financial year to 31 March 2004. A significant contributor to the total returns for 2006 and 2005 was the strong level of realised profits achieved on the sale of investments in favourable market conditions for realisations. A significant contributor to the total return for 2004 was the increase in valuations multiples between the start and end of the year. At the respective year-ends, net assets of the Group totalled £4,006 million in 2006, £3,699 million in 2005 and £3,395 million in 2004.

4.4 Listing and Admission

Application will be made for the Consolidated Ordinary Shares and the B Shares to be admitted to the Official List of the UK Listing Authority and to trading on London Stock Exchange plc's market for listed securities. It is expected that Admission will occur and dealings will commence at 8.00 am on 17 July 2006.

4.5 Dividend policy

The Company is prohibited from paying, as dividend, capital profits and surpluses arising from the realisation of investments. Future dividends paid by the Company will reflect the revenue profits arising from dividends, interest, fees and other income earned on the Group's investments and investment management activities and, subject to unforeseen circumstances, the Board's objective will continue to be to distribute a progressive dividend to Shareholders.

4.6 Summary risk factors

The principal risk factors in relation to an investment in the Company are as follows:

- (A) there can be no certainty that the Group's investment objectives will be met and the past performance of investments made by the Group and returns on those investments should not be regarded as an indication of future performance;
- (B) the Group is exposed to market and macroeconomic risks, such as changes in interest rates or foreign exchange rates; and
- (C) changes in law or regulation could have an adverse effect on the Group's results or operations.

The principal risk factors in relation to an investment in the B Shares are as follows:

- (A) there can be no assurance that an active trading market for the B Shares (outside the B Share Offers) will develop or, if developed, be sustained;
- (B) the B Share Offers are not certain to be made;
- (C) the Company can procure the compulsory purchase of the B Shares at any time (in certain circumstances); and
- (D) current UK taxation legislation and practice may change.

5. Directors, auditors and advisers

The Company's Board of Directors comprises the Directors named below:

- Baroness Hogg, Chairman and non-executive Director
- Mr Oliver Henry James Stocken, Deputy Chairman, Senior Independent Director and non-executive Director
- Mr Philip Edward Yea, Chief Executive
- Mr Simon Peter Ball, Finance Director
- Dr Peter Mihatsch, non-executive Director
- Mme Christine Jacqueline Michelle Morin-Postel, non-executive Director
- Mr Michael James Queen, executive Director
- Mr Franklin Daniel Rosenkranz, non-executive Director
- Sir Robert Haldane Smith, non-executive Director
- Mr Fred G Steingraber, non-executive Director

Dr Mihatsch has agreed to become chairman of the advisory board for the Group's business in Germany. As he would then no longer be categorised as an independent non-executive Director, he will be stepping off the Board of the Company at the end of July 2006.

The Company's auditors are Ernst & Young LLP, its joint sponsors in relation to Admission are Merrill Lynch International and Dresdner Kleinwort Wasserstein Limited and its legal advisers as to English law are Slaughter and May.

6. Additional information

6.1 Share capital

Immediately following the issue of the B Shares, the Company's authorised share capital will consist of Consolidated Ordinary Shares, B Shares and Unclassified Shares. The rights attaching to the Consolidated Ordinary Shares will be identical to those attaching to the Existing Ordinary Shares other than in respect of their nominal value. The B Shares will carry the right to a cumulative preferential dividend and an entitlement to a priority payment equal to the Return Amount (plus any accrued but unpaid dividend) from the assets of the Company on a winding up, but will not ordinarily carry voting rights in the Company.

6.2 Memorandum and Articles of Association

The Proposals include an amendment to the Articles of Association of the Company to reflect the rights and restrictions to be attached to the B Shares.

6.3 Major Shareholders and related party transactions

As far as known by the Company by virtue of notifications made to it pursuant to the Companies Act as at 5 July 2006, being the latest practicable date before publication of the Prospectus, the only substantial holders of Existing Ordinary Shares who, directly or indirectly, were interested in 3% or more of the Company's ordinary share capital were:

Name	Percentage Holding %	Number of Existing Ordinary Shares held
Prudential plc and subsidiary companies	5.97	32,893,030
FMR Corp. and Fidelity International Limited and their subsidiaries	3.98	21,960,190
Legal & General Group plc and subsidiaries	3.96	21,844,391

The Group has various related parties stemming from relationships with limited partnerships managed by the Group, its investments and its key management personnel. The Group manages funds on behalf of third parties. These funds invest through a number of limited partnerships. Group companies act as the general partners of these limited partnerships and exert significant influence over them.

6.4 Expenses of the Proposals

The expenses relating to the Proposals are estimated to amount to approximately £6.8 million (excluding VAT) and are payable by the Company.

6.5 Employees

The average number of employees of the Group during each of the last three financial years of the Company was as follows: to 31 March 2006, 733; to 31 March 2005, 763; and to 31 March 2004, 833.

6.6 Key events timetable

Event	Date (2006)
EGM	12 July (at 10.45 am or as soon as possible thereafter upon the conclusion or adjournment of the AGM)
Latest time and date for receipt of Forms of Election	14 July (at 4.30 pm)
Record Date (for entitlement to B Shares and Consolidated Ordinary Shares)	14 July (at 6.00 pm)
Delisting of Existing Ordinary Shares and Admission (of B Shares and Consolidated Ordinary Shares)	17 July (at 8.00 am)
Initial Purchase Offer	24 July (at 8.00 am)
Company Offer	4 September (at 8.00 am)

References to time are to UK time. Dates given above are only expectations and are subject to change.

6.7 Documents on display

The Memorandum and Articles of Association of the Company (including the Memorandum and Articles of Association of the Company as proposed to be amended pursuant to the Proposals), the Annual Report and Accounts 2006, the Annual Report and Accounts 2005 and the Annual Report and Accounts 2004 will be available for inspection at the Company's registered office at 16 Palace Street, London SW1E 5JD for twelve months from the date of this document.

Part II. Risk factors relating to the Company and the B Shares

A. Risk factors relating to the Company

There are risks and uncertainties inherent in the Group's business. In addition to the other information contained in this document, prospective investors in the B Shares should consider carefully the specific risk factors set out below before making a decision in relation to the B Shares. Whilst this Part discloses all of the material risks known to the Directors, additional risks and uncertainties not presently known to the Directors or currently considered to be immaterial could significantly affect the Group's business, its returns and financial position. The trading price of the B Shares could decline or the Company could be unable to fulfil its obligations in respect of the B Shares, owing to any of these risks and investors could lose part or all of their investment. **Prospective investors should consider carefully the B Shares in light of the information in this document and the financial resources available to them.**

1. External risks

External risks arise from political, legal, regulatory and economic factors, changes in policy or the competitive environment, or other external factors, any of which could have a negative impact on the Group's operating environment.

1.1 New and emerging markets

Part of the Group's investment strategy is to invest in new and emerging markets in which the legal and regulatory frameworks and capital markets may be less developed than in the other main geographical markets in which the Group operates. Unexpected changes in such new or emerging markets could have a negative impact on the value of existing investments or on the planned levels of investment, which could adversely affect investment returns.

1.2 Government policy and regulation

The Company is an investment company as defined by section 266 of the Companies Act and carries on business as an investment trust. HM Revenue & Customs has approved the Company as an investment trust under section 842 of the Income and Corporation Taxes Act 1988 for the financial year to 31 March 2005. Continuation of this approval is subject to the Company directing its affairs in line with the relevant requirements of the legislation. A change in government policy and/or related tax treatment of investment trusts or failure to satisfy the conditions of section 842 could impact the Group's business, results of operations or financial position.

Similar risks may exist in certain other jurisdictions in which the Group operates. Changes in local taxation legislation or practice could affect the expected tax position of the Group and have a negative impact on its operations.

3i Investments plc, a wholly owned subsidiary of the Company, is an authorised person under the Financial Services and Markets Act 2000 and is regulated by the FSA in the United Kingdom. Where applicable, certain of the Group's businesses outside the United Kingdom are regulated locally by relevant authorities. Changes or extensions to the regulatory frameworks under which the Group operates or a breach of applicable regulations may adversely affect the Group's compliance costs, its business, results of operations or financial position.

1.3 Market and macroeconomic conditions

The performance of the Group and its underlying investment portfolio is sensitive to changes in a number of key economic parameters. A significant slow-down in economic growth and/or change in interest rates or foreign exchange rates in one or more of the key markets in which the Group operates could have a negative impact on the performance of the Group or the valuation of its investment portfolio. Changes in commodity or energy prices could have a similar impact.

The Group seeks to reduce structural currency exposures by matching assets denominated in foreign currencies with similarly denominated financial liabilities including, where applicable, by the use of derivative instruments. Unexpected movements in the currency markets could impact the Group if assets and liabilities are unmatched and could also affect the performance of investment portfolio companies and, therefore, their valuation.

The Group is dependent upon the general health of capital markets and the economy to provide favourable exit conditions for the realisation of investments. For example, a deterioration in market conditions for initial public offerings, a decline in mergers and acquisitions activity or in the number of active trade or other private equity buyers, or lack of availability of well-priced debt finance, could have a negative impact on the Group's ability to realise investments, or on the levels of profitability achieved.

The Group operates in a competitive market. An increase in the number of market participants, the availability of funds within the market or the pricing of assets, or restrictions upon the ability to access deals on a proprietary basis could have a significant adverse effect on the Group's competitive position in the market and on the sustainability of returns.

2. Strategic risks

Strategic risks relate to the analysis, design and implementation of the Group's business model, and key decisions on investment levels and capital allocations.

The Group's strategy and business model are based on an analysis of and assumptions regarding its operating environment. This includes market evaluations and the identification and assessment of external and internal risk factors. Significant unexpected changes or outcomes, beyond those factored into the Group's strategy and business model, may occur which could have an adverse impact on the Group's performance or financial position.

3. Investment risks

These are risks in respect of specific investment decisions, the subsequent performance of an investment or exposure concentrations across business line portfolios.

3.1 Investment decisions

The ability of the Group to source and execute good quality investments in a competitive market is dependent upon a range of factors. The most important of these include: (i) the ability to attract and develop people with the requisite investment experience and cultural fit; (ii) organisation of teams whose structure is adapted to their relevant markets and whose compensation is results-oriented; and (iii) effective application of collective knowledge and relationships to each investment opportunity. Failure to address or manage one or more of these factors could adversely affect the Group's business, results of operations or financial position.

3.2 Investment performance

The performance of the Group's portfolio investments is dependent upon a range of factors. These include, but are not limited to: (i) the quality of the initial investment decision described above; (ii) the ability of the portfolio company to execute successfully its business strategy; and (iii) actual outcomes against the key assumptions underlying the portfolio company's financial projections. The outcome of one or more of these factors could have a negative impact on the valuation of a portfolio company and upon the Group's ability to make a profitable realisation of the investment within the desired timeframe.

3.3 Investment concentration

The Group invests across a range of economic sectors and geographies. Over-exposure to a particular sector or geography could increase the negative impact of adverse changes in macroeconomic or market conditions on the Group. An increase in the average size of investments over time could also increase the exposure of the Group to the performance of a small number of larger investments, albeit in different sectors and/or geographies.

3.4 Investment valuations and realisation opportunities

The valuation of the Group's quoted and unquoted portfolios and opportunities for realisation depend to some extent on stock market conditions and the buoyancy of the wider mergers and acquisitions market. A deterioration in market or macroeconomic conditions, as described earlier, could adversely impact the valuation of portfolio assets and the ability to realise those investments profitably within the desired timeframe. In addition to this, the Group's ability to realise certain assets in whole or in part may be subject to contractual restrictions such as shareholder lock-up arrangements.

4. Treasury and funding risks

These are risks relating to: (i) uncertainty in financial market prices and rates; (ii) an inability for the Group to raise adequate funds to meet investment needs or meet obligations as they fall due; or (iii) inappropriate capital structure.

The Group's funding objective is that each category of investment asset is broadly matched with liabilities and shareholders' funds according to the risk and maturity characteristics of the assets and that funding needs are met ahead of planned investment.

4.1 Credit risk

The Group's financial assets are predominantly unsecured investments in unquoted companies, in which the Group considers the maximum credit risk to be the carrying value of the asset. An increase in concentration of the portfolio in a particular sector or geography could increase credit risk. Likewise large or unexpected changes in interest rates could increase credit risk, particularly in cases where portfolio investment companies are highly leveraged.

4.2 Liquidity risk

The Group invests from its own balance sheet using cash generated from its investing activities. The Group also has available to it undrawn committed facilities. In addition to funding from its own balance sheet, the Group periodically raises third party funds. The Group uses these funds to co-invest in certain transactions. Unexpected changes in the levels of investment activities and/or realisations or in interest rates could adversely impact the Group's ability to exploit opportunities to make new investments of the frequency and magnitude it has to date. A significant shortfall in third party funds would require possible alternative financing structures to enable the Group to continue to invest in accordance with its plans. Such structures could entail higher costs and/or operational complexity and could impact the Group's ability to take advantage of future investment opportunities.

4.3 Price risk

The valuation of both quoted and unquoted investments depends upon a combination of market factors and the performance of the underlying asset. The Group does not generally hedge the market risk inherent in the portfolio but manages asset performance risk on an asset specific basis. Adverse market change, for example in interest rates, or a deterioration in the performance of portfolio assets could have a negative impact on the valuation of the Group's investment portfolio.

4.4 Foreign exchange risk

The Group reports in sterling and the Company pays dividends from its sterling profits. The Group seeks to reduce structural currency exposures by matching assets denominated in foreign currency with borrowings in the same currency. The Group makes some use of derivative financial instruments to effect foreign exchange management. Failure to manage structural currency exposures, for example through mismatching of assets or inappropriate use of derivative financial instruments, could have an adverse impact on the Group's performance.

4.5 Interest rate risk

The Group has a mixture of fixed and floating rate assets. The assets are funded with a mixture of shareholders' funds and borrowings according to the risk characteristics of the assets. The Group seeks to minimise interest rate exposure by matching the type and maturity of the borrowings to those of the corresponding assets. Some derivative financial instruments are used to achieve this objective. A failure to match borrowings by type or maturity or the failure or inappropriate use of derivative financial instruments for the purpose of hedging could have an adverse impact on the Group's business, results of operations or financial condition.

5. Operational risks

Operational risks can arise from inadequate or failed processes, people and systems or from external factors affecting these. These include operational events such as human resources risks, legal and regulatory risks, information technology systems problems, business disruption and shortcomings in internal controls.

5.1 People

The ability to recruit, develop, train and retain capable people is of fundamental importance to achieving the Group's strategy. The Group operates in a competitive industry and aims to remunerate staff in line with market practice and to provide development opportunities. Failure to put in place appropriate reward and remuneration systems or the unexpected loss of key investors or senior management could have an adverse impact on the performance of the Group.

5.2 Business systems, processes and procedures

The Group's information technology and treasury systems, as well as its business processes and procedures, may not perform as expected, which may adversely affect operational, and potentially business, performance. This includes the ability to recover from unanticipated disruption to the business.

5.3 Legal and regulatory requirements

The Group operates a complex structure to conform with applicable legal and regulatory requirements across multiple jurisdictions. This requires appropriate internal processes and procedures to be developed and followed, supported by professional teams with appropriate skills. Failure to follow required procedures could result in a regulatory breach or have legal consequences for the Group. This may adversely affect the Group's compliance costs, its business, results of operations or financial condition.



B. Risk factors relating to the B Shares

1. Value of the B Shares

The value of the B Shares may go down as well as up and there can be no guarantee of the income to be derived from them. The ability of the Company to pay dividends on the B Shares will depend on the Company having sufficient reserves available for distribution by way of dividend (which cannot be created by realisations of investments) and the relevant cash resources. Whilst the Company expects dividends on the B Shares to be paid, there can be no certainty that the Company will always be able to do so on the applicable payment dates.

2. Liquidity of the B Shares

If the Proposals are implemented, the B Shares will be admitted to the Official List and to trading on London Stock Exchange plc's market for listed securities. However, there can be no assurance that an active trading market for the B Shares (outside the B Share Offers) will develop or, if developed, be sustained.

If the percentage of B Shares in public hands falls below 25% (or such lower percentage as may be permitted by the FSA) the admission of the B Shares to the Official List and to trading on London Stock Exchange plc's market for listed securities may be suspended or cancelled.

The Future Purchase Offers will be dependent, among other things, on the Company being granted authority to repurchase the B Shares by Shareholders in general meeting, in accordance with the Companies Act, and on the Company having sufficient cash resources and reserves available for distribution to Shareholders in order to make such purchases.

Whilst the Company expects the Future Purchase Offers to be made, there can be no certainty that such offers will be forthcoming or that the Company will be able to implement them.

3. Rights and restrictions attached to the B Shares

The Company will have the power pursuant to the rights attached to the B Shares to appoint a person to execute a transfer of outstanding B Shares in acceptance on their holders' behalf of an offer made for the B Shares on or after 14 July 2009.

The compulsory sale of the B Shares may be procured before 14 July 2009 in circumstances where the Company no longer meets some or all of the criteria for listing of the B Shares under the Listing Rules of the UK Listing Authority.

4. Taxation

The general guide on United Kingdom taxation in relation to the Proposals set out in Part VII (United Kingdom taxation in relation to the Proposals) of this document is based on current UK tax law and HM Revenue & Customs practice at the date of this document. The current legislation and practice may change and any such changes may affect the taxation liabilities of Shareholders in relation to the B Shares.

Part III. Expected timetable of events

10 July 2006 at 10.30 am	Latest time and date for receipt of AGM proxy forms
10 July 2006 at 10.45 am	Latest time and date for receipt of EGM proxy forms
12 July 2006 at 10.30 am	AGM
12 July 2006 at 10.45 am or as soon as possible thereafter upon the conclusion or adjournment of the AGM	EGM
14 July 2006 at 4.30 pm	Latest time and date for dealings in Existing Ordinary Shares and latest time and date for receipt of Forms of Election
14 July 2006 at 6.00 pm	Record Date (for consolidation of Existing Ordinary Shares and entitlement to B Shares), Existing Ordinary Share register closed and Existing Ordinary Shares disabled in CREST
17 July 2006 at 8.00 am	Issue of B Shares, Admission of B Shares and of Consolidated Ordinary Shares and commencement of dealings in B Shares and in Consolidated Ordinary Shares
17 July 2006	Announcement of number of B Shares issued
21 July 2006	Final Existing Ordinary Share dividend payment date
21 July 2006 at 4.30 pm	Latest time and date for withdrawal/amendment of submitted Forms of Election and for settlement of CREST instructions in relation to the Initial Purchase Offer
21 July 2006 at 6.00 pm	B Share Record Date (for participation in the Initial Purchase Offer)
24 July 2006 at 8.00 am	Initial Purchase Offer completed by RIS announcement
27 July 2006	Settlement of purchases pursuant to the Initial Purchase Offer by crediting of CREST accounts/issue of cheques for proceeds Share certificates for Consolidated Ordinary Shares and cheques in respect of fractional entitlements to Consolidated Ordinary Shares posted to Certificated Shareholders Amounts in respect of fractional entitlements to Consolidated Ordinary Shares credited to CREST accounts Share certificates and Second Forms of Election in respect of B Shares elected to be retained after the Initial Purchase Offer posted to Certificated Shareholders
1 September 2006 at 4.30 pm	Latest time and date for receipt of Second Forms of Election and for settlement of CREST instructions in relation to the Company Offer
1 September 2006 at 6.00 pm	Record date for participation in the Company Offer
4 September 2006 at 8.00 am	Company Offer completed by RIS announcement
11 September 2006	Settlement of purchases pursuant to the Company Offer by submission of payments by BACS/issue of cheques for proceeds
July 2007	Future Purchase Offer expected to be made
July 2008	Future Purchase Offer expected to be made

Notes:

1. References to times in this document are to UK time.
2. If any of the above times or dates should change, the revised times and/or dates will be notified to Shareholders by RIS.
3. All events in the above timetable after the EGM on 12 July 2006 (other than payment of the final dividend on the Existing Ordinary Shares) are conditional upon, amongst other things, the passing of the Resolution.

Part IV. Definitions

“3i” or the “Company”	3i Group plc;
“3i Group” or the “Group”	the Company and its subsidiaries;
“Admission”	the admission of the Consolidated Ordinary Shares and the B Shares to the Official List and to trading on London Stock Exchange plc’s market for listed securities becoming effective;
“AGM”	the Annual General Meeting of the Company convened for 10.30 am on 12 July 2006;
“Annual Report and Accounts 2004”	the audited annual report and accounts for the Group for the financial year to 31 March 2004;
“Annual Report and Accounts 2005”	the audited annual report and accounts for the Group for the financial year to 31 March 2005;
“Annual Report and Accounts 2006”	the audited annual report and accounts for the Group for the financial year to 31 March 2006;
“Audit and Compliance Committee”	the audit and compliance committee of the Board described in paragraph 7 of Part VIII (Additional information relating to the Company) of this document;
“B Shares”	the cumulative preference shares of one penny each in the capital of the Company to be created by the approval of the Resolution at the EGM;
“B Share Offers”	the Initial Purchase Offer, the Company Offer and the Future Purchase Offers;
“B Share Record Date”	6.00 pm on 21 July 2006 (or such other time and date as the Directors may determine);
“BACS”	the Bankers Automated Clearing System;
“Board” or “Directors”	the Board of Directors of the Company;
“Brokers”	Dresdner Kleinwort Wasserstein Securities Limited and Merrill Lynch International;
“BVCA”	British Venture Capital Association;
“Certificated Shareholders”	Shareholders holding their Ordinary Shares or B Shares in certificated form;
“City Code”	the City Code on Takeovers and Mergers;
“Circular”	the circular dated 15 June 2006 convening the EGM;
“Companies Act”	the UK Companies Act 1985 (as amended);
“Company Offer”	the offer by which the Company, acting through its agent Dresdner Kleinwort Wasserstein Securities Limited, is expected to purchase B Shares on 4 September 2006;
“Consolidated Ordinary Shares”	the new ordinary shares of 62 ⁶⁹ / ₁₀₀ pence each in the capital of the Company to be created by the approval of the Resolution at the EGM;
“CREST”	the relevant system (as defined in the Uncertificated Securities Regulations 2001) in respect of which CRESTCo is the Operator (as defined in those regulations);
“CRESTCo”	CRESTCo Limited, the operator of CREST, whose registered office is 33 Cannon Street, London EC4M 5SB;
“Diluted NAV per Ordinary Share”	the net asset value attributable to each Ordinary Share on the assumption that rights which the Company has granted and which may dilute the net asset value attributable to each Ordinary Share in future have been fully exercised. Such rights may be in respect of instruments convertible into Ordinary Shares or options or warrants to subscribe for Ordinary Shares;
“EBIT”	earnings before interest and tax;
“EGM”	the Extraordinary General Meeting of the Company convened in connection with the Proposals for 10.45 am on 12 July 2006 (or as soon as possible thereafter after the closing or adjournment of the AGM);
“EVCA”	the European Private Equity and Venture Capital Association;
“Excluded Overseas Shareholders”	Shareholders who are resident in, or citizens or nationals of, the Prohibited Territories, or Shareholders who are nominees, trustees or custodians for such residents, citizens or nationals;
“Existing Ordinary Shares”	the existing ordinary shares of 53 ¹ / ₈ pence each in the capital of the Company;
“Form of Election”	the form of election issued with the Circular;
“FSA”	the Financial Services Authority;

"Future Purchase Offers"	the offers by which a counterparty acting as principal is presently expected to purchase B Shares in both July 2007 and July 2008;
"Gearing Ratio"	the amount, expressed as a percentage, of the Group's consolidated net borrowings divided by its consolidated shareholders' funds;
"IFRS"	International Financial Reporting Standards as applied in the UK;
"Initial Purchase Offer"	the offer by which the Brokers acting as principals are expected to purchase B Shares on 24 July 2006;
"Investment Committee"	a committee of executive Directors and certain senior investment executives which takes investment decisions in relation to certain investments made by the Group;
"ISIN"	International Securities Identification Number;
"Listing Rules"	the listing rules made by the FSA for the purposes of Part VI of the Financial Services and Markets Act 2000, as amended from time to time;
"Management Committee"	a committee which comprises the executive Directors and certain other senior executives formed by the Chief Executive to enable him to carry out the responsibilities delegated to him by the Board;
"Nominations Committee"	the nominations committee of the Board described in paragraph 7 of Part VIII (Additional information relating to the Company) of this document;
"Official List"	the official list maintained by the FSA for the purposes of Part VI of the Financial Services and Markets Act 2000, as amended from time to time;
"Ordinary Shares"	Existing Ordinary Shares or Consolidated Ordinary Shares, as the context may require;
"Prohibited Territories"	Australia, Canada, Japan and the United States of America;
"Proposals"	the issue of the B Shares, the Share Capital Consolidation and the B Share Offers;
"Prospectus"	has the meaning given on the front cover of this document;
"Prospectus Rules"	the prospectus rules made by the FSA under Part VI of the Financial Services and Markets Act 2000;
"Record Date"	6.00 pm on 14 July 2006 (or such other time or date as the Directors may determine);
"Remuneration Committee"	the remuneration committee of the Board described in paragraph 7 of Part VIII (Additional information relating to the Company) of this document;
"Resolution"	the special resolution contained in the notice of the EGM in Part IX of the Circular;
"Return Amount"	127 pence per B Share;
"RIS"	a Regulatory Information Service which is approved by the FSA as meeting the Primary Information Provider criteria and which is on the list of Regulatory Information Services approved by the FSA;
"RPI"	the Retail Prices Index as published by the Office of National Statistics;
"Second Form of Election"	the form of election to be posted to Certificated Shareholders who elect to retain all or some of their B Shares after the Initial Purchase Offer;
"Share Capital Consolidation"	the consolidation of the Existing Ordinary Shares into the Consolidated Ordinary Shares;
"Share Schemes"	The 3i Group 1994 Executive Share Option Plan, The 3i Group Discretionary Share Plan, The 3i Group Management Equity Investment Plan, The 3i Group Sharesave Scheme, The 3i Group Share Incentive Plan and The 3i Group Deferred Bonus Plan;
"Shareholders"	holders of Ordinary Shares or B Shares, as the context may require;
"SMI"	the Group's Smaller Minority Investments portfolio, comprising some of the Group's older investments;
"UK GAAP"	UK Generally Accepted Accounting Principles;
"Uncertificated Shareholders"	Shareholders other than Certificated Shareholders;
"Unclassified Shares"	unclassified shares of 10 pence each in the capital of the Company;
"United Kingdom" or "UK"	the United Kingdom of Great Britain and Northern Ireland;
"US"	the United States of America;
"US Shareholders"	Shareholders who are resident in, or citizens or nationals of, the United States of America or Shareholders who are nominees, trustees or custodians for such residents, citizens or nationals; and
"Valuations Committee"	a committee of the Board comprising non-executive and executive Directors which makes recommendations to the Board on valuations of the Group's investments to be included in the interim and annual financial statements of the Group and reviews valuation policy and methodology.

Part V. Information relating to the Company and the Proposals

1. Directors, Company Secretary and advisers of the Company

Directors

Baroness Hogg	Chairman and non-executive Director
Mr Oliver Henry James Stocken	Deputy Chairman, Senior Independent Director and non-executive Director
Mr Philip Edward Yea	Chief Executive
Mr Simon Peter Ball	Finance Director
Dr Peter Mihatsch	Non-executive Director
Mme Christine Jacqueline Michelle Morin-Postel	Non-executive Director
Mr Michael James Queen	Executive Director
Mr Franklin Daniel Rosenkranz	Non-executive Director
Sir Robert Haldane Smith	Non-executive Director
Mr Fred G Steingraber	Non-executive Director

all of 16 Palace Street, London SW1E 5JD. Dr Mihatsch has agreed to become chairman of the advisory board for the Group's business in Germany. As he would then no longer be categorised as an independent non-executive Director, he will be stepping off the Board of the Company at the end of July 2006.

Company Secretary

Mr Anthony William Wallace Brierley
16 Palace Street,
London SW1E 5JD

Registered and head office

16 Palace Street,
London SW1E 5JD
(Tel: +44 (0)20 7928 3131)

Joint sponsors

Merrill Lynch International
Merrill Lynch Financial Centre
2 King Edward Street
London EC1A 1HQ

Legal advisers to the Company on English law

Slaughter and May
One Bunhill Row
London EC1Y 8YY

Dresdner Kleinwort Wasserstein Limited

30 Gresham Street
London EC2V 7PG

Legal advisers to joint sponsors

Linklaters
One Silk Street
London EC2Y 8HQ

Auditors and reporting accountants

Ernst & Young LLP
1 More London Place
London SE1 2AF

Registrars

Lloyds TSB Registrars
The Causeway, Worthing
West Sussex BN99 6DA

2. Background to the Proposals

In the preliminary announcement of the results for the Group for the financial year to 31 March 2006 the Board reported that the Company proposed to return £700 million to Shareholders by means of a bonus issue of listed B Shares.

The Board is committed to creating further value for Shareholders by generating returns on investments consistent with the Group's published return targets, maintaining an effective organisation and cost structure and managing capital efficiently, so as to optimise the return for Shareholders whilst maintaining prudent financial ratios. In this context, the Board's current aim is to manage the Group's capital structure to achieve an average Gearing Ratio across the business cycle of between 30% and 40%. This range reflects the Board's view of the level of risk in the Group's investment portfolio and is based on currently anticipated costs of borrowing.

Last July, Shareholders approved a return of cash to Shareholders of up to £500 million, to be effected through a combination of a special dividend of 40.7 pence per ordinary share of 50 pence each and a programme of market purchases of shares. An aggregate of £467 million has been returned to Shareholders through these routes. In addition, ordinary dividends totalling £86 million were paid to Shareholders during the financial year just ended. Despite these cash outflows, the Group's Gearing Ratio at 31 March 2006 was 1%, down from 15% a year earlier, primarily as a result of the exceptional levels of cash generated through the realisation of investments in portfolio companies.

The Board believes that this low level of gearing does not represent the most efficient use of Shareholders' capital at this time and, having taken into account projected cash outflows and inflows over the medium term, has concluded that it is in Shareholders' best interests to make a further return of cash of £700 million.

The Board is of the opinion that increasing the Group's gearing would, other things being equal, result in an increase in the Group's return on equity across the business cycle and would be in the best interests of Shareholders generally.

The Board believes the Proposals represent the most efficient and effective way to execute a return of cash of £700 million to Shareholders. The Proposals have also been designed with the objective of giving UK tax resident individual Shareholders, where possible, the flexibility to receive their return as capital or income for tax purposes, or a combination of the two. In addition, the Proposals enable the Company to utilise capital reserves and hence allow the Company to retain its revenue reserves for the payment of future dividends.

The Company will source the funds required to effect the Proposals from its reserves of cash, other liquid resources and borrowings under existing committed facilities.

3. The Proposals

3.1 Issue of B Shares

It is proposed to capitalise a sum not exceeding £6.1 million standing to the credit of the Company's share premium account which will be applied in paying up in full up to 610,000,000 B Shares of a nominal value of one penny each.

B Shares will be issued on the basis of:

one B Share for each Existing Ordinary Share

held at the Record Date. No B Shares will be issued other than to Shareholders at that time.

The B Shares will carry the right to a cumulative dividend in priority to that on the Consolidated Ordinary Shares, a capital entitlement on a winding up in priority to that of the Consolidated Ordinary Shares and will have very limited voting rights as more fully set out in Part IX (Rights and restrictions attached to the B Shares) of this document.

Certificated Shareholders will receive their B Shares in certificated form. The Company will also apply for the B Shares to be admitted to CREST with effect from Admission so that holders of Existing Ordinary Shares whose holdings are registered in CREST will automatically have their B Shares credited to their CREST accounts and general market transactions in the B Shares may be settled within the CREST system.

Application will be made for the B Shares to be admitted to the Official List and to trading on London Stock Exchange plc's market for listed securities, with dealings expected to commence on 17 July 2006. No B Shares will be in issue, and no dealings in B Shares will be possible, before that date.

In order to facilitate the elections for the B Share Offers, the B Shares will, for the purposes of settlement in CREST only, be designated as "interim B Shares" under the ISIN GB00B16PPH76/SEDOL B16PPH7 for the period from Admission (17 July 2006) until the Initial Purchase Offer is expected to be completed (24 July 2006). From 24 July 2006, the B Shares will, for the purposes of dealings and settlement in CREST, be designated as "B Shares" and will be quoted in the Official List under the ISIN GB00B16PRC61/SEDOL B16PRC6

An announcement will be made on 17 July 2006 in respect of the number of B Shares that have been issued.

3.2 Share Capital Consolidation

In order to reflect the return of value represented by the allotment of the B Shares, the Existing Ordinary Shares will be consolidated and subdivided on 17 July 2006 so that Shareholders will receive:

11 Consolidated Ordinary Shares for every 13 Existing Ordinary Shares

that they hold at the Record Date and pro rata for other numbers of Existing Ordinary Shares.

The intention of the Share Capital Consolidation is that, subject to market movements, the share price of one Consolidated Ordinary Share immediately after Admission should be approximately equal to the share price of one Existing Ordinary Share beforehand. Other Company data (such as earnings and dividends per share) should also be comparable before and after the Share Capital Consolidation. The Share Capital Consolidation is also intended to maintain a neutral position for those holders of options and awards under the Share Schemes who do not receive B Shares in respect of any entitlement under the Share Schemes.

The Share Capital Consolidation will take place immediately after the issue of the B Shares.

Consolidated Ordinary Shares will be traded on London Stock Exchange plc's market for listed securities in the same way as Existing Ordinary Shares and will be equivalent to the Existing Ordinary Shares, including in respect of their dividend, voting and other rights, other than in respect of their nominal value.

Share certificates for Consolidated Ordinary Shares held by Certificated Shareholders are expected to be issued on or around 27 July 2006, after the Share Capital Consolidation.

The Company will apply for the Consolidated Ordinary Shares to be admitted to CREST with effect from Admission so that holders of Existing Ordinary Shares whose holdings are registered in CREST will automatically have Consolidated Ordinary Shares to which they are entitled credited to their CREST accounts and general market transactions in the Consolidated Ordinary Shares may be settled within the CREST system.

Application will be made for the Consolidated Ordinary Shares to be admitted to the Official List and to trading on London Stock Exchange plc's market for listed securities, with dealings expected to commence at 8.00 am on 17 July 2006.

Shareholders whose holdings of Existing Ordinary Shares are not exactly divisible by 13 on the Record Date will receive cash in respect of fractional entitlements of Consolidated Ordinary Shares following the Share Capital Consolidation. Shareholders who only hold one Existing Ordinary Share will only receive cash. All fractional entitlements will be aggregated and are expected to be sold in the market on 17 July 2006. Cheques in respect of the proceeds of sale of fractional entitlements attributable to holdings of certificated Existing Ordinary Shares are expected to be dispatched on 27 July 2006 and amounts in respect of the proceeds of sale of fractional entitlements attributable to holdings of Existing Ordinary Shares of Uncertificated Shareholders are expected to be credited to CREST accounts by the same date.

3.3 B Share Offers

The issue of the B Shares is expected to be followed by opportunities for Shareholders to realise the value of their B Shares by participating in certain offers which are expected to be made to purchase those B Shares.

Shareholders (other than Excluded Overseas Shareholders) may elect to have all or some of their B Shares purchased under the Initial Purchase Offer, or to hold all or some of their B Shares which they may then elect for purchase later through the Company Offer or either of the Future Purchase Offers which are expected to be made.

(A) Initial Purchase Offer

Under the Initial Purchase Offer, relevant Shareholders may elect to have all or some of their B Shares purchased by one of the Brokers, acting as principal, on 24 July 2006, at 127 pence per B Share, free of all dealing expenses and commissions.

No contract with Shareholders will exist in relation to the Initial Purchase Offer until the RIS announcement in respect of it is issued, which is expected to occur at 8.00 am on 24 July 2006.

Shareholders should read carefully Part VII (United Kingdom taxation in relation to the Proposals) of this document before deciding whether to elect for the Initial Purchase Offer.

It is expected that Shareholders whose B Shares are purchased under the Initial Purchase Offer will be sent cheques and sales advices, or CREST accounts will be credited with the proceeds, in respect of such purchases on or around 27 July 2006. No share certificates will be issued in respect of B Shares which are purchased under the Initial Purchase Offer.

(B) Company Offer

Under the Company Offer, relevant Shareholders may elect to have all or some of their B Shares purchased by the Company, acting through the agency of Dresdner Kleinwort Wasserstein Securities Limited, on 4 September 2006, at 127 pence per B Share, free of all dealing expenses and commissions.

No contract with Shareholders will exist in relation to the Company Offer until the RIS announcement in respect of it is issued, which is expected to occur at 8.00 am on 4 September 2006.

It is expected that cheques for the proceeds will be sent to these Shareholders, or payment by BACS to mandated accounts will be made, on or around 11 September 2006.

Shareholders should read carefully Part VII (United Kingdom taxation in relation to the Proposals) of this document before deciding whether to elect to participate in the Company Offer.

(C) Future Purchase Offers

Shareholders who elect to retain all or some of their B Shares beyond the Initial Purchase Offer and the Company Offer will be entitled to receive a cumulative preferential dividend (on a notional value of 127 pence per B Share) at a rate per annum of 3.75% paid annually in arrears in respect of the B Shares they retain.

Shareholders should read carefully Part VII (United Kingdom taxation in relation to the Proposals) of this document before deciding whether to elect to retain B Shares (including so as to be eligible to participate in either of the Future Purchase Offers, if made).

It is expected that the Future Purchase Offers will be made by a counterparty acting as principal in both July 2007 and July 2008 at 127 pence per B Share, free of all dealing expenses and commissions, but there can be no certainty that either of the Future Purchase Offers will be made.

The Company intends to fix the record date for payment of any dividend in respect of the B Shares in each year in advance of the effective date of any Future Purchase Offer made in that year.

Shareholders who elect to retain any of their B Shares beyond the Initial Purchase Offer and the Company Offer will not be required to participate in either of the Future Purchase Offers, if made, but the Company will have the right to effect the compulsory sale of any B Shares on or after 14 July 2009 (amongst other circumstances). Shareholders should read carefully Part IX (Rights and restrictions attached to the B Shares) of this document in relation to the circumstances when the Company has such a right.

Whilst the Company expects the Future Purchase Offers to be made, there can be no certainty that such offers will be made.

There can be no assurance that an active market for B Shares outside the Future Purchase Offers, if made, will develop or be sustained.

4. Conditions to the Proposals

The Proposals are conditional upon (among other things):

- (i) the approval by Shareholders of the Resolution; and
- (ii) Admission.

If these conditions are not satisfied by 8.00 am on 17 July 2006 or such later time and/or date as the Directors may determine, no Consolidated Ordinary Shares or B Shares will be created and the Proposals will not take effect.

5. Expenses of the Proposals

The expenses relating to the Proposals are estimated to amount to approximately £6.8 million (excluding VAT) and are payable by the Company. This figure includes £3.5 million in respect of stamp duty.

6. Group investment objective and policy

The Group's investment objective is to achieve growth in the value of its net assets (prior to returns to Shareholders) and to distribute a progressive dividend to Shareholders.

The Group invests primarily in private equity opportunities, with a focus on buyouts, growth capital and venture capital.

Within the Buyouts business line, the Group invests primarily in European mid-market buyout transactions with enterprise values of up to around €1 billion and targets around 15 investments per year. Generally, these investments are in businesses with development potential where the Group can work with an incentivised management team to grow value through operational improvements and by exploiting market opportunities. Generally, these businesses are sold by large corporates disposing of non-core activities, private groups with succession issues or other private equity investors. Typically, such investments involve the Group investing together with co-investment funds managed by the Group.

Within the Growth Capital business line, the Group targets investments of between €10 million and €150 million, across a broad range of sectors, business sizes and funding needs. The Group aims to invest in between 20 and 30 such transactions per year. Growth capital investments typically involve the Group acquiring substantial minority stakes in privately-owned businesses at key points of change. Geographically, the Group targets investment in growth capital opportunities in Europe, Asia and the US. The Growth Capital business line also includes the Group's infrastructure investment activity.

Within the Venture Capital business line, the Group is focused on early and late stage technology investing and targets investments of between €2 million and €50 million. The four main sub-sectors on which the Group focuses are: healthcare; communications; software; and electronics, semiconductors and advanced technologies. Geographically, the main focus is on Europe and the US.

The Group has published internal rate of return targets in the Annual Report and Accounts 2006 for each of its three main business lines as follows: Buyouts, 20% per annum (with "cycle volatility" of +/-5% and "vintage year volatility" of +/-10%); Growth Capital, 20% per annum (with "cycle volatility" of +/-3 per cent and "vintage year volatility" of +/-7%); and Venture Capital, 25% per annum (with "cycle volatility" of +/-7% and "vintage year volatility" of +/-15%). These targets are specified as across-the-cycle mid-point target returns for the pool of new investments made within a financial year (any subsequent amounts invested into a portfolio company are allocated to the year of first investment in that portfolio company).

There are no statutory restrictions on the approaches, techniques and instruments that may be used in the management of the Group's portfolio, provided always that, in order for the Company to continue to meet the present criteria for approval as an investment trust, its income must consist wholly or mainly of income deriving from shares or securities for the purposes of section 842(1)(a) of the Income and Corporation Taxes Act 1988.

Under the Listing Rules, the Company is only permitted to make a material change to its investment policies with the approval of Shareholders.

7. Profile of typical investor for whom the Company is designed

Investment in the Company has not been designed for the purposes of any single type of investor, but rather to accommodate the purposes of a broad spectrum of investors, including both institutional and retail investors, and both sophisticated investors and less sophisticated investors, in each case with or without the benefit of professional advice.

A common factor among such investors in respect of which investment in the Company is designed is a shared objective facilitated by the Company of obtaining a relatively liquid exposure to private equity investment across a range of geographies, sectors and investment types.

8. Portfolio

The value of the Group's investment portfolio at 31 March 2006 was £4,139 million. There was a reduction in portfolio value between 31 March 2005 and 31 March 2006 of £178 million, with the high level of realisations in that period exceeding new investment levels.

The portfolio value by business line as at 31 March 2006 was:

Business Line	Portfolio value £m	Percentage %
Buyouts	1,465	35.4
Growth Capital	1,284	31.0
Venture Capital	826	20.0
SMI	564	13.6
Total	4,139	100.0

The portfolio value by geography as at 31 March 2006 was:

Region	Portfolio value £m	Percentage %
UK	1,740	42.0
Continental Europe	1,925	46.5
US	307	7.4
Asia	167	4.1
Total	4,139	100.0

The portfolio value by age as at 31 March 2006 was:

Age	Portfolio value £m	Percentage %
Up to one year	1,088	26.3
One to three years	1,204	29.1
Three to five years	674	16.3
Five to seven years	336	8.1
Over seven years	837	20.2
Total	4,139	100.0

The portfolio value by FTSE industrial classification at 31 March 2006 was:

FTSE classification	Portfolio value £m	Percentage %
Resources	145	3.5
Industrials	1,040	25.1
Consumer goods	841	20.3
Services and utilities	1,173	28.3
Financials	379	9.2
Information technology	561	13.6
Total	4,139	100.0

As at 31 March 2006, 6% of the portfolio value was held in quoted companies.

The number of portfolio companies continued to fall during the last financial year, reflecting the high number of realisations from the portfolio, the Group's strategy to reduce portfolio numbers within SMI and the Group's policy to seek investment opportunities in fewer larger deals. At 31 March 2006, the number of investments stood at 1,087 (ex-SMI: 561), down from 1,502 (ex-SMI: 695) at 31 March 2005.

The table and notes below give details of the Group's ten largest investments as extracted without material adjustments from the Annual Report and Accounts 2006:

Investment	Business Line	Geography	First invested in	Residual cost ² £m	Proportion of equity shares held	Directors' valuation ² £m	Income in the year ³ £m	Net assets ⁴ £m	Earnings ⁴ £m
SR Technics Holding Technical solutions provider for commercial aircraft fleets	Buyouts	Switzerland	2002						
Equity Shares				7	32.2%	70	–		
Loans				30		30	3		
				37		100	3	14	(1)
Parking International Holdings Limited (NCP) Provider of transport management and parking services	Buyouts	UK	2005						
Equity Shares				1	39.9%	1	–		
Loans				95		95	12		
				96		96	12	(23)	(9)
Giochi Preziosi S.p.a. Retailer and wholesaler of toys	Buyouts	Italy	2005						
Equity Shares				63	37.8%	64	–		
				63		64	–	77	13
Boxer TV-Access AB Digital TV distributor	Growth	Sweden	2005						
Equity Shares				58	30.0%	60	–		
				58		60	–	14	8
Infrastructure Investors LP⁵ Secondary PFI and infrastructure investment fund	Growth	UK	2005						
Equity Shares				–	31.2%	–	–		
Loans				59		59	–		
				59		59	–	208	23
Vetco International Limited⁶ Oilfield equipment manufacturer	Buyouts	UK	2004						
Equity Shares				–	17.7%	53	–		
				–		53	–	(67)	(49)
Tato Holdings Limited Manufacturer and seller of specialist chemicals	SMI	UK	1989						
Equity Shares				2	25.2%	53	–		
				2		53	–	89	13
Coor Service Management AB Facilities manager	Buyouts	Sweden	2004						
Equity Shares				1	37.5%	26	–		
Loans				26		26	2		
				27		52	2	2	2
Senoble Holdings SAS Manufacturer of dairy products and chilled desserts	Growth	France	2004						
Equity Shares				9	10.0%	27	–		
Loans				18		19	1		
				27		46	1	88	18

Notes:

- The valuation of the Group's investment in Vonage Holdings Corp., a US venture capital investment made in 2004, was excluded from the table of the top ten largest investments as reported in the Annual Report and Accounts 2006 as the company had commenced an IPO process in the US. Vonage Holdings Corp. has now completed the IPO. The valuation of the Group's holding in the company at 30 June 2006 (which constituted 8.25% of its equity shares) was £60 million.
- The investment information is in respect of the Group's holding and excludes any co-investment by 3i managed funds.
- Income in the year represents dividends received (inclusive of any overseas withholding tax) and gross interest receivable in the financial year to 31 March 2006.
- Net assets and earnings figures are taken from the most recent audited accounts of the investee business. The figures shown are the total earnings on ordinary activities after tax and the net assets of each business. Because of the varying rights attaching to the classes of shares held by the Group, it could be misleading to attribute a certain proportion of earnings and net assets to the proportion of equity capital held. Negative earnings and net assets are shown in brackets.
- The investment by the Group is into three Infrastructure Investors' entities, a limited partner in the fund, a general partner in the fund and a management company and, as well as the loan shown, has a cost of £3,177 for partnership capital. The net assets and earnings figures for this investment are for the limited partnership and are unaudited.
- The cost of equity held in Vetco International Limited is £423,367.

The table below shows details of forty other large investments of the Group, which are substantially all of the Group's remaining investments valued over £19 million, as extracted without material adjustments from the Annual Report and Accounts 2006:

Investment	Description of Business	Business line	Geography	First invested	Residual cost ¹ £m	Directors' valuation ¹ £m
Renta Corporacion Real Estate, SA	Real estate purchase, refurbishment and sale	Growth	Spain	2004	14	42
Vextia (Poliris)	Online real estate listing and services	Growth	France	2005	41	41
Financiere Keos SA (Keolis)	Transport operator	Buyouts	France	2004	20	41
CSR plc ²	Semiconductors/wireless single chip solutions	Venture	UK	1999	1	40
Care Principles TopCo Limited	Specialist healthcare	Buyouts	UK	1997	39	39
La Sirena (Martifusgab)	Specialist frozen food retailers	Buyouts	Spain	2006	37	38
H-Careholding AB	Elderly, primary and specialist care	Buyouts	Sweden	2005	36	36
Hayley Conference Centres Ltd	Conference centres	Growth	UK	2005	35	35
DIAB Intressenter AB	Polymer based sandwich technology laminates	Growth	Sweden	2002	90	35
Extec Holdings Limited	Manufacturer of screening and crushing machinery	Buyouts	UK	2002	6	33
Jung Pumpen GmbH	Waste water pump producer	Buyouts	Germany	2004	20	32
Progetto 26 Spa	Production of glass products	Growth	Italy	1997	16	31
Marken Limited	International courier services	Buyouts	UK	2006	30	30
Grup Maritim TCB, SL	Operation of port concessions	Buyouts	Spain	1999	12	30
Smartstream Technologies Group Limited	Software and services	Buyouts	UK	2000	29	29
Aviapartner Group SA	Airport ground handling	Buyouts	Netherlands	2005	28	28
Telety plc ²	Services for internet service providers	Buyouts	UK	1998	17	28
Clinica Baviera	Eye laser surgery clinics	Growth	Spain	2005	27	28
Pharmadule Emtunga AB	Modular facilities to pharmaceuticals/biotech offshore and telecom sectors	Buyouts	Sweden	2003	40	27
Goromar XXI, SL	Manufacturer of frits and glazes for ceramic tiles	Buyouts	Spain	2002	18	27
Interhyp AG ²	Online mortgage broker	Venture	Germany	2000	2	27
Nimbus Communications Ltd	Media and entertainment services	Growth	India	2005	26	26
Morse plc ²	Technology integrator	Buyouts	UK	1995	8	25
HSS Hire Service Holdings Limited	Tool hire	Buyouts	UK	2004	17	25
Refresco Holding BV	Fruit juice producer	Buyouts	Netherlands	2003	2	24
Sparrowhawk Media Limited	UK and international TV channel and business library	Buyouts	UK	2005	22	24
Target Express Limited	Freight transport by road	Buyouts	UK	2000	43	23
International Tractors Ltd	Manufacturer of agricultural tractors	Growth	India	2006	22	22
Nordic Capital IV LP	Investment limited partnership	Growth	UK	2000	8	22
Vetoquinol SA	Development, manufacture and distribution of vet pharmaceuticals	Growth	France	2003	14	22
Alma Mater Fund	Investment in university student accommodation	Growth	UK	2003	21	21
Metropolitan Management BV (Polyconcept)	Supplier of promotional products	Growth	UK	2005	21	21
Nova Rodman, SL	Boat manufacturer	Growth	UK	2004	19	21
Management Consortium Bid	Container distribution by rail	Buyouts	UK	1997	8	21
MKM Building Supplies Limited	Building materials suppliers	Growth	UK	1999	21	21
Hyva Investments BV	Branded hydraulics to commercial vehicles	Buyouts	Netherlands	2004	15	20
Malachite 1 Ltd (Buy as you view)	Coin meter based hire purchase	Buyouts	UK	2004	20	20
FocusMedia Holdings Ltd ²	Services and utilities	Growth	China	2004	2	20
Alimak Hek AB	Construction of hoists and platforms	Growth	Sweden	2001	15	19
Groupe Vendome SA	Cosmetic and toiletry products	Buyouts	France	2001	5	19

Notes:

1. The investment information is in respect of the Group's holding and excludes any co-investment by 3i managed funds.
2. Quoted company (including secondary markets).

In addition to the investments included in the tables on pages 18 and 19, the Group's investment portfolio as at 31 March 2006 was as follows:

	Number	Directors' valuation £m
Buyouts	75	481
Growth Capital	215	692
Venture Capital	223	759
SMI	525	511
Total	1,038	2,443

9. Investment restrictions

The Company has directed its affairs so that it satisfies the current conditions for approval by HM Revenue & Customs as an investment trust under section 842 of the Income and Corporation Taxes Act 1988. The Board intends that the Company will continue to do so. The Board also intends the Company to continue to comply with the Listing Rules and the criteria for its status as an investment company under section 266 of the Companies Act.

In order to comply with the Listing Rules, the Company must not invest more than 10% of its gross assets (at the time the investment is made) in other UK investment companies (including investment trusts) listed on the Official List which do not have a stated investment policy limiting their investment in such companies to 15% of their gross assets.

In order to qualify as an investment trust (under section 842 of the Income and Corporation Taxes Act 1988) and an investment company (under section 266 of the Companies Act), and subject to certain limited exceptions, no holding of the Company, other than in another investment trust or a company which would qualify as an investment trust if its shares and securities were quoted on the London Stock Exchange, should represent more than 15% by value of the Company's investments at the time the investment is made and no holding in a company, other than one which for the time being is an investment company for the purposes of section 266 of the Companies Act, should represent more than 15% by value of the Company's investments.

There is no restriction under the Companies Act, the Listing Rules or section 842 of the Income and Corporation Taxes Act 1988, on the amount the Company can borrow.

10. Operating and financial review

Selected financial information

The following table shows the key audited figures that summarise the Group's financial condition for the three financial years to 31 March 2006, 31 March 2005 and 31 March 2004, which have been extracted without material adjustments from the annual reports for those years. The financial information for the year to 31 March 2005 reported under IFRS is unaudited and is included within the Annual Report and Accounts 2006.

		Reported under IFRS		Reported under UK GAAP	
		Year to/As at 31 March 2006	Year to/As at 31 March 2005 Restated ¹	Year to/As at 31 March 2005	Year to/As at 31 March 2004
Realised profits over opening value on the disposal of investments	£m	576	250	260	228
Unrealised profits on revaluation of investments ²	£m	245	245	270	336
Total recognised income and expense for the year/Total return	£m	831	501	512	531
Total return as % of opening shareholders' funds	%	22.5	15.2	15.9	18.1
Net assets	£m	4,006	3,699	3,637	3,395
Diluted NAV per Ordinary Share	pence	739	614	603	553
Dividend per Ordinary Share					
– Interim dividend	pence	5.5	5.3	5.3	5.1
– Special dividend	pence	40.7	–	–	–
– Proposed dividend/Final proposed dividend	pence	9.7	9.3	9.3	8.9
Net borrowings	£m	56	545	526	936
Gearing Ratio	%	1	15	14	28

1. Restated to reflect the adoption of IFRS. These figures are unaudited.

2. Unrealised profits on revaluation of investments as reported under UK GAAP includes unrealised currency movements on portfolio assets net of currency borrowings. Under IFRS, such items are reported elsewhere in the consolidated income statement within 'Exchange movements' and 'Exchange differences on translation of foreign operations'. The unrealised profits on revaluation of investments under UK GAAP is net of a total currency revaluation profit of £21 million in 2005 and loss of £64 million in 2004.

Reviews of the Group's financial condition, changes in financial condition and results of operations for each of the three financial years to 31 March 2006 are incorporated by reference into this document by references to: pages 12 to 35 of the Annual Report and Accounts 2006; pages 16 to 26 of the Annual Report and Accounts 2005; and pages 8 to 24 of the Annual Report and Accounts 2004.

These reviews incorporate information regarding significant factors materially affecting the Group's total return in each of the three financial years and information regarding any governmental, economic, fiscal, monetary or political policies or factors that materially affected the Group's operations in the three years, or that could materially affect the Group's operations in the future. Additionally, these reviews discuss the reasons for changes in the gross returns from investments achieved by the Group in each of the three financial years. Particular features of the incorporated reviews are as follows:

Financial year to 31 March 2006 (figures quoted below are sourced from the Annual Report and Accounts 2006, and so reflect the application of IFRS)

- The main contributors to the Group's performance were realised profits on the disposal of investments (£576 million), together with portfolio income of £232 million and growth in the value of the portfolio (unrealised profits on the revaluation of investments totalled £245 million).
- The main contributing factors to the growth in the value of the portfolio were valuation increases (totalling £95 million) relating to improved earnings by portfolio companies, "first-time uplifts" on a number of investments as they moved from being valued at cost to being valued on another valuation basis (£70 million) and valuation increases on investments being valued on an "imminent sale" basis (£97 million).
- At the year-end, net assets totalled £4,006 million and net borrowings £56 million, implying gearing of 1%.

Financial year to 31 March 2005 (figures quoted below are sourced from the Annual Report and Accounts 2006, and so reflect the application of IFRS)

- The main contributors to the Group's performance were profitable realisations (realised profits on the disposal of investments totalled £250 million), portfolio income of £232 million and growth in the value of the portfolio (unrealised profits on the revaluation of investments totalled £245 million).
- The main contributing factors to the growth in the value of the portfolio were "first-time uplifts" on a number of recent investments as they moved from being valued at cost to being valued on another valuation basis (£149 million) and valuation increases on investments being valued on an "imminent sale" basis (£101 million).
- At the year-end, net assets totalled £3,699 million and net borrowings £545 million, implying gearing of 15%.

Financial year to 31 March 2004 (figures quoted below are sourced from the Annual Report and Accounts 2004, and so reflect the application of UK GAAP)

- The main contributors to the Group's performance were profitable realisations (realised profits on the disposal of investments totalled £228 million) and growth in the value of the portfolio (unrealised profits on the revaluation of investments totalled £336 million).
- The latter was as a result of two main factors: the use of higher earnings multiples, as a result of rising stock markets following the low levels at the start of the financial year (£287 million); and "first-time uplifts" on a number of investments in the portfolio as they moved from being valued at cost to being valued on another valuation basis (£238 million).
- The total return also reflected an unrealised loss on foreign currency translation of £64 million, arising on the Group's euro- and US dollar-denominated portfolios net of currency borrowings.
- At the year-end, net assets totalled £3,395 million and net borrowings £936 million, implying gearing of 28%.

11. Dividend policy

In respect of the financial year to 31 March 2006, the Company's total ordinary dividend was 15.2 pence per Existing Ordinary Share (comprising an interim dividend paid of 5.5 pence and a proposed dividend of 9.7 pence). In respect of the financial year to 31 March 2005, the Company's total ordinary dividend was 14.6 pence per ordinary share of 50 pence (comprising an interim dividend paid of 5.3 pence and a final dividend of 9.3 pence). In respect of the financial year to 31 March 2004, the Company's total ordinary dividend was 14.0 pence per ordinary share of 50 pence (comprising an interim dividend paid of 5.1 pence and a final dividend of 8.9 pence).

In order to qualify as an investment trust under section 842 of the Income and Corporation Taxes Act 1988, the Company is prohibited by its Articles of Association from paying dividends or distributions from capital profits and surpluses arising on the realisation of investments save by way of redemption or purchase of any of its shares in accordance with the Companies Act.

Future dividends paid by the Company will reflect the revenue profits arising from dividends, interest, fees and other income earned on the Group's investing and investment management activities. Subject to unforeseen circumstances, the Board's objective will continue to be to distribute a progressive dividend to Shareholders.

The Board's current policy is to pay two dividends on the Ordinary Shares in respect of the Company's financial year, typically in January (an interim dividend) and in July (a final dividend).

12. Working capital of the Group

The Company is of the opinion that the Group has sufficient working capital for its present requirements, that is at least for the next 12 months from the date of publication of this document.

13. Capitalisation and indebtedness of the Group

Unaudited capitalisation and indebtedness statement

The following table shows the indebtedness of the Group as at 31 May 2006 based upon the Group's unaudited financial records at this date (which include the May 2006 management accounts) and its indebtedness and capitalisation at 31 March 2006 based upon the Annual Report and Accounts 2006 incorporated by reference in Part VI (Historical financial information) of this document.

	As at 31 May 2006 (unaudited) £m	As at 31 March 2006 £m
Total current debt		
– Guaranteed	–	–
– Secured	–	–
– Unguaranteed/Unsecured	422	398
– Total current debt	422	398
Total non-current debt		
– Guaranteed	–	–
– Secured ¹	22	24
– Unguaranteed/Unsecured	1,600	1,608
– Total non-current debt	1,622	1,632
Total	2,044	2,030
Cash	70	65
Cash equivalents	746	782
Liquidity	816	847
Current financial receivable	1,344	1,127
Current bank debt	–	–
Current portion of non-current debt	–	–
Other current financial debt	422	398
Current financial debt	422	398
Net current financial surplus	1,738	1,576
Non-current bank loans	148	148
Bonds issued	1,452	1,460
Other non-current loans	22	24
Non-current financial indebtedness	1,622	1,632
Net financial surplus/(indebtedness)	116	(56)
Capitalisation as at 31 March 2006		
Share capital		292
Share premium		376
Other reserves ²		(35)
Total		633

1. Secured borrowings comprise limited recourse funding from Kreditanstalt für Wiederaufbau, a German federal bank. Repayment of the funding, which individually finances investment assets, is dependent upon the disposal of the associated assets.

2. Other reserves includes capital redemption reserve, share based payment reserve and own share reserve.

There has been no material change to the Group's capitalisation since 31 March 2006.

In addition, at 31 May 2006, the Group had committed undrawn facilities of £488 million.

14. Action to be taken

Certificated Shareholders (other than Excluded Overseas Shareholders) wishing to participate in any of the B Share Offers, or alternatively simply to receive and retain B Shares, should complete and submit a Form of Election in accordance with the instructions given in the Circular.

Uncertificated Shareholders (other than Excluded Overseas Shareholders) wishing to participate in any of the Initial Purchase Offer, the Company Offer or either of the Future Purchase Offers, or alternatively simply to receive and retain B Shares, should issue instructions within CREST in accordance with the directions given in the Circular.

15. Non-United Kingdom Shareholders

Shareholders who are not resident in the United Kingdom or who are citizens, residents or nationals of other countries should consult their professional advisers to ascertain whether the Proposals (including, as may be relevant in each case, the holding or disposal of B Shares) will be subject to any restrictions or require compliance with any formalities imposed by the laws or regulations of, or any body or authority located in, the jurisdiction in which they are resident or to which they are subject.

In particular, it is the responsibility of any Shareholders not resident in the United Kingdom or a citizen, resident or national of another country wishing to elect for any of the B Share Offers or to otherwise dispose of B Shares to satisfy himself as to the full observance of the laws of each relevant jurisdiction in connection with the Proposals, including the obtaining of any government, exchange control or other consents which may be required, or the compliance with other necessary formalities needing to be observed and the payment of any issue, transfer or other taxes or duties in such jurisdiction.

The distribution of this document in certain jurisdictions may be restricted by law. Persons into whose possession this document comes should observe the laws of such jurisdictions. Neither this document nor any other document issued or to be issued by or on behalf of the Company in connection with the creation or purchase of B Shares constitutes an invitation, offer, or other action on the part of the Company either in the United States of America or in any jurisdiction in which such invitation, offer or other action is unlawful.

Excluded Overseas Shareholders, including US Shareholders, will only be entitled to receive the net proceeds from the involuntary sale in the Initial Purchase Offer or otherwise of the B Shares which they would otherwise be entitled to retain. In addition, for US Shareholders who have previously executed an undertaking in respect of any Ordinary Shares purchased or held by them, any B Shares to which those Shareholders would be entitled will be treated as Ordinary Shares purchased by them for the purpose of such undertaking.

Each Shareholder by whom, or on whose behalf, a Form of Election or Second Form of Election is executed or instructions within CREST in relation to the Initial Purchase Offer or Company Offer are given represents, warrants and undertakes (or, in the case of Uncertificated Shareholders, is deemed to represent, warrant and undertake) that such Shareholder is neither a resident in, or a citizen or national of, any of the Prohibited Territories nor a nominee, trustee or custodian acting on behalf of a citizen, national or resident of any of the Prohibited Territories. Each Shareholder by whom, or on whose behalf, a Form of Election or Second Form of Election is executed or instructions within CREST in relation to the Initial Purchase Offer or Company Offer are given also irrevocably represents, warrants and undertakes (or, in the case of Uncertificated Shareholders, is deemed to represent, warrant and undertake) that such Shareholder has observed the laws of all relevant territories, obtained any requisite governmental or other consents, complied with all requisite formalities and paid any issue, transfer or other taxes due from such Shareholder in connection with any receipt or transfer of B Shares or election for any of the B Share Offers in any territory and such Shareholder has not taken or omitted to take any action which may result in the Company or the Brokers or any other persons acting in breach of the legal or regulatory requirements of any territory in connection with the Proposals or such Shareholder's receipt or transfer of B Shares or acceptance of any of the B Share Offers.

The return of a Form of Election or a Second Form of Election by any Certificated Shareholder shall constitute a representation, warranty and undertaking that the relevant Shareholder is not an Excluded Overseas Shareholder. Shareholders who are resident in, or a citizen or national of, any of the Prohibited Territories (including the United States of America) or who are a nominee, trustee or custodian acting on behalf of such a resident, citizen or national should therefore not submit a Form of Election or a Second Form of Election.

The B Shares of any Certificated Shareholder who does not return or is ineligible to return a validly executed Form of Election by 4.30 pm on 14 July 2006 and any Certificated Shareholder in respect of whom the Company is advised that it would or might be in breach of legal or regulatory requirements in any jurisdiction, or that the Company or the Brokers would or might be required to make filings or take any other action in any jurisdiction, in order to honour any election made pursuant to a Form of Election, will not be issued to him but issued to a nominee appointed by the Company for such Shareholder, who will realise the value of the B Shares as soon as reasonably practicable with the net proceeds of sale being remitted to the Shareholder concerned at the risk of such Shareholder.

The issue of an instruction within CREST by an Uncertificated Shareholder in respect of any of the B Share Offers shall be deemed to constitute a representation, warranty and undertaking that the relevant Shareholder is not an Excluded Overseas Shareholder. Uncertificated Shareholders who are resident in, or a citizen or national of, any of the Prohibited Territories (including the United States of America) or who are a nominee, trustee or custodian acting on behalf of such a resident, citizen or national should therefore not issue any instruction within CREST in respect of the B Share Offers.

Part VI. Historical financial information

1. Historical financial information

The following documents, which have been previously published and have been filed with the FSA and delivered to the registrar of companies, shall be incorporated in, and form part of this Prospectus:

The Annual Report and Accounts 2006, the Annual Report and Accounts 2005 and the Annual Report and Accounts 2004 (including each auditors' report in respect thereof).

Each of the Annual Report and Accounts 2006, the Annual Report and Accounts 2005 and the Annual Report and Accounts 2004 was audited and an unqualified auditors' report was issued in respect of each of them.

The other financial information published in this Prospectus constitutes "non-statutory accounts" for the purposes of Section 240(5) of the Companies Act and is not the Company's statutory accounts.

Copies of the Annual Report and Accounts 2006, the Annual Report and Accounts 2005 and the Annual Report and Accounts 2004 are available for inspection at the UK Listing Authority's Document Viewing facility which is situated at: Financial Service Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS and are also available from the Company's website at: www.3igroup.com/shareholders/presreports/reports/

The following sections can be found in the annual reports and accounts:

Annual Report and Accounts 2006	
– auditors' report	page 60
– consolidated income statement	page 61
– statement of recognised income and expense	page 61
– reconciliation of movements in equity	page 62
– consolidated balance sheet	page 63
– consolidated cash flow statement	page 64
– notes to financial statements	pages 70-88
Annual Report and Accounts 2005	
– auditors' report	page 48
– consolidated statement of total return	page 49
– reconciliation of movement in shareholders' funds	page 49
– consolidated revenue statement	page 50
– consolidated balance sheet	page 51
– consolidated cash flow statement	page 53
– notes to financial statements	pages 56-69
Annual Report and Accounts 2004	
– auditors' report	page 46
– consolidated statement of total return	page 47
– reconciliation of movement in shareholders' funds	page 47
– consolidated revenue statement	page 48
– consolidated balance sheet	page 49
– consolidated cash flow statement	page 51
– notes to financial statements	pages 54-67

2. Significant change

There has been no significant change in the financial or trading position of the Group which has occurred since 31 March 2006, the end of the last financial year for which audited financial information has been published in relation to the Group.

Part VII. United Kingdom taxation in relation to the Proposals

The summary below is intended as a general guide only and is based on current United Kingdom tax law and HM Revenue and Customs' practice. Save where expressly provided, the summary applies only to Shareholders who are resident and, in the case of individuals, ordinarily resident in the United Kingdom for tax purposes and who hold their Ordinary Shares and B Shares beneficially as investments (and not as securities to be realised in the course of a trade), who participate in the issue of B Shares, receive B Shares and then participate in the Initial Purchase Offer, the Company Offer and/or the Future Purchase Offers. It also applies to persons who have acquired their Ordinary Shares by reason of their or another's office or employment except to the extent that any of the provisions of Part 7 of the Income Tax (Earnings and Pensions) Act 2003 apply.

The summary does not deal with the position of certain classes of Shareholders, such as dealers in securities, insurance companies and trusts.

Participants in any of the Share Schemes are referred to the separate information which is being sent to them.

Shareholders who are in any doubt as to their tax position or who are subject to tax in a jurisdiction other than the United Kingdom should consult an appropriate professional adviser.

1. Bonus issue of B Shares

The bonus issue of B Shares to holders of Ordinary Shares should be a reorganisation of the share capital of the Company for the purposes of United Kingdom taxation of chargeable gains ("**CGT**"). Accordingly, the receipt of the B Shares should not itself give rise to any liability to CGT in a Shareholder's hands. Instead, the Shareholder's resultant holding of Ordinary Shares and B Shares should together be treated as the same asset as the Shareholder's existing holding of Ordinary Shares and as having been acquired at the same time, and for the same consideration, as that holding of Ordinary Shares was acquired.

Upon a subsequent disposal of all or part of the Shareholder's holding of Ordinary Shares or (as the case may be) B Shares, the Shareholder's aggregate CGT base cost in its existing holding of Ordinary Shares will have to be apportioned between the Ordinary Shares and the B Shares, so as to ascertain that part of the base cost which is attributable to the Ordinary Shares and that part of the base cost which is attributable to the B Shares. That apportionment will be made by reference to the respective market values of the Ordinary Shares and the B Shares on the first day after the date of issue of the B Shares on which market values or prices are quoted or published for the Ordinary Shares and the B Shares.

The bonus issue of the B Shares should not itself give rise to any liability to United Kingdom income tax (or corporation tax on income) in a Shareholder's hands.

2. Dividends payable on the B Shares

The tax treatment of the dividend paid on the B Shares will be the same as that of any other dividend paid by the Company. Accordingly, that tax treatment will be as summarised below.

There is no United Kingdom withholding tax on United Kingdom dividends. Accordingly, the Company will not be required to withhold tax at source when paying the dividend on the B Shares.

A Shareholder who is an individual resident and ordinarily resident (for tax purposes) in the United Kingdom and who receives the dividend will be entitled to a tax credit equal to one ninth of the dividend. The individual will be taxable on the total of the dividend and the related tax credit (the "**Gross B Share Dividend**"), which will be regarded as the top slice of the individual's income. The tax credit will, however, be treated as discharging the individual's liability to income tax in respect of the Gross B Share Dividend, unless and except to the extent that the Gross B Share Dividend falls above the threshold for the higher rate of income tax, in which case the individual will, to that extent, pay tax on the Gross B Share Dividend calculated as 32.5% of the Gross B Share Dividend less the related tax credit. So, for example, a dividend of £80 will carry a tax credit of £8.89 and the income tax payable on that dividend by an individual liable to income tax at the higher rate would be 32.5% of £88.89, namely £28.89, less the tax credit of £8.89, leaving a net tax charge of £20.

A Shareholder that is a company resident (for tax purposes) in the United Kingdom will not generally be taxable on the dividend.

A Shareholder who is not liable to tax on the dividend will not be entitled to claim payment of the tax credit in respect of the dividend.

3. Initial Purchase Offer

A sale of B Shares by a Shareholder to the Brokers pursuant to the Initial Purchase Offer should be treated as a normal third party disposal for United Kingdom tax purposes. Accordingly:

- (A) a Shareholder who sells all or part of the Shareholder's holding of B Shares pursuant to the Initial Purchase Offer should thereby crystallise a disposal of those B Shares for CGT purposes. This may, depending on individual circumstances, give rise to a liability to CGT. Any gain or loss will be calculated by reference to the difference between the purchase price and the Shareholder's base cost, for CGT purposes, in the B Shares disposed of. Shareholders are referred to paragraph 1 of this Part for an outline of the principles that will apply in determining the base cost that is attributable to their B Shares for CGT purposes and that will, as such, be taken into account in the computation of any gain or loss arising on any disposal of their B Shares;
- (B) no part of the proceeds received by a Shareholder pursuant to the Initial Purchase Offer should be an income distribution in the Shareholder's hands;
- (C) the amount of CGT, if any, payable by an individual Shareholder as a consequence of accepting the Initial Purchase Offer will depend on his or her personal tax position. No tax will be payable on any gain realised on a disposal of B Shares if the amount of the chargeable gain, when aggregated with other chargeable gains realised by the Shareholder in the year of assessment in question (and after taking account of indexation and taper relief and such other exemptions and allowable losses as may be available in each case), does not exceed the annual allowance of tax free capital gains (£8,800 for the tax year 2006/2007). Broadly, any gains in excess of this amount will be taxed at a rate of 10% for a taxpayer paying income tax at the starting rate, 20% for a taxpayer paying income tax at the basic rate and 40% for higher rate taxpayers. Indexation allowance will be available in respect of periods of ownership of Ordinary Shares up to 5 April 1998 and taper relief may be available thereafter; and
- (D) a corporate Shareholder is taxable on all of its chargeable gains, subject to other reliefs. Taper relief is not available to a corporate Shareholder. However, corporate Shareholders are entitled to indexation allowance up to the date the chargeable gain is realised.

4. Future Purchase Offers

It is expected that the sale of B Shares by a Shareholder pursuant to either of the Future Purchase Offers should be treated as a normal third party disposal for United Kingdom tax purposes with the same tax consequences as described in paragraph 3 of this Part.

5. Section 703 Income and Corporation Taxes Act 1988 ("Section 703")

Section 703 permits HM Revenue & Customs in certain circumstances to issue a Shareholder with a notice stating that it will tax what would otherwise be a capital receipt as a receipt of income. No application has been made to HM Revenue & Customs for clearance in respect of the application of Section 703 to the receipt of the proceeds of the Initial Purchase Offer or either of the Future Purchase Offers by a Shareholder. However, having consulted leading Tax Counsel, the Company does not expect that Section 703 should apply to Shareholders who elect to participate in the Initial Purchase Offer or either of the Future Purchase Offers, in the absence of particular circumstances affecting a Shareholder's position.

6. Company Offer

The Company will not be required to withhold tax at source when making payments in respect of the Company Offer.

A Shareholder selling B Shares to the Company pursuant to the Company Offer should be treated in the following manner:

Individual Shareholders resident in the United Kingdom

A Shareholder who is an individual resident and ordinarily resident (for tax purposes) in the United Kingdom will, in respect of each B Share sold to the Company pursuant to the Company Offer, be subject to income tax on an amount equal to the amount received from the Company in excess of the nominal value of each B Share (such nominal value being one penny per share and the excess amount so received being referred to in this Part as the "Income Element").

The Income Element will be taxed in the hands of an individual Shareholder as if it were a dividend paid by the Company. Accordingly, such a Shareholder will be entitled to a tax credit equal to one ninth of the Income Element. The individual will be taxable on the total of the Income Element and the related tax credit (the "Gross Amount"), which will be regarded as the top slice of the individual's income. The tax credit will, however, be treated as discharging the individual's liability to income tax in respect of the Gross Amount, unless and except to the extent that the Gross Amount falls above the threshold for the higher rate of income tax, in which case the individual will, to that extent, pay tax on the Gross Amount calculated as 32.5% of the Gross Amount less the related tax credit. So, for example, an Income Element of £80 will carry a tax credit of £8.89 and the income tax payable on that amount by an individual liable to income tax at the higher rate would be 32.5% of £88.89, namely £28.89, less the tax credit of £8.89, leaving a net tax charge of £20. A Shareholder who is not liable to tax on the Income Element will not be entitled to claim payment of a tax credit in respect of the Income Element.

An amount equal to the nominal value of each B Share sold to the Company pursuant to the Company Offer will be treated as the Shareholder's disposal proceeds for CGT purposes. The disposal may result in the Shareholder realising a capital loss. Shareholders are referred to paragraph 1 of this Part for an outline of the principles that will apply in determining the base cost that is attributable to their B Shares for CGT purposes and that will, as such, be taken into account in the computation of any gain or loss arising on any disposal of their B Shares.



Corporate Shareholders resident in the United Kingdom

A Shareholder that is a company resident (for tax purposes) in the United Kingdom will be treated as receiving a distribution of an amount equal to the amount received from the Company in excess of the nominal value of each B Share. Such a Shareholder will not generally be taxable on that distribution. However, such a Shareholder will be treated, for CGT purposes, as disposing of their B Shares for an amount equal to the amount received from the Company. Shareholders are referred to paragraph 1 of this Part for an outline of the principles that will apply in determining the base cost that is attributable to the B Shares for CGT purposes and that will, as such, be taken into account in the computation of any gain or loss arising on any disposal of their B Shares.

7. Stamp duty and Stamp Duty Reserve Tax

Except in relation to depositary receipt arrangements or clearance services, where special rules apply:

- (A) no stamp duty or stamp duty reserve tax (“SDRT”) will be payable on the issue of the B Shares;
- (B) an agreement to sell B Shares will normally give rise to a liability on the part of the purchaser to SDRT, at the rate of 0.5% of the actual consideration paid. If an instrument of transfer of the B Shares is subsequently produced, it will generally be subject to stamp duty at the rate of 0.5% of the actual consideration paid (rounded up, if necessary, to the nearest £5). When such stamp duty is paid, the SDRT charge will normally be cancelled and any SDRT already paid will be refunded; and
- (C) for the avoidance of doubt, a sale of B Shares under the Initial Purchase Offer, either of the Future Purchase Offers or the Company Offer will not give rise to any liability to stamp duty or SDRT for the selling Shareholder.

8. Share Capital Consolidation

The Share Capital Consolidation will not be treated as a disposal of the Existing Ordinary Shares for CGT purposes. Instead, the Consolidated Ordinary Shares will be treated as the same asset as the Existing Ordinary Shares and as having been acquired at the same time as the Existing Ordinary Shares.

If and to the extent that a holder of Existing Ordinary Shares receives cash in respect of any fractional entitlement arising from the Share Capital Consolidation, then, for CGT purposes, he or she should not be treated as making a part disposal of his original holding of Existing Ordinary Shares or of his entitlement to Consolidated Ordinary Shares. Instead, the base cost of such Shareholder in the Consolidated Ordinary Shares to which he or she is entitled should be reduced by an amount equal to the amount of cash the Shareholder receives in respect of any such fractional entitlement.

Part VIII. Additional information relating to the Company

1. Responsibility

The Directors, whose names appear on page 13 of this document, and the Company, whose registered office is 16 Palace Street, London SW1E 5JD, are responsible for the information given in the Prospectus. The Directors and the Company declare that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

2. Incorporation and activity of the Company

2.1 The Company was incorporated under the Companies Acts 1948 to 1967 on 1 November 1973 in England and Wales under registered number 1142830 with the name "Finance for Industry Limited". It was re-registered as a public limited company on 24 August 1981 under the name "Finance for Industry Public Limited Company" and its name was changed to "Investors in Industry Group plc" on 1 July 1983 pursuant to a special resolution passed on 8 June 1983. Its name was changed to "3i Group plc" on 29 April 1988 pursuant to a special resolution passed on 11 April 1988.

2.2 The registered office of the Company is 16 Palace Street, London SW1E 5JD.

2.3 Ernst & Young LLP, whose address is Ernst & Young LLP, 1 More London Place, London, SE1 2AF are the auditors of the Company and have been the Company's auditors for the financial years to 31 March 2006, 31 March 2005 and 31 March 2004. Ernst & Young LLP is a member of the Institute of Chartered Accountants in England and Wales.

3. Share capital of the Company

3.1 The original share capital of the Company was £100 divided into 100 shares of £1 each.

3.2 By an extraordinary resolution passed on 30 November 1973, the share capital of the Company was increased to £100,000,000 divided into 100,000,000 shares of £1 each.

3.3 By an extraordinary resolution passed on 4 February 1975, the share capital of the Company was further increased to £150,000,000 divided into 150,000,000 shares of £1 each.

3.4 By an extraordinary resolution passed on 27 July 1988, the share capital of the Company was further increased to £300,000,000 divided into 300,000,000 shares of £1 each.

3.5 By a special resolution passed on 25 May 1994 the share capital of the Company was subdivided into 600,000,000 shares of 50 pence each.

3.6 By a special resolution passed on 21 June 1994 the share capital of the Company was increased to £350,000,000 divided into 700,000,000 shares of 50 pence each.

3.7 By an ordinary resolution passed on 10 July 2002 the share capital of the Company was increased to £410,100,000 divided into 820,000,000 ordinary shares of 50 pence each and 1,000,000 Unclassified Shares of 10 pence each.

3.8 As at 1 April 2005, the Company had in issue 614,409,167 ordinary shares of 50 pence each. During the period 1 April 2005 to 10 July 2005, the Company issued 268,792 further ordinary shares to the trustee of The 3i Group Share Incentive Plan and on the exercise of share options. The Company repurchased 400,452 ordinary shares of 50 pence each at 683 pence per share. These shares were cancelled after the Company consolidated its share capital on 11 July 2005.

3.9 By an ordinary resolution passed on 6 July 2005 and with effect from 11 July 2005, the ordinary shares of 50 pence each were consolidated and sub-divided into Ordinary Shares of 53 $\frac{1}{8}$ pence each. As a consequence, with effect from 11 July 2005 the authorised share capital of the Company became £410,099,999 divided into 771,764,704 Ordinary Shares of 53 $\frac{1}{8}$ pence each and one million Unclassified Shares of 10 pence each. This share consolidation coincided with the payment of a special dividend of 40.7 pence per share.

3.10 During the period 11 July 2005 to 31 March 2006, the Company issued 2,222,966 Existing Ordinary Shares to the trustee of The 3i Group Share Incentive Plan and on the exercise of share options. The Company repurchased 29,810,000 Existing Ordinary Shares. These shares, and those purchased before the share consolidation, amounting to a total of 30,186,896 Existing Ordinary Shares were cancelled and a transfer made to the capital redemption reserve equal to the nominal value of the shares repurchased.

3.11 As at 31 March 2006, the authorised and issued share capital of the Company was as follows:

	Number	£m
Authorised		
(i) Ordinary Shares of 53 $\frac{1}{8}$ pence	771,764,704	410
(ii) Unclassified Shares of 10 pence	1,000,000	–
Issued and fully paid		
(i) Ordinary Shares of 53 $\frac{1}{8}$ pence	550,556,502	292
(ii) Unclassified Shares of 10 pence	Nil	Nil

3.12 As at the date of this document, the Company held no shares in treasury.

3.13 On 1 August 2003, the Company issued €550 million 1.375% convertible bonds due 2008. They are convertible at the option of the holder to cash and Ordinary Shares at any time from 11 September 2003 to 25 July 2008. The number of Ordinary Shares to be issued on conversion is currently approximately 83 Existing Ordinary Shares per €1,000 bond. Following Admission, the number of Consolidated Ordinary Shares to be issued on conversion will be approximately 81 Consolidated Ordinary Shares per €1,000 bond. This may vary in accordance with the terms of the convertible bonds and will be determined by dividing the principal of the bond less the cash settled amount by the conversion price in effect on the conversion date. The initial conversion price was £8.416757, which has subsequently been adjusted to £8.38 following the share capital consolidation and special dividend in July 2005 and will be adjusted to £8.55 if the Proposals are implemented. The Company may make a payment in cash as an alternative to issuing shares on either conversion or redemption. Unless previously realised and cancelled, redeemed or converted, these bonds will be redeemed on 1 August 2008. The aggregate principal amount of bonds outstanding as at 5 July 2006, the latest practicable date before the publication of this document, was €550 million.

4. Memorandum of Association and Articles of Association

4.1 Memorandum of Association

The Company's principal objects are to carry on the business of an investment holding company. The objects of the Company are set out in full in clause 4 of the Memorandum of Association which is available for inspection at the address specified on page 46 below.

4.2 Articles of Association

The Articles of Association of the Company contain (amongst others) provisions to the following effect:

(A) Share rights

Subject to the Companies Act and other Shareholders' rights, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide, or (if there is no such resolution or so far as the resolution does not make specific provision) as the Board may decide. Redeemable shares may be issued. Subject to the Articles of Association of the Company, the Companies Act and other Shareholders' rights, unissued shares are at the disposal of the Board which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration as the Board may decide.

(B) Voting rights

Subject to any rights or restrictions attaching to any class of shares, every member present in person at a general meeting or class meeting has, upon a show of hands, one vote, and every member present in person or by proxy has, upon a poll, one vote for every share held by him.

In the case of joint holders of a share the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.

(C) Restrictions

No member shall be entitled to vote at any general meeting or class meeting in respect of any share held by him if any call or other sum then payable by him in respect of that share remains unpaid or if a member has been served with a restriction notice (as defined in the articles) after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Act.

(D) Dividends and other distributions

The Company may by ordinary resolution from time to time declare dividends not exceeding the amount recommended by the Board. Subject to the Companies Act, the Board may pay interim dividends, and also any fixed rate dividend, whenever the financial position of the Company, in the opinion of the Board, justifies its payment. If the Board acts in good faith, it is not liable to holders of shares with preferred or *pari passu* rights for losses arising from the payment of interim or fixed dividends on other shares.

The Board may withhold payment of all or any part of any dividends or other moneys payable in respect of the Company's shares from a person for sums of money presently payable to the Company by such person.

Except insofar as the rights attaching to, or the terms of issue of, any share otherwise provide, all dividends shall be apportioned and paid *pro rata* according to the amounts paid up on the share during any portion of the period in respect of which the dividend is paid. Except as set out above, dividends may be declared or paid in any currency.

The Board may if authorised by an ordinary resolution of the Company offer Shareholders in respect of any dividend the right to elect to receive Ordinary Shares by way of scrip dividend instead of cash.

Any dividend unclaimed after a period of 12 years from the date when it was declared or became due for payment shall be forfeited and revert to the Company.

The Company may stop sending cheques, warrants or similar financial instruments in payment of dividends by post in respect of any shares or may cease to employ any other means of payment, including payment by means of a relevant system, for dividends if either (i) at least two consecutive payments have remained uncashed or are returned undelivered or that means of payment has failed or (ii) one payment remains uncashed or is returned undelivered or that means of payment has failed and reasonable inquiries have failed to establish any new address or account of the holder. The Company may resume sending dividend cheques, warrants or similar financial instruments or employing that means of payment if the holder requests such resumption in writing.

On a liquidation, the liquidator may, with the sanction of a special resolution of the Company and any other sanction required by the Companies Act, divide among the members in kind all or part of the assets of the Company (whether they shall consist of property of the same kind or not).

Capital profits and surpluses arising from the realisation of investments shall not be available for dividend or distribution save for distribution by way of redemption or purchase by the Company of any of its shares in accordance with the Companies Act.

(E) Variation of rights

Subject to the Companies Act, rights attached to any class of shares may be varied with the written consent of the holders of not less than three-fourths in nominal value of the issued shares of that class, or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of those shares. At every such separate general meeting (except an adjourned meeting, where one holder shall be a quorum) the quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of the class.

The rights conferred upon the holders of any shares shall not, unless otherwise expressly provided in the rights attaching to those shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* with them.

(F) Form and transfer of shares

Any shares in the Company may be held in uncertificated form and, subject to the Articles of Association of the Company, title to uncertificated shares may be transferred by means of a relevant system. Provisions of the Articles of Association of the Company do not apply to any uncertificated shares to the extent that such provisions are inconsistent with the holding of shares in uncertificated form or with the transfer of shares by means of a relevant system.

Subject to the Articles of Association of the Company, any member may transfer all or any of his certificated shares by an instrument of transfer in any usual form or in any other form which the Board may approve. The instrument of transfer must be executed by or on behalf of the transferor and (in the case of a partly-paid share) the transferee.

The transferor of a share is deemed to remain the holder until the transferee's name is entered in the register.

The Board may, in its absolute discretion and without giving any reason, decline to register any transfer of any share which is not a fully paid share. The Board may also decline to register a transfer of a certificated share unless the instrument of transfer:

- (i) is accompanied by the relevant share certificate and such other evidence of the right to transfer as the Board may reasonably require;
- (ii) is in respect of only one class of share; and
- (iii) if to joint transferees, is in favour of not more than four such transferees.

Registration of a transfer of an uncertificated share may be refused in the circumstances set out in the Uncertificated Securities Regulations (as defined in the Articles of Association of the Company) and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated share is to be transferred exceeds four.

The Board may decline to register a transfer of shares by a person who holds, or is shown as having an interest in, shares which comprise in total at least 0.25% in number or nominal value of the shares of the Company, or of any class of such shares, unless such transfer is pursuant to an arm's length sale, as defined in the Articles of Association of the Company, in circumstances where the holder of those shares, or any other person appearing to be interested in those shares, fails to comply within 14 days with any statutory notice in respect of those shares.

(G) Alteration of share capital

The Company may by ordinary resolution increase, consolidate and then divide, or sub-divide its shares or any of them. The Company may, subject to the Companies Act, by special resolution reduce its share capital, share premium account or capital redemption reserve.

(H) General meetings

Subject to the provisions of the Companies Act, an annual general meeting and an extraordinary general meeting convened for the passing of a special resolution or a resolution of which special notice has been given to the Company shall be called by not less than twenty-one clear days' notice in writing. All other extraordinary meetings shall be called by not less than fourteen clear days' notice in writing.

The notice must specify the place, day and time of the meeting and the general nature of the business to be transacted.

Notices shall be given to the auditors of the Company and to all members other than any who, under the provisions of the articles or the terms of issue of the shares they hold, are not entitled to receive such notice. Notice may be via electronic communication and publication on a web site in accordance with the Companies Act.

Each Director shall be entitled to attend and speak at any general meeting. The chairman of the meeting may invite any person to attend and speak at any general meeting where he considers that this will assist in the deliberations of the meeting.

(I) Directors

(i) Number of Directors

The Directors shall be not less than two and not more than twenty in number. The Company may by ordinary resolution vary the minimum and/or maximum number of Directors.

(ii) Appointment of Directors

Directors may be appointed by the Company by ordinary resolution or by the Board. A Director appointed by the Board holds office only until the next following annual general meeting of the Company and is then eligible for re-appointment by Shareholders but is not taken into account in determining the Directors or the number of Directors who are to retire by rotation at that meeting.

The Board or any committee authorised by the Board may from time to time appoint one or more Directors to hold any employment or executive office for such period (subject to the provisions of the Companies Act) and on such terms as they may determine and may also revoke or terminate any such appointment.

(iii) Age of Directors

No person is disqualified from being a Director, or is required to vacate that office, by reason only of the fact that he has attained the age of 70 years or any other age, nor is it necessary to give special notice of a resolution appointing or electing such a Director. If the Board convenes any general meeting at which, to the knowledge of the Board, a Director who is 70 or over will be proposed for appointment or re-appointment, it must give notice of his age in the documents convening the meeting.

(iv) Retirement of Directors

At every annual general meeting of the Company, one-third (or if their number is not divisible by three, the number nearest to but not exceeding one-third) of the Directors shall retire by rotation. The Directors to retire by rotation shall be those who have been longest in office since their last appointment or reappointment. Any Director who is aged 70 or over shall also retire.

Subject to the provisions of the Articles, at the meeting at which a Director retires the Company can pass an ordinary resolution to re-appoint the Director or to elect some other eligible person in his place.

(v) Removal of Directors by special resolution

The Company may by special resolution remove any Director before the expiration of his period of office.

(vi) Vacation of office

The office of a Director shall be vacated if:

- he resigns or offers to resign and the Board resolves to accept such offer;
- he is or has been suffering from mental ill health or he becomes a patient for the purposes of any statutes relating to mental health and the Board resolves that his office be vacated;
- he is absent without the permission of the Board from meetings of the Board (whether or not an alternate Director appointed by him attends) for six consecutive months and the Board resolves that his office is vacated;
- he becomes bankrupt or compounds with his creditors generally;
- he is prohibited by a law from being a Director;
- he ceases to be a Director by virtue of the Companies Act; or
- he is removed from office pursuant to the Company's Articles of Association.

If the office of a Director is vacated for any reason, he must cease to be a member of any committee or sub-committee of the Board.

(vii) Alternate Director

Any Director may appoint any person to be his alternate and may at his discretion remove such an alternate Director. If the alternate Director is not already a Director, the appointment, unless previously approved by the Board, shall have effect only upon and subject to being so approved.

(viii) Remuneration of Directors

Each of the Directors shall be paid a fee at such rate as may from time to time be determined by the Board. Any Director who is appointed to any executive office shall be entitled to receive such remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board or any committee authorised by the Board may decide, either in addition to or in lieu of his remuneration as a Director. In addition, any Director who performs services which in the opinion of the Board or any committee authorised by the Board go beyond the ordinary duties of a Director, may be paid such extra remuneration as the Board or any committee authorised by the Board may determine. Each Director may be paid his reasonable travelling, hotel and incidental expenses of attending and returning from meetings of the Board, or committees of the Board or of the Company or any other meeting which as a Director he is entitled to attend, and shall be paid all other costs and expenses properly and reasonably incurred by him in the conduct of the Company's business or in the discharge of his duties as a Director. The Company may also fund a Director's expenditure on defending proceedings or in connection with any application under the Companies Act and may do anything to enable a Director to avoid incurring such expenditure both as provided in the Companies Act.

(ix) Pensions and gratuities for Directors

The Board or any committee authorised by the Board may exercise the powers of the Company to provide benefits either by the payment of gratuities or pensions or by insurance or in any other manner for any Director or former Director or his relations, dependants or persons connected to him, but no benefits (except those provided for by the Articles) may be granted to or in respect of a Director or former Director who has not been employed by or held an executive office or place of profit under the Company or any of its subsidiaries or their respective predecessors in business without the approval of an ordinary resolution of the Company.

(x) Permitted interests of Directors

Subject to the provisions of the Companies Act, and provided he has declared the nature of his interest to the Board as required by the Companies Act, a Director is not disqualified by his office from contracting with the Company in any manner, nor is any contract in which he is interested liable to be avoided, and any Director who is so interested is not liable to account to the Company or the members for any benefit realised by the contract by reason of the Director holding that office or of the fiduciary relationship thereby established.

A Director may hold any other office or place of profit with the Company (except that of auditor) in conjunction with his office of Director and may be paid such extra remuneration for so doing as the Board or any authorised committee of the Board may decide, either in addition to or in lieu of any remuneration provided for by other Articles. A Director may also be or become a Director or other officer of, or otherwise interested in, or contract with any company promoted by the Company or in which the Company may be interested and shall not be liable to account to the Company or the members for any benefit received by him.

A Director may act by himself or his firm in a professional capacity for the Company (otherwise than as auditor) and he or his firm shall be entitled to remuneration for professional services.

(xi) Restrictions on voting

No Director may vote on or be counted in the quorum in relation to any resolution of the Board concerning his own appointment, or the settlement or variation of the terms or the termination of his own appointment, as the holder of any office or place of profit with the Company or any other company in which the Company is interested save to the extent permitted specifically in the Articles of Association of the Company.

Except as mentioned below, no Director may vote on, or be counted in a quorum in relation to, any resolution of the Board in respect of any contract in which he is to his knowledge materially interested and, if he does so, his vote shall not be counted. These prohibitions do not apply to a Director in relation to:

- the giving to him of any guarantee, indemnity or security in respect of money lent or obligations undertaken by him for the benefit of the Company or any of its subsidiary undertakings;
- the giving of any guarantee, indemnity or security to a third party in respect of a debt or obligation of the Company or any of its subsidiary undertakings which he has himself guaranteed, indemnified or secured in whole or in part;
- the subscription or purchase by him of shares, debentures or other securities of the Company or of any of the subsidiary undertakings pursuant to any offer or invitation in which the Director is or may be entitled to participate as a holder of securities;
- the underwriting by him of any shares, debentures or other securities of the Company or any of its subsidiary undertakings;
- any contract in which he is interested by virtue of his interest in shares or debentures or other securities of the Company or by reason of any other interest in or through the Company;
- any contract concerning any other company (not being a company in which the Director owns 1% or more (as defined in the Articles of Association of the Company)) in which he is interested directly or indirectly;
- any contract concerning the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates to both the Directors and employees of the Company or any of its subsidiary undertakings and does not provide in respect of any Director as such any privilege or advantage not accorded to the employees to whom such scheme or fund relates;
- any contract for the benefit of employees of the Company or any of its subsidiary undertakings under which he benefits in a similar manner to the employees and which does not accord to any Director as such any privilege or advantage not accorded to the relevant employees; and
- any contract for the purchase or maintenance for any Director of insurance against any liability.

Subject to the Companies Act, the Company may by ordinary resolution suspend or relax the above provisions to any extent or ratify any transaction not duly authorised by reason of a contravention of such provisions.

(J) Borrowing and other powers

Subject to the Company's Memorandum of Association, the Company's Articles of Association, the Companies Act and any directions given by the Company by special resolution, the business of the Company will be managed by the Board who may exercise all the powers of the Company, whether relating to the management of the business of the Company or not. In particular, the Board may exercise all the powers of the Company to borrow money and to mortgage or charge any of its undertaking, property, assets (present and future) and uncalled capital and to issue debentures and other securities and to give security for any debt, liability or obligation of the Company or of any third party.

(K) Indemnity of Directors

Subject to the provisions of the Companies Act, the Company may indemnify any Director or other officer against any liability and may purchase and maintain for any Director or other officer of the Company insurance against any liability.

5. Directors and Directors' interests

5.1 The business address of each of the Directors is 16 Palace Street, London, SW1E 5JD. Their full names and functions within the Company are as set out below.

5.2 Biographical details of the Directors are as follows:

Baroness Hogg (60)

Chairman and non-executive Director

Chairman since 2002 and a non-executive Director since 1997. Chairman of the Nominations Committee and the Valuations Committee. Chairman of Frontier Economics Limited. A director of BG Group plc and Carnival Corporation and plc. A Governor of the London Business School and a member of the Financial Reporting Council. From 1995 to 2002 Chairman of Foreign & Colonial Smaller Companies PLC. From 2003 to May 2006 Deputy Chairman of GKN plc. Formerly Head of the Prime Minister's Policy Unit.

Mr Oliver Henry James Stocken (64)

Deputy Chairman, Senior Independent Director and non-executive Director

Deputy Chairman and Senior Independent Director since 2002 and a non-executive Director since 1999. Chairman of the Audit and Compliance Committee and of the trustees of the 3i Group Pension Plan. A member of the Nominations Committee, the Remuneration Committee and the Valuations Committee. Chairman of Rutland Trust plc and Stanhope Group Holdings Limited. A director of GUS plc and Standard Chartered plc. Formerly Finance Director of Barclays plc.

Mr Philip Edward Yea (51)

Chief Executive

Chief Executive and executive Director since joining the Company in 2004. A member of the Nominations Committee and the Valuations Committee. A member of the Investment Committee since 2004. A non-executive director of Vodafone Group plc. Formerly Managing Director within the private equity business of Investcorp. A former Finance Director of Diageo plc and former non-executive director of HBOS plc and Manchester United PLC.

Mr Simon Peter Ball (46)

Finance Director

Finance Director since April 2005 and member of the Management Committee since joining the Company in February 2005. A member of the Valuations Committee and the Investment Committee. A non-executive director of Cable & Wireless plc. Formerly, Director General Finance at the Department for Constitutional Affairs, Group Finance Director of Robert Fleming and Chief Operating Officer (UK) of Dresdner Kleinwort Benson.

Dr Peter Mihatsch (65)

Non-executive Director

Non-executive Director since 2004. A member of the Nominations Committee and the Valuations Committee. Chairman of the supervisory board of Giesecke and Devrient GmbH. A member of the supervisory boards of Vodafone GmbH, Vodafone D2 GmbH, Arcor AG, Alcatel SA and Rheinmetall AG. Formerly Chairman of Mannesmann Mobilfunk GmbH and a member of the management boards of Mannesmann AG and Mannesmann Kienzle GmbH.

Dr Mihatsch has agreed to become chairman of the advisory board for the Group's business in Germany. As he would then no longer be categorised as an independent non-executive Director, he will be stepping off the Board of the Company at the end of July 2006.

Mme Christine Jacqueline Michelle Morin-Postel (59)

Non-executive Director

Non-executive Director since 2002. A member of the Audit and Compliance Committee, the Remuneration Committee and the Nominations Committee. A director of Alcan, Inc, and Royal Dutch Shell PLC. Formerly Chief Executive of Société Générale de Belgique, executive Vice President and member of the executive committee of Suez and a director of Tractebel and Fortis.

Mr Michael James Queen (44)

Executive Director

Executive Director since 1997. Managing Partner, Growth Capital. Responsible for Growth Capital since April 2005. Joined the Company in 1987. From 1994 to 1996 seconded to HM Treasury. Appointed Group Financial Controller in 1996 and Finance Director in 1997. A member of the Management Committee and the Investment Committee since 1997. Ceased to be Finance Director on assuming responsibility for Growth Capital investment. A director of Gardens Pension Trustees Limited, a corporate trustee of the 3i Group Pension Plan, and a non-executive director of Northern Rock plc. Past Chairman of the British Venture Capital Association.

Mr Franklin Daniel Rosenkranz (61)

Non-executive Director

Non-executive Director since 2000. Chairman of the Remuneration Committee and a member of the Audit and Compliance Committee and the Nominations Committee. Chairman of Foseco plc. Formerly Chief Executive of The BOC Group plc and Chairman of Pecos Limited.

Sir Robert Haldane Smith (61)

Non-executive Director

Non-executive Director since 2004. A member of the Audit and Compliance Committee, the Remuneration Committee and the Nominations Committee. Chairman of Weir Group plc and Scottish & Southern Energy plc. A non-executive director of Aegon UK plc and Standard Bank Group Limited. Formerly a non-executive director of the FSA and Bank of Scotland plc, Chief Executive of Morgan Grenfell Asset Management and a member of the Financial Reporting Council.

Mr Fred G Steingraber (67)

Non-executive Director

Non-executive Director since 2002. A member of the Nominations Committee and the Remuneration Committee. A director of Elkay Manufacturing and John Hancock Financial Trends Fund. A member of the supervisory board of Continental AG. Formerly, Chairman and Chief Executive of AT Kearney, Inc, and a director of Maytag Corporation, Lawter International, Inc, and Mercury Finance Corporation.

5.3 The details of those companies and partnerships outside the Company of which the Directors are currently directors or partners, or have been directors or partners at any time during the previous five years prior to the date of this Prospectus are as follows:

Name of Director	Current directorships and partnerships	Previous directorships and partnerships
Baroness Hogg	Frontier Economics Limited Carnival plc (formerly P&O Princess Cruises plc) Carnival Corporation BG Group plc	Foreign & Colonial Smaller Companies PLC (now called F&C Global Smaller Companies PLC) Martin Currie Portfolio Investment Trust plc GKN plc GKN Holdings plc British Broadcasting Corporation
O H J Stocken	The Natural History Museum Trading Company Limited Rutland Trust plc Hoyle Barn Limited GUS plc The Royal College of Art Design Group Limited River and Rowing Museum Foundation Standard Chartered plc Stanhope Group Holdings Limited Hackplimco (No.116) Public Limited Company	Lupus Capital plc Book Aid International Searchspace Limited Caradon plc (now called Novar Limited) Searchspace Group Limited Rank Group plc Stanhope plc (now called Stanhope Limited) Pilkington plc
P E Yea	Vodafone Group plc	Avecia Holdings plc Investcorp Securities Limited Polestar Holdings Limited The Polestar Corporation plc The Polestar Group Limited The Polestar Bindery Company Limited Halifax plc HBOS plc HBOS Treasury Services plc The Governor and Company of the Bank of Scotland UK 101 Limited Halifax Group plc Manchester United PLC (now called Manchester United Limited) Gerresheimer Glas AG Helly Hansen ASA Helly Hansen Holding ASA Helly Hansen Group Holding ASA Investcorp Financial & Investment Services SA Leica Geosystems Holdings AG Luxembourg 101 SA Stahl Singapore Investments Pte Stahl Holdings BV Welcome Break Holdings Limited Welcome Break Limited Welcome Break Finance plc Welcome Break Group Limited Motorway Services Limited
S P Ball	Cable & Wireless plc	Intelligent Energy Limited Leica Geosystems Holdings AG
Dr P Mihatsch	Rheinmetall AG Giesecke & Devrient GmbH Vodafone GmbH Vodafone D2 GmbH Arcor AG Alcatel SA	Daimler-Chrysler SERV Infineon Technologies AG Taurus Holding GmbH & Co. KG BT&T Asset Management AG

Name of Director	Current directorships and partnerships	Previous directorships and partnerships
C J M Morin-Postel	Royal Dutch Shell PLC Alcan, Inc	Pilkington plc Fortis SA/NV Trigen Energy Corporation Tractebel SA Société Générale de Belgique SA Pechiney SA Arlington Capital Investors (Europe) N.V. Koninklijke Nederlandsche Petroleum Maatschappij
M J Queen	Northern Rock plc Infrastructure 2005-06 LP Pan European Growth Capital 2005-06 LP Primary Infrastructure 2005-06 LP	The British Venture Capital Association
F D Rosenkranz	Coombe Hill Holdings (1946) Limited Foseco plc	Vetsfriend Limited Pecaso Limited Foseco (Jersey) Limited
Sir Robert Smith	Inchmarnock Limited Inchmarnock Marine Limited The Weir Group plc Aegon UK plc Scottish and Southern Energy plc Standard Bank Group Limited The Standard Bank of South Africa Limited Chanteclair Estate (Pty) Ltd.	DB Private Equity Limited Deutsche Asset Management Group Limited Network Rail Limited Railtrack plc Morgan Grenfell Capital (G.P.) Limited Morgan Grenfell Capital Trustee Limited Morgan Grenfell Development Capital Holdings Limited Morgan Grenfell Development Capital Syndications Limited Morgan Grenfell Private Equity Limited NMS Enterprises Limited NMS Retailing Limited The BBC Children in Need Appeal Deutsche Morgan Grenfell Development Capital Luxembourg SA Deutsche International Holdings BV British Broadcasting Corporation British Council
F G Steingraber	John Hancock Financial Trends Fund Inc Continental AG Elkay Manufacturing Company	Chicago Stock Exchange Maytag Corporation A.T. Kearney, Inc Lawter International, Inc Mercury Finance Corporation

None of the Directors has any conflict of interest between their duties to the Group and their private or other duties. There was no arrangement or understanding with major Shareholders of the Company pursuant to which any of the Directors were selected.

5.4 Save as disclosed below, none of the Directors in the five years preceding the date of this Prospectus:

- (A) had any convictions in relation to fraudulent offences;
- (B) had been associated with any bankruptcies, receiverships, or liquidations acting in the capacity of any of the positions set out against the relevant Director's name in paragraph 5.3 above;
- (C) had been the subject of any official public incrimination or sanctions by any statutory or regulatory authorities (including, where relevant, designated professional bodies); or
- (D) had ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer.

In relation only to sub-paragraph (B) above:

- (i) Mr Rosenkranz was a director and shareholder of Vetsfriend Limited, a company which was placed into creditors' voluntary winding up on 7 January 2003. The liquidator estimated the deficit of the company's liabilities to preferential and unsecured creditors over assets (after deducting amounts charged to secured creditors) at that date to be £1,021,675. Final meetings for members and creditors of the company were convened on 18 April 2005 where the liquidator reported that there were insufficient funds to pay a dividend to creditors. The company was dissolved on 26 July 2005; and
- (ii) Mr Yea was a director of Welcome Break Finance plc until 21 April 2004. Joint administrative receivers were appointed in respect of the company on 25 May 2004. The administrative receivers realised the assets of the company on 8 June 2004 and the proceeds satisfied the company's obligations to its creditors at that date and settled the receivership expenses. Subsequent to the making of a declaration of solvency by the company's directors on 3 August 2004, the company was placed into members' voluntary liquidation and joint liquidators appointed on 6 August 2004. The company was dissolved on 19 January 2006.

5.5 Directors' interests in the Company

As of 5 July 2006, the latest practicable date before publication of this document, the interests of Directors as stated in the register of directors' interests in Existing Ordinary Shares (all of which are beneficial) were as follows:

	Number of Existing Ordinary Shares
Baroness Hogg	22,186
O H J Stocken	20,026
P E Yea	409,586
S P Ball	30,548
Dr P Mihatsch	–
C J M Morin-Postel	1,872
M J Queen	327,827
F D Rosenkranz	28,238
Sir Robert Smith	3,952
F G Steingraber	–

5.6 The share interests shown above for each of Mr Ball, Mr Queen and Mr Yea include performance share awards which are subject to forfeiture.

5.7 If the above Directors do not dispose of any of their Existing Ordinary Shares before 6.00 pm on 14 July 2006 (or such other time and date as the Directors may determine), they may be expected to hold the same number of B shares at 8.00 am on 17 July 2006.

5.8 In addition to the interests shown above, Mr Queen also has a conditional right to acquire shares pursuant to a performance linked award granted under The 3i Group Management Equity Investment Plan, detailed below:

	Year of grant	Number	Exercise price (£)	Date from which exercisable	Expiry date
M J Queen	2000	25,776	Nil	28/06/05	27/06/07
Total		25,776			

5.9 Each of the employees of the Company (including each of the executive Directors) is a potential beneficiary of The 3i Group Employee Trust and as such is interested (within the meaning of section 324 of the Companies Act 1985) in the shares held by the trust (other than those shares held on behalf of specific individuals). The trust held 12,496,297 shares at 1 April 2005 (which included 443,107 shares held for individuals) and 11,311,280 shares as at 31 March 2006 (which included 230,522 shares held for individuals). This number of shares included the shares over which Mr Queen is mentioned above as having a conditional right to acquire under The 3i Group Management Equity Investment Plan.

5.10 Details of Directors' share options under the Group's Executive Share Option Plans at 5 July 2006, the latest practicable date before publication of this document, are detailed below:

	Year of grant	Number	Exercise price (£)	Date from which exercisable	Expiry date
P E Yea	2004	314,410	5.73	21/07/07	20/07/14
	2005	259,740	6.93	21/06/08	20/06/15
	2006	322,966	8.36	14/06/09	13/06/16
Total		897,116			
S P Ball	2005	245,022	6.53	17/05/08	16/05/15
	2005	48,100	6.93	21/06/08	20/06/15
	2006	200,956	8.36	14/06/09	13/06/16
Total		494,078			
M J Queen	1997	37,073	5.20	16/06/00	15/06/07
	1998	62,177	6.64	22/06/01	21/06/08
	1999	36,002	7.28	06/07/02	05/07/09
	2000	30,795	13.75	28/06/03	27/06/10
	2002	184,318	6.73	27/06/05	26/06/12
	2003	57,218	5.68	25/06/06	24/06/13
	2004	89,552	6.03	23/06/07	22/06/14
	2005	44,733	6.93	21/06/08	20/06/15
Total		541,868			

5.11 Save as referred to in this paragraph 5.11 there are no restrictions pertaining to the disposal of the shares in the Company held by the Directors. The share interests of Mr Yea, Mr Ball and Mr Queen set out in paragraph 5.5 of this Part include Performance Share Awards of 267,324, 25,134 and 130,383 Existing Ordinary Shares respectively under The 3i Group Discretionary Share Plan and holdings of 992, 594 and 3,137 Existing Ordinary Shares respectively under The 3i Group Share Incentive Plan. Such share interests of Mr Yea and Mr Queen also include awards of 12,893 and 11,461 Existing Ordinary Shares respectively under The 3i Deferred Share Bonus Plan. Performance Share Awards are subject to forfeiture to the extent a performance condition is not met over a period of three years from grant and such shares which vest together with further shares purchased with dividends paid on such awards may not be disposed of by the Director until after the end of the three year performance condition period. The 3i Group Share Incentive Plan rules include restrictions on the disposal of certain shares within the plan for a period of three years from allotment to the Director. The rules of The 3i Deferred Share Bonus Plan preclude the disposal of awards (and further shares purchased with dividends on such awards) within two years from the date of grant of the award.

6. Directors' service contracts and remuneration

6.1 Non-executive Directors

Non-executive Directors, including the Chairman, hold office under the Company's Articles of Association and do not have service contracts. Their appointment letters provide that there is no entitlement to compensation or other benefits on ceasing to be a Director.

During the financial year to 31 March 2006 the basic non-executive Director's fee was £40,000 per annum. The annual fee for membership of each of the Audit and Compliance, Remuneration and Valuations Committees was £3,000 and the annual fee for the chairmanship of each of these committees was £10,000. No fees were paid to Directors in respect of their membership of Nominations Committee. The remuneration paid to non-executive Directors during the financial year to 31 March 2006 was as follows:

	Year to 31 March 2006 Total salary, fees and supplements (£000)
Baroness Hogg	260
O H J Stocken	90
Dr P Mihatsch	43
C J M Morin-Postel	46
F D Rosenkranz	56
Sir Robert Smith	46
F G Steingraber	43
Total	584

6.2 Executive Directors

Variable remuneration (comprising annual cash bonuses, deferred share bonuses and long-term incentives) is intended to form a substantial component of total remuneration. Salary supplements are paid to Mr Yea and Mr Ball to enable them to make additional pension provision.

6.3 Annual bonuses

Employees, including executive Directors, are eligible for discretionary annual bonuses. The Remuneration Committee determines target bonuses for each executive Director at the beginning of each financial year. Executive Directors' target bonuses are 90% of base salary except that the target bonus for the executive Director responsible for the Growth Capital business line was 100%. Bonuses above target will only be paid for outstanding performance, and the maximum is twice the target bonus.

6.4 Service contracts

Company policy is that executive Directors' notice periods should not normally exceed one year. Mr Yea, Mr Ball and Mr Queen have employment contracts with 3i plc dated 27 July 2004, 19 April 2005, and 22 June 1987 respectively. These contracts are terminable on 12 months' notice given by the Company or six months' notice given by the employee. Save for these notice periods the contracts have no unexpired terms. There are no provisions for compensation of executive Directors on early termination save that the Company can elect to give pay in lieu of notice. In the case of Mr Yea, the Company can also elect to terminate employment without notice subject to making 12 monthly payments thereafter equivalent to monthly basic pay and benefits less any amounts earned from alternative employment. The Remuneration Committee considers that compensation payments on early termination of employment should depend on individual circumstances. The duty of Directors to mitigate their loss will always be a relevant factor.

The remuneration paid to executive Directors during the financial year to 31 March 2006 was as follows:

	Year to 31 March 2006						
	Salary and fees £000	Salary supplements £000 ¹	Total salary, fees and supplements £000	Bonus £000 ²	Deferred share bonus £000 ³	Benefits in kind £000 ⁴	Total £000
Executive Directors							
P E Yea ⁵	660	200	860	675	437	17	1,989
S P Ball ⁵	427	62	489	420	223	2	1,134
M J Queen ^{5 & 6}	466		466	400	300	2	1,168
Total	1,553	262	1,815	1,495	960	21	4,291

Notes

- Mr Yea and Mr Ball received salary supplements to enable them to make additional pension provision.
- Bonuses relate to the financial year to 31 March 2006 and were paid in June 2006.
- Deferred share bonuses will be paid in shares in the Company, deferred for 2 years.
- "Benefits in kind" were company car (Mr Yea) and health insurance (Mr Yea, Mr Ball and Mr Queen).
- In addition to the salaries and fees disclosed, executive Directors retained fees from outside directorships as follows: Mr Yea, £55,417 (Vodafone Group plc); Mr Ball, £69,442 (Leica Geosystems Holdings AG); and Mr Queen, £48,765 (Northern Rock plc).
- Salaries and fees for Mr Queen include payment of a deferred cash bonus of £54,000 granted in 1998, which became payable on exercise of deferred share bonus awards under The 3i Group Management Equity Investment Plan.

6.5 Pension arrangements

The executive Directors are members of the 3i Group Pension Plan which is a defined benefit contributory scheme which from 1 April 2006 is not being offered to new entrants. For members who joined the plan before 1 September 2002, the plan provides for a pension, subject to HM Revenue & Customs limits, of two thirds of final pensionable salary (limited, in the case of members joining on or after 1 June 1989, to a plan earnings cap) on retirement (normally at age 60) after 25 years' service and less for service under 25 years. For members who joined the plan from 1 September 2002 up to 31 March 2006 inclusive (which include Mr Yea and Mr Ball) 33.3 years' service is required to accrue a pension of two thirds of final pensionable salary (limited to the earnings cap). The plan also provides death-in-service cover of four times final pensionable salary (limited to the earnings cap where this applies), pensions payable in the event of ill health and spouses' pensions on death.

Pension entitlements of Directors are set out below. The value placed on £1 per annum of pension reflects financial conditions at the time (e.g. the level of the stock market or returns available on government bonds) and the method and assumptions the actuaries use to calculate transfer values from time to time. Changes in the value placed on £1 per annum of pension can be positive or negative and can have much greater impact than the actual pension benefits earned.

	Age at 31 March 2006	Complete years of pensionable service at 31 March 2006	Increase in accrued pension (excluding inflation) during the year to 31 March 2006 £'000 p.a. (note 1)	Total accrued pension at 31 March 2006 £'000 p.a. (note 2)	Director's own contributions (excluding AVCs) paid into the plan during the year to 31 March 2006 £'000	Increase in accrued pension (including inflation) during the year to 31 March 2006 £'000 p.a. (note 1)	Transfer value of the accrued benefits at 31 March 2006 £'000 (note 3)
P E Yea	51	1	2.2	3.7	5.3	2.2	58.7
S P Ball	45	1	2.2	2.5	5.3	2.2	31.6
M J Queen	44	18	10.4	200.0	13.0	15.4	2,441.7
Total			14.8	206.2		19.8	

Notes

- The increase in accrued pension shown reflects the difference between deferred pensions on leaving, payable from age 60.
- The pensions shown are deferred pensions payable from age 60.
- The transfer values have been calculated on the basis of actuarial advice in accordance with the relevant professional guidance applicable at 31 March 2006 (Actuarial Guidance Note GN11 (version 9.1)).

Deferred pensions in excess of the guaranteed minimum pension ("GMP") are increased in the deferment period according to statutory requirements (subject to an annual minimum of 3% per annum on pension accrued prior to 1 July 2004 for those members who joined the plan before 7 February 1992). GMPs are increased at fixed rate revaluation with increases vesting at Normal Retirement Age. For members who joined the plan before 1 September 2002, pensions in respect of service before 1 July 2004 and in excess of the GMP increase each year in payment to match the increase in the RPI since the pension started (or 30 June 1989, if later), subject to an annual maximum of 7.5% per annum and a minimum of 3% per annum. Pension for members who joined the plan after 1 September 2002 and pension in respect of service on or after 1 July 2004 for members who joined the plan before 1 September 2002, increase each year in payment to match the RPI subject to a maximum increase in any year of 7.5% and a minimum of 0%. On death in deferment or after retirement, a two-thirds pension is payable to the member's spouse. Dependants' pensions may be payable in the absence of a spouse's pension. In addition, on death within the first five years of retirement, a lump sum is payable equal to the balance of five years' pension.

7. Board practices

During the financial year to 31 March 2006 and up to the date of this document, the Company has complied and the Company continues to comply with the provisions of the Combined Code on corporate governance published by the Financial Reporting Council in July 2003.

The Company has established a number of standing committees of the Board which report regularly to the Board. In particular, the Company has designated Remuneration, Audit and Compliance and Nominations Committees.

7.1 Remuneration Committee

The Remuneration Committee considers remuneration policy and determines, on behalf of the Board, the specific remuneration packages for each of the executive Directors and the other members of the Management Committee. The Remuneration Committee also determines the fees payable to the Chairman of the Board.

The members of the Remuneration Committee are:

Name	Position held
F D Rosenkranz	An independent non-executive Director and Chairman of the Remuneration Committee
C J M Morin-Postel	An independent non-executive Director
Sir Robert Smith	An independent non-executive Director
F G Steingraber	An independent non-executive Director
O H J Stocken	An independent non-executive Director

The terms of reference of the Remuneration Committee, in summary, are to:

- determine remuneration (including matters relating to pension benefits) for the Chairman of the Board, each of the executive Directors of the Company and all other members of the Chief Executive's Management Committee;
- determine compensation payments or other benefits for the Chairman of the Board, executive Directors of the Company and other members of Management Committee on termination of their employment, whether by way of damages for breach of contract, pay in lieu of notice, ex gratia payment or otherwise;
- recommend and monitor the level and structure of remuneration for executives defined by the Board as senior management;
- exercise or approve and authorise the exercise of all or any powers, authorities and discretions of the Directors in connection with any share plans operated by the Group for its employees;
- approve the principal commercial terms of any long-term incentive plans which are introduced by the Group and the variation of any such principal commercial terms of existing plans;
- provide advice and guidance to the Chief Executive with regard to the Group's worldwide remuneration policy;
- provide advice and guidance to the Chief Executive in relation to the remuneration of those individual executives who report directly to a member of the Management Committee, and in relation to the structure and total amount of the remuneration of all other employees of the Company and its wholly owned subsidiaries;
- provide advice and guidance to the Chief Executive in regard to the amount that should be set aside for variable pay in respect of any one financial year of the Company including the amount to be provided for performance related pay, bonus participation schemes, special awards and employee share schemes worldwide; and
- consider such other matters as are referred to the Remuneration Committee by the Board.

7.2 Audit and Compliance Committee

Within the scope of its terms of reference, the Audit and Compliance Committee reports to the Board on any matter on which it considers that action is required and makes recommendations for steps to be taken in relation to such action. In addition, the Audit and Compliance Committee has authority to investigate any activity within its terms of reference.

The members of the Audit and Compliance Committee are:

Name	Position held
O H J Stocken	An independent non-executive Director and Chairman of the Audit and Compliance Committee
C J M Morin-Postel	An independent non-executive Director
F D Rosenkranz	An independent non-executive Director
Sir Robert Smith	An independent non-executive Director

The terms of reference of the Audit and Compliance Committee, in summary, are to:

- monitor the integrity of the annual report and accounts and other financial statements of the Company, and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them;
- review the Company's internal financial controls and, unless expressly addressed by a separate Board risk committee composed of independent Directors, or by the Board itself, review the Company's internal control and risk management systems;
- monitor and review the effectiveness of the Company's internal audit function;
- consult with the Board in connection with any proposed appointment or removal of the head of the internal audit function;
- make recommendations to the Board, for it to put to the Shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant United Kingdom professional and regulatory requirements;
- develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;
- review arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters;
- satisfy itself that the Group's compliance policies fulfil the requirements of the FSA and also to satisfy itself in relation to the requirements of analogous financial regulators in overseas jurisdictions where the Company operates;
- in response to a request from the Group's Compliance Director or from management, provide advice upon the resolution of problems relating to compliance issues generally;
- consult with the Board in connection with any proposed appointment or removal of the Group Compliance Director;
- review the possible effects of any proposed changes to applicable accounting standards, the tax status of the Company or legislation relating to regulatory and accounting matters relevant to the Group; and
- review any other matters referred by the Board and perform such other functions as the Board may by resolution from time to time confer upon the Audit and Compliance Committee.

7.3 Nominations Committee

Within the scope of its terms of reference, the Nominations Committee reports to the Board on any matter on which it considers that action is required and makes recommendations for steps to be taken in relation to such action.

The members of the Nominations Committee are:

Name	Position held
Baroness Hogg	An independent non-executive Director and Chairman of the Nominations Committee
O H J Stocken	An independent non-executive Director
P E Yea	Chief Executive
Dr P Mihatsch	An independent non-executive Director
C J M Morin-Postel	An independent non-executive Director
F D Rosenkranz	An independent non-executive Director
Sir Robert Smith	An independent non-executive Director
F G Steingraber	An independent non-executive Director

The terms of reference of the Nominations Committee, in summary, are to:

- at the Board's request, consider and make recommendations to the Board on the size, balance and composition of the Board with the objective of ensuring that the Board:
 - (i) includes a balance of executive and non-executive Directors (and in particular independent non-executive Directors) such that no individual or small group of individuals can dominate the Board's decision taking;
 - (ii) includes a strong presence of both executive and non-executive Directors so that power and information are not concentrated in one or two individuals; and
 - (iii) is not so large as to be unwieldy but that it is of sufficient size that the balance of skills and experience is appropriate for the requirements of the business and that changes to the Board's composition can be managed without undue disruption;
- satisfy itself that plans are in place for orderly succession for appointments to the Board and to senior management, so as to maintain an appropriate balance of skills and experience within the Company and on the Board; and
- at the Board's request, consider and make recommendations to the Board on:
 - (i) all appointments to the Board as executive or non-executive Directors of the Company; and
 - (ii) proposals as to which non-executive Directors should be invited to retire, having regard to the changing needs of the Board as a whole from time to time.

8. Substantial Shareholders

8.1 Insofar as known to the Company, by reference to relevant notifications made pursuant to sections 198 to 208 of the Companies Act as at 5 July 2006, being the latest practicable date before publication of the Prospectus, the only persons who were interested in 3% or more of the Existing Ordinary Shares were:

Name	Percentage holding %	Number of Existing Ordinary Shares held
Prudential plc and subsidiary companies	5.97	32,893,030
FMR Corp. and Fidelity International Limited and their subsidiaries	3.98	21,960,190
Legal & General Group plc and subsidiaries	3.96	21,844,391

8.2 If any of the above Shareholders refrain from disposing of the above holdings before 6.00 pm on 14 July 2006 (or such other time and date as the Directors may determine as the Record Date), they may be issued the same number of B shares at 8.00 am on 17 July 2006 (and thus Prudential plc and subsidiary companies may own more than 5% of the B shares).

8.3 None of the Shareholders listed above will have voting rights that are different to those of any other holder of Existing Ordinary Shares.

9. Subsidiaries and associated undertakings

The Company is the listed holding company of the Group. The following table shows the principal subsidiary undertakings of the Company being those which the Company considers likely to have a significant effect on the assessment of the assets and liabilities, the financial position and/or the profits and losses of the Company and the percentage interest in those companies held by the Company:

Subsidiary undertakings	Country of incorporation	Principal activity	Percentage holding (and voting interest) %
3i Holdings plc	England and Wales	Holding company	100
3i International Holdings	England and Wales	Holding company	100
3i plc	England and Wales	Services	100
3i Investments plc	England and Wales	Investment manager	100
3i Europe plc	England and Wales	Investment advisory services	100
3i Nordic plc	England and Wales	Investment advisory services	100
3i Asia Pacific plc	England and Wales	Investment advisory services	100
Gardens Pension Trustees Limited	England and Wales	Pension fund trustee	100
3i Corporation	US	Investment manager	100
3i Deutschland Gesellschaft für Industriebeteiligungen mbH	Germany	Investment manager	100
3i Gestion SA	France	Investment manager	100

10. Material contracts

Set out below is a summary of:

- (a) each material contract, other than contracts entered into in the ordinary course of business, to which the Company or any member of the Group is a party, for the two years immediately preceding publication of this document; and
- (b) any other contract (not being a contract entered into in the ordinary course of business) entered into by any member of the Group which contains any provision under which any member of the Group has any obligation or entitlement which is material to the Group at the date of this document.

The Company has entered into a programme agreement dated 23 August 2005 with 3i Holdings plc (as issuer) and Barclays Bank PLC, Citigroup Global Markets, Deutsche Bank AG London Branch, Goldman Sachs International, HSBC Bank plc, Lehman Brothers International (Europe), Mizuho International plc, The Royal Bank of Scotland plc and UBS Limited (as dealers) and a trust deed dated 23 August 2005 with 3i Holdings plc and The Law Debenture Trust Corporation plc in connection with the £2,000 million note issuance programme. Under the terms of the note issuance programme documentation, there are limited recurring positive undertakings and covenants, which are mainly administrative, and limited events of default, which give a right to early redemption of the notes in circumstances including non-payment (after grace periods) of interest or principal, cross-acceleration in the event of material default under the Group's other borrowing documentation and certain insolvency events.

The Company has entered into a trust deed dated 1 August 2003 with The Law Debenture Trust Corporation plc in connection with the issue of €550 million 1.375% convertible bonds due 2008. Under the terms of the convertible bond documentation, there are limited recurring positive undertakings and covenants, which are mainly administrative, and limited events of default, which give a right to early redemption of the bonds in circumstances including non-payment (after grace periods) of interest or principal, cross-acceleration in the event of material default under the Group's other borrowing documentation and certain insolvency events.

The Company has entered into a dealer agreement dated 27 October 2005 with 3i Holdings plc (as issuer); Barclays Bank PLC (as arranger and dealer); and The Royal Bank of Scotland plc and UBS Limited (as dealers) and a guarantee dated 27 October 2005 in connection with the €1,000 million commercial paper programme. Under the terms of the programme documentation, there are limited recurring positive undertakings and covenants, which are mainly administrative, and no events of default.

The Company has entered into facility agreements dated 20 September 2005 (with 3i Holdings plc (as borrower); Barclays Capital, Bayerische Landesbank London Branch, Dresdner Kleinwort Wasserstein Limited, HSBC Bank plc, Lloyds TSB Bank plc, The Royal Bank of Scotland plc, Société Générale, UBS Limited and WestLB AG London Branch (as mandated lead arrangers); Barclays Bank PLC, Bayerische Landesbank London Branch, Dresdner Bank AG London Branch, HSBC Bank plc, Lloyds TSB Bank plc, The Royal Bank of Scotland plc, Société Générale, UBS AG London Branch, WestLB AG London Branch (as lenders); and Lloyds TSB Bank plc (as agent)) and November 2005 (with 3i Holdings plc (as borrower); and Nordea Bank AB (as mandated lead arranger, lender and agent)), respectively, relating to £486 million and £150 million revolving credit facilities, each with a maturity date in 2010. The drawings under these facilities are each repayable in one instalment within one year, but immediate replacement funding is available until the relevant maturity date. The undrawn commitment fee on the £150 million committed multi-currency facility is 0.05%. The margin on this facility of + 0.175% (over LIBOR) increases to + 0.20% if the drawn amount is greater than 50% of the facility. The undrawn commitment fee on the £486 million committed multi-currency facility is 0.08%. The margin on this facility of + 0.210% (over LIBOR) increases to + 0.235% if the drawn amount is between 33% and 66% of the facility, and to + 0.26% if the drawn amount is greater than 66% of the facility. Under the terms of each of the facilities, there are limited recurring positive undertakings and covenants, which are mainly administrative, and limited events of default, which give a right to early redemption of the relevant facility in circumstances including non-payment (after grace periods) of interest or principal, cross-acceleration in the event of default under the Group's other borrowing documentation and certain insolvency events.

11. Related party transactions

Details of related party transactions for the three financial years to 31 March 2006 are included within the Annual Report and Accounts 2006, the Annual Report and Accounts 2005 and the Annual Report and Accounts 2004, in notes 36, 18 and 19 respectively.

The Group has various related parties stemming from relationships with limited partnerships managed by the Group, its investments and its key management personnel. In the period from 1 April 2006 to 30 June 2006 (being the latest practicable date before publication of this Prospectus) the following transactions with such related parties occurred:

Limited partnerships

The Group manages funds on behalf of third parties. These funds invest through a number of limited partnerships. Group companies act as the general partners of these limited partnerships and exert significant influence over them. In the period from 1 April 2006 to 30 June 2006 the Group accrued carried interest receivable of £4 million (excluding the effect of asset revaluations) and fund management fees of £7 million.

Investments

In the period from 1 April 2006 to 30 June 2006, there were no material transactions between related companies within the investment portfolio that the Group has influenced to facilitate the reorganisation, sale or recapitalisation of an investee company.

Key management personnel

The Group's key management personnel comprises the members of Management Committee and the Board's non-executive directors. The remuneration of key management personnel for the period from 1 April 2006 to 30 June 2006 and carried interest payable as at 30 June 2006 were:

	£m
Salaries, fees and benefits in kind	1
Bonuses and deferred bonuses	–
Increase in accrued pension	–
Carried interest payable within one year	4
Carried interest payable after one year	5
Share-based payments	–

12. Litigation

There were no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) in the twelve months prior to the date of this document which may have, or have had in the recent past, significant effects on the Company and/or the Group's financial position or profitability.

13. Custody and other service providers

3i Investments plc and certain foreign subsidiaries of the Company act as investment manager to the Company and certain of its local foreign investment vehicles. In jurisdictions where the Company has no locally incorporated subsidiary acting as investment manager, the Company and 3i Investments plc are advised by other Group subsidiaries or their branch offices acting as investment adviser. Contracts for these investment management and other services, for which UK or, in certain cases, foreign regulatory authorisation is required, provide for fees based on the work done and the costs incurred in providing such services. 3i Investments plc received a fee of £26 million for these services for the financial year to 31 March 2006. This fee has been fixed at £26 million since 2001. These contracts may be terminated by either party on reasonable notice.

3i Investments plc was incorporated in England and Wales under the Companies Act on 13 April 2000 and is a public limited company registered in England and Wales under registered number 3975789 whose registered office is 16 Palace Street London SW1E 5JD and whose principal telephone number is (+44) (0)20 7928 3131. 3i Investments plc is authorised and regulated by the FSA under the Financial Services and Markets Act 2000.

3i plc provides the Group with corporate and administrative services, for which no regulatory authorisation is required, under contracts which provide for fees based on the work done and the costs incurred in providing such services. 3i plc received a fee of £126 million for these services for the financial year to 31 March 2006. This fee is based on a blend of two fixed percentages of the average cost of the Group's portfolio during the relevant financial year and has been subject to a maximum effective aggregate percentage of 3.3% since 2001. The administrative services contract between 3i plc and 3i Investments plc may be terminated by either party on three months' notice. The administrative services contracts between 3i plc and other Group companies may be terminated by either party on reasonable notice.

Custody of the Group's assets is provided, arranged or administered by 3i Investments plc, in conjunction with other Group companies providing management services to the Group and the local investment vehicles through which the Group invests in certain jurisdictions. The largest single geographic grouping of the Group's investments is in UK portfolio companies and custody of the Group's UK unquoted investments is provided by 3i Investments plc (whose details are set out above) at its securities function based at Trinity Park, Bickenhill, Birmingham B37 7ES.

In addition, the Group has a wide range of custody arrangements for its other investment and treasury assets with a variety of different suppliers in different geographies, which can be summarised as follows:

- (A) quoted assets (including treasury assets) are held by external custodians including The Bank of New York and its sub-custodians and a number of other banks or professional custodians located in those local jurisdictions where the Group's operations or the relevant investee companies to which the assets relate are located. The Bank of New York is a banking corporation organised pursuant to the laws of the State of New York and operating for these purposes through its branch in London at One Canada Square, London E14 5AL, which branch is registered in England and Wales under number BRO00818;
- (B) unquoted assets in physical form are held by 3i Investments plc in the UK and by law firms or banks or professional custodians which have been appointed by the Company, 3i Investments plc or the Group's local manager, to provide custody services in those jurisdictions outside the UK where the Group's operations or the relevant investee companies to which the assets relate are located; and
- (C) unquoted assets in dematerialised form are held by various banks or professional custodians with whom the Group has opened relevant custody accounts either for use in respect of its assets in a particular jurisdiction where the Group's operations or the relevant investee companies to which the assets relate are located or in connection with its interests in a particular investee company.

Contracts for these custody services provide for fees to be paid to the relevant supplier in respect of providing such services. These contracts may be terminated by either party on reasonable prescribed notice periods.

14. Valuations

The Group does not utilise the services of a third party service provider for the determination and calculation of its net asset value.

The Group's unquoted investments are revalued twice a year as at 30 September and 31 March. The Group's quoted investments are valued at each quarter end on 30 September, 31 December, 31 March and 30 June.

The Company does not make regular notifications of the Group's net asset value per Ordinary Share to Shareholders. Therefore, the Company has not made arrangements which anticipate the suspension of valuations or the communication of any such suspension to Shareholders.

A description of the methodology used to value the Group's portfolio is set out below. The methodology complies in all material respects with the "International private equity and venture capital valuation guidelines" endorsed by both the BVCA and EVCA.

Basis of valuation

Investments are reported at the Directors' estimate of fair value at the reporting date. Fair value represents the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

General

In estimating fair value, the Group seeks to use a methodology that is appropriate in light of the nature, facts and circumstances of the investment and its materiality in the context of the total portfolio. Methodologies are applied consistently from period to period, except where a change would result in a better estimation of fair value. Given the uncertainties inherent in estimating fair value, a degree of caution is applied in exercising judgments and making the necessary estimates.

Quoted investments

Quoted investments are valued at the closing bid price at the reporting date. In accordance with IFRS, no discount is applied for liquidity of the stock or any dealing restrictions.

Unquoted investments

Most unquoted investments are valued using one of the following methodologies:

- (i) cost, less any required provision;
- (ii) earnings multiple;
- (iii) net assets;
- (iv) price of recent investment;
- (v) expected sales proceeds.

New investments are valued at cost for the first 12 months and then until another methodology becomes more appropriate. This generally occurs when the first full set of accounts covering a period of at least six months since the date of investment becomes available.

Any investments in a company that has failed or is expected to fail within the next 12 months has the equity shares valued at nil and the fixed income shares and loan instruments valued at the lower of cost and net recoverable amount.

Generally, the process of estimating the fair value of an investment involves selecting one of the above methodologies and using that to derive an enterprise value for the investee company. The process is then to:

- (i) deduct from the enterprise value all financial instruments ranking ahead of the Group;
- (ii) apply an appropriate marketability discount;
- (iii) apportion the remaining value over the other financial instruments including the Group's loans, fixed income shares and equity shares.

Where that apportionment indicates a shortfall against the loans or fixed income shares, then the Group considers whether, in estimating fair value, the shortfall should be applied, and if so, to what extent.

The marketability discount will generally be between 10% – 30% with the level set to reflect the Group's influence over the exit prospects and timing for the investee company.

When using the earnings multiple methodology, EBIT are normally used, adjusted to a maintainable level. Generally, the latest full year historical accounts are used unless there is an indication of a forecast downturn in earnings in the current or forecast year, in which case those earnings may be used. An appropriate multiple is applied to these earnings to derive an enterprise value. Normally the multiple will be the average EBIT multiple for the relevant sector of the FTSE (Global) Europe Small Cap index, adjusted downwards by the Group to exclude loss-making companies.

Where a company reports an operating loss or the industry standard valuation methodology is by reference to the asset base, then the value may be estimated using the net assets methodology.

The price of recent investment methodology is used mainly for investments in venture capital companies and includes cost of the investment or valuation by reference to a subsequent financing round. Valuation increases above cost are only recognised if that round involved a new external investor and the company is meeting milestones set by the investors. The relevance of this methodology can be eroded over time due to changes in the technology, business or market which may indicate an impairment has occurred. In this case, carrying values will be reduced to reflect fair value.

Other factors that may be taken into account include:

- (i) the expected effect of rachets, options and liquidation preferences;
- (ii) any industry standard valuation methodology;
- (iii) offers received as part of a sale process which may either support the value derived from another methodology or be used as the valuation less a marketability discount of typically 10%.

For the Group's smaller investments, the valuation is determined by a more mechanistic approach using information from the latest audited accounts. Equity shares are valued at the higher of an earnings or net assets methodology. Fixed income shares and loan investments are valued at the lower of cost and net recoverable amount. Approximately 15% by value of the Group's unquoted investments are valued using this methodology.

15. Documents available for inspection

The Memorandum and Articles of Association of the Company (including the Memorandum and Articles of Association of the Company as proposed to be amended pursuant to the Proposals), the Annual Report and Accounts 2006, the Annual Report and Accounts 2005 and the Annual Report and Accounts 2004 will be available for inspection at the Company's registered office at 16 Palace Street, London SW1E 5JD for a period of twelve months from the date of this document.

16. Takeover bids

(A) Mandatory bids

The City Code applies to the Company. Under the City Code, if an acquisition of Ordinary Shares were to increase the aggregate holding of the acquirer and its concert parties to Ordinary Shares carrying 30% or more of the voting rights in the Company, the acquirer and, depending on the circumstances, its concert parties, would be required (except with the consent of the Panel on Takeovers and Mergers) to make a cash offer for the outstanding Ordinary Shares in the Company at a price not less than the highest price paid for the Ordinary Shares by the acquirer or its concert parties during the previous 12 months. A similar obligation to make such a mandatory cash offer would also arise on the acquisition of Ordinary Shares by a person holding (together with its concert parties) Ordinary Shares carrying between 30 to 50 per cent. of the voting rights in the Company if the effect of such acquisition were to increase that person's percentage of the voting rights.

(B) Squeeze-out

Under the Companies Act, if a person who has made a general offer to acquire Ordinary Shares were to acquire 90% of the Ordinary Shares within four months of making its offer, it could then compulsorily acquire the remaining 10%. It would do so by sending a notice to outstanding holders of Ordinary Shares telling them that it will compulsorily acquire their Ordinary Shares and then, six weeks later, executing a transfer of the outstanding Ordinary Shares in its favour and paying the consideration to the Company, which would hold the consideration on trust for outstanding holders of Ordinary Shares. The consideration offered to the outstanding holders of Ordinary Shares whose Ordinary Shares are compulsorily acquired under the Companies Act must, in general, be the same as the consideration that was available under the takeover offer.

(C) Sell-out

The Company gives minority holders of Ordinary Shares a right to be bought out in certain circumstances by a person who has made a general offer as described in (B) above. If, at any time before the end of the period within which the offer can be accepted, the offeror holds or has agreed to acquire, not less than 90% of the Ordinary Shares, any holder of Ordinary Shares to which the offer relates who has not accepted the offer can, by a written communication to the offeror, require it to acquire those Ordinary Shares.

The offeror is required to give each holder of Ordinary Shares notice of his right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of minority holders of Ordinary Shares to be bought out, but the period cannot end less than three months after the end of the acceptance period. If a holder of Ordinary Shares exercises his rights, the offeror is entitled and bound to acquire those Ordinary Shares on the terms of the offer or such other terms as may be agreed.

(D) Takeover bids

No public takeover bids have been made in relation to the Company's equity during the last financial year or the current financial year.



17. Regulation

The Company was authorised and regulated by the FSA until 27 May 2005, when it relinquished its deposit taking status. 3i Investments plc, a wholly owned subsidiary of the Company, is authorised and regulated by the FSA under the Financial Services and Markets Act 2000. Where applicable, certain of the Group's businesses outside the United Kingdom are regulated locally by relevant authorities.

18 Disclosure of interests

Pursuant to section 212 of the Companies Act, the Company may by notice in writing require any person whom it knows, or has reasonable cause to believe, is or was, at any time during the three year period before the issue of the notice, interested in the Relevant Share Capital of the Company to confirm such fact. The written notice may require such person to give particulars of any other interests in the shares concerned which are or were subsisting contemporaneously with that of the recipient (including the identity of the persons who hold or held those interests) and in the case of a past interest, particulars of the identity of the person who acquired that interest following the recipient's ceasing to hold it.

"Relevant Share Capital" means the Company's issued share capital of a class carrying rights to vote in all circumstances at general meetings of the Company and includes any rights to subscribe for such shares.

Part IX. Rights and restrictions attached to the B Shares

1. New Article in relation to B Shares

- 1.1** The B Shares will be created in accordance with the Companies Act by virtue of the Resolution contained within the Notice of EGM included in the Circular.
- 1.2** The following sets out the text of a new Article in respect of the rights and restrictions to be attached to the B Shares which is proposed to be added to the Articles of Association of the Company by the Resolution:

“B Shares

148. Rights and Restrictions Attached to B Shares

(A) Form of Election

- (i) Together with a circular to members dated 15 June 2006 (the “**Circular**”) members were sent a form of election relating to the B Shares (the “**Form of Election**”) under which they could elect in relation to any B Shares held by them to (i) participate in the purchase of the B Shares by a person or persons acting as principal (the “**Initial Purchase Offer**”) or (ii) retain the B Shares.
- (ii) The B Shares which holders of certificated shares who fail to return a duly completed Form of Election by 4.30 pm on 14 July 2006 (or such other time and date that the board may determine) would otherwise be entitled to retain shall be issued to a nominee appointed by the board and acting on their behalf in accordance with Article 133.
- (iii) The board reserves the right, in its absolute discretion, to waive any defect or irregularity in relation to the completion of, or the receipt of, a Form of Election (or a withdrawal thereof). The board may, in addition, if it so determines in its absolute discretion, treat any other document or action as a Form of Election or as the completion of a valid Form of Election, as the case may be.

(B) Income

- (i) Out of the profits available for distribution in respect of each financial year or other accounting period of the company, the holders of the B Shares shall be entitled, in priority to any payment of dividend or other distribution to the holders of the ordinary shares and before profits are carried to reserves, to be paid a cumulative preferential dividend per B Share (the “**B Share Dividend**”) calculated on 127p (the “**Return Amount**”) per B Share in accordance with articles 148(B)(ii) – (iv) below rounded down to the nearest whole penny.
- (ii) The first B Share Dividend shall be in respect of the period commencing on the date of issue of the B Shares and ending on 14 July 2007 and is to be paid in arrears on 14 July 2007 (or such later Business Day in 2007 as the Directors may determine) and thereafter such dividend shall be paid (without having to be declared) in arrears on 14 July (or such later Business Day as the Directors may determine) in each year or, if any such date would otherwise fall on a date which is not a Business Day it shall be postponed to the immediately following Business Day, without any consequent amendment to the amount being paid (each, a “**Payment Date**”).
- (iii) The first period beginning on the date of issue of the B Shares and ending on 14 July 2007 and each twelve month period ending on 14 July thereafter is called a “**Calculation Period**”. The annual rate applicable to each Calculation Period shall be 3.75%, calculated on the basis of a 365 day year such that the B Share Dividend shall accrue pro rata in respect of the number of days in the first Calculation Period (which shall include the date of issue of the B Shares).
- (iv) In this Article, the expression “**Business Day**” means a day upon which pound sterling deposits may be dealt in on the London inter-bank market and commercial banks are generally open in London.
- (v) The holders of the B Shares shall not be entitled to any further right of participation in the profits of the company.

(C) Capital

- (i) On a return of capital on winding-up (excluding any intra-group reorganisation on a solvent basis), the holders of the B Shares shall be entitled, in priority to any payment to the holders of ordinary shares, to the Return Amount per B Share held by them, together with a sum equal to the aggregate amount of accrued but unpaid dividend thereon.
- (ii) The aggregate entitlement of each holder of B Shares on a winding up in respect of all of the B Shares held by him shall be rounded down to the nearest wholly penny.
- (iii) On a winding up, the holders of the B Shares shall not be entitled to any further right of participation in the profits or assets of the company in excess of that specified in article 148(C)(i) above. If on such a winding-up the amounts available for payment are insufficient to cover in full the amounts payable on the B Shares, the holders of the B Shares will share rateably in the distribution of assets (if any) in proportion to the full preferential amounts to which they are entitled.
- (iv) The holders of the B Shares shall not be entitled to any further right of participation in the assets of the company.

(D) Attendance and voting at general meetings

- (i) The holders of the B Shares shall not be entitled, in their capacity as holders of such shares, to receive notice of any general meeting of the company nor to attend, speak or vote at such general meeting, unless:
- (a) the business of the meeting includes the consideration of a resolution for the winding-up (excluding any intra-group reorganisation on a solvent basis) of the company, in which case the holders of the B Shares shall have the right to attend the general meeting and shall be entitled to speak and vote only on such resolution; or



- (b) at the date of the notice convening the meeting, the B Share Dividend has remained unpaid for six months or more from a Payment Date, in which case the holders of the B Shares shall have the right to attend the general meeting and shall be entitled to speak and vote on all resolutions.
- (ii) Whenever the holders of the B Shares are entitled to vote at a general meeting of the company, on a show of hands every holder thereof who (being an individual) is present in person or (being a corporation) by a representative shall have one vote, and on a poll every such holder shall have one vote per B Share.

(E) Company's right to procure sale

Subject to the provisions of the Companies Acts and to compliance with applicable securities law and regulations but without the need to obtain the sanction of any resolution of the holders of the B Shares, the company may:

- (a) at any time on or after 14 July 2009; or
- (b) at any time when the company no longer meets some or all of the criteria for listing of the B Shares under the Listing Rules of the UK Listing Authority,

without obtaining the sanction of the holders of the B Shares appoint any person on behalf of all the holders of the B Shares to execute a transfer of all of the B Shares or any part thereof (and/or an agreement to transfer the same) in acceptance of an offer made by any person (other than the company) subject to such person paying to the holder of the B Shares so transferred such amount as they would be entitled to were the company to be wound up on such day and in connection therewith change the form of any B Shares held in uncertificated form to certificated form and cancel any relevant listing or trading of such B Shares (and the holders of B Shares shall take, and the company may on their behalf take, such steps as may be required in connection with such change of form or cancellation of listing).

(F) Class rights

- (i) The company may from time to time create, allot and issue further shares, whether ranking *pari passu* with or in priority or subsequent to the B Shares. The creation, allotment or issue of any such further shares (whether or not ranking in any respect in priority to the B Shares) shall be treated as being in accordance with the rights attaching to the B Shares and shall not involve a variation of such rights for any purpose or require the consent of the holders of B Shares.
- (ii) A reduction by the company of the capital paid up or credited as paid up on the B Shares and the cancellation of such shares and, upon such reduction, the payment to the holders of the B Shares of the preferential amounts to which they would be entitled to under article 148(C) were the company to be wound up on the day that such reduction becomes effective (or the issue to the holders of the B Shares of new shares in any new holding company of the company with substantially the same terms as the B Shares), shall be treated as being in accordance with the rights attaching to the B Shares and shall not involve a variation of such rights for any purpose or require the consent of the holders of the B Shares. Without prejudice to the foregoing, the company is authorised to reduce (or purchase shares in) its capital of any class or classes (subject to obtaining, as applicable, the consent of the holders of the ordinary shares and the confirmation of the Court in each case in accordance with the Companies Acts) and such reduction (or purchase) shall not involve a variation of any rights attaching to the B Shares for any purpose or require the consent of the holders of the B Shares. The holders of the B Shares shall not be entitled to participate in any capitalisation of profits or reserves by the company and any such capitalisation shall not involve a variation of any rights attaching to the B Shares for any purpose or require the consent of the holders of the B Shares.
- (iii) If at any time a currency other than pounds sterling is accepted as legal tender in the United Kingdom in place of or in addition to pounds sterling, the Directors shall be entitled, without the consent of holders of the ordinary shares or the B Shares, to make such arrangements and adjustments in respect of the method of calculation and payment of any of the entitlements of holders of B Shares under these articles as the Directors consider necessary, fair and reasonable in the circumstances to give effect to the rights attaching to the B Shares, including (without limitation) in respect of the calculation and payment of the B Share Dividend, notwithstanding the fact of such acceptance. Any such arrangements and adjustments shall not involve a variation of any rights attaching to the B Shares for any purpose or require the consent of the holders of B Shares.

(G) Deletion of Article 148(A)-(G) when no B Shares in existence

Article 148(A)-(G) shall remain in force until there are no longer any B Shares in existence. Thereafter article 148(A)-(G) shall be and shall be deemed to be of no effect and shall be deleted and replaced with the wording "Article 148(A)-(G) has been deleted", and the separate register for the holders of B Shares shall no longer be required to be maintained by the company; but the validity of anything done under article 148(A)-(G) before that date shall not otherwise be affected and any actions taken under article 148(A)-(G) before that date shall be conclusive and shall not be open to challenge on any grounds whatsoever."

1.3 There will be no restrictions on free transferability specific to the B Shares.

1.4 Any dividend unclaimed on the B Shares after a period of twelve years from the date when it became due for payment shall be forfeited and shall revert to the Company.

2. Withholding taxes

As at the date of this document, payments of dividends on the B Shares may be made without withholding or deduction for or on account of UK tax.

