

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other independent professional financial adviser authorised under the Financial Services and Markets Act 2000 immediately.**

**If you have sold or otherwise transferred all of your BEET Shares please forward this document and the accompanying documents to the purchaser or transferee or the stockbroker, bank or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee. However this document and the accompanying documents should not be forwarded to, or transmitted in or into, the United States, Canada, Australia, Ireland or Japan.**

A copy of this document, which comprises a prospectus relating to Baring Emerging Europe PLC (the "Company"), prepared in accordance with the listing rules of the UK Listing Authority made under section 74 of the Financial Services and Markets Act 2000, has been delivered for registration to the Registrar of Companies in England and Wales, as required by section 83 of that Act.

The Directors of the Company, whose names appear under the heading "Directors, Managers and Advisers" on page 9, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

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# **BARING EMERGING EUROPE PLC**

*(incorporated in England and Wales under the Companies Act 1985 No. 4560726 and registered as an investment company under Section 266 of the Companies Act 1985)*

## **Issue of up to 125,000,000 Ordinary Shares of 10 pence each**

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Applications have been made to the UK Listing Authority for Baring Emerging Europe Shares to be admitted to the Official List and to the London Stock Exchange for Baring Emerging Europe Shares to be admitted to trading on the London Stock Exchange's market for listed securities. Admission to the Official List of the UK Listing Authority together with admission to trading on the London Stock Exchange's market for listed securities constitute admission to official listing on a stock exchange. Baring Emerging Europe Shares are only being made available to BEET Shareholders and BEET Warrantholders and are not being generally made available or marketed to the public in the UK pursuant to the Issue. It is expected that Admission will become effective and dealings will commence on the London Stock Exchange on Wednesday 18 December 2002.

Ernst & Young LLP is acting as financial adviser to the Company and will not regard any person other than the Company as its customer or be responsible to anyone other than the Company for providing the protections afforded to customers of Ernst & Young LLP or advice in relation to the Issue.

No person has been authorised to give any information or to make any representations, other than those contained in this document, in connection with the Baring Emerging Europe Shares and, if given or made, such information or representations must not be relied upon as having been authorised by the Company. Neither the delivery of this document nor the allotment or issue of Baring Emerging Europe Shares shall under any circumstances create any implication that there has been no change in the affairs of the Company since the date hereof.

**Potential Baring Emerging Europe Shareholders should inform themselves as to (a) the possible tax consequences; (b) the legal requirements; and (c) any foreign exchange restrictions or exchange control requirements which they might encounter under the laws of the countries of their citizenship, residence or domicile, and which might be relevant to the subscription, holding, or disposal of Baring Emerging Europe Shares. Persons resident in territories other than the United Kingdom (the UK does not include the Channel Islands) should consult their professional advisers as to whether they require any governmental or other consents or need to observe any formalities to enable them to apply for, acquire, hold or dispose of Baring Emerging Europe Shares.**

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## EXPECTED TIMETABLE

Latest time for receipt of Forms of Election	5 p.m. on Tuesday 3 December 2002
Results of Election expected to be announced	3 p.m. Thursday 5 December 2002
Effective Date of the BEET Scheme	Tuesday 17 December 2002
Commencement of dealings in Baring Emerging Europe Shares, and CREST accounts credited	Wednesday 18 December 2002
Share certificates expected to be despatched	Week commencing 23 December 2002

## KEY INFORMATION

The following information is derived from, and should be read in conjunction with, the full text of this document.

**The attention of potential investors is drawn to the “Special Considerations and Risk Factors” set out on page 5 of this document.**

### **The Company**

The Company is a new closed-end investment trust company which was incorporated in England and Wales on 11 October 2002. Its capital is denominated in sterling and will consist of a single class of Ordinary Shares. The Company has been incorporated with an indefinite life.

### **Investment Objective**

The Company’s investment objective is to achieve long-term capital growth, principally through investment either in securities listed on or traded on an Emerging European securities market or in securities listed or traded elsewhere, the majority of whose revenues and/or profits are, or are expected to be, derived from activities in Emerging Europe.

The Directors and the Investment Manager believe that a portfolio of selected Emerging European equities will provide attractive returns to investors over the medium and long term. They also consider that current market levels present an attractive buying opportunity for the medium-term and that Emerging European equity markets provide exposure to a diversified range of sectors.

### **Investment Policy**

Investment will initially be mainly in Russia, the Czech Republic, Hungary, Poland and Turkey. The Directors may widen the investment area in the future to include other Emerging European countries. The portfolio will initially replicate that of BEET.

### **Benchmark**

The benchmark is a customised benchmark based on the FTSE Greater Eastern Europe with Turkey Index, within which Russia and Turkey are reduced to 50 per cent. and 15 per cent. of their Index market capitalisations respectively.

### **The Issue**

Baring Emerging Europe is being launched in connection with the scheme of reconstruction of BEET (the “BEET Scheme”). Baring Emerging Europe Shares are being offered under the BEET Scheme and will be issued to BEET Shareholders and BEET Warrantheolders who elect to roll-over their investment, for a consideration consisting wholly or mainly of BEET investments or (in the case of certain BEET warrantheolders) cash.

The BEET Scheme provides for a transfer, from BEET Shareholders realising their investment to the Company, of two per cent. of the value of the BEET shareholdings which are elected for cash, subject to a maximum of US\$2 million. As the estimated expenses of establishing the Company are expected to be substantially less than this figure, BEET Shareholders who elect to receive Baring Emerging Europe Shares should thus benefit from an increase in the NAV attributable to their shareholdings.

### **Investment Management**

The Investment Manager will be Baring Asset Management Limited. As at 31 August 2002 the Investment Manager managed total assets in excess of £25.1 billion, including £1.8 billion in emerging markets of which £0.8 billion is invested in Emerging Europe.

The Investment Manager will be entitled to an annual management fee, calculated monthly and paid in arrears at an annual rate of 0.8 per cent. of the net asset value of the Company. In addition the Investment Manager will receive a performance fee which is payable at the rate of 10 per cent. of the amount by which the

change in the Company's net asset value exceeds the change in the Benchmark. The performance fee payable in respect of any performance period will be capped at 0.6 per cent. of the net asset value of the Company on the first day of the relevant performance period. Any performance in excess of this cap figure can only be offset against future under-performance.

#### **Share Repurchase Arrangements**

The Directors have adopted a firm policy with regard to the market rating of the Company's Shares. At all times, the Board will seek to limit any discount to NAV at which the Shares trade to a level significantly lower than the 12 per cent. trigger level referred to in the paragraph below, using as necessary the on-market share repurchase authority which has been granted to the Directors. This authority will permit on-market repurchases of up to 15 per cent. of the Company's Shares; it is intended to seek Shareholders' approval for the renewal of this authority every year at the Company's annual general meeting, and at an earlier extraordinary general meeting if necessary.

If the average closing mid-market price of the Company's Shares, in the period of 90 days prior to the publication of the Company's preliminary results each year represents a discount to NAV which exceeds 12 per cent., the Company will (subject to receiving the necessary Shareholder approval) offer to repurchase, by way of tender available to all Shareholders, up to 15 per cent. of the outstanding issued share capital at 95 per cent. of net asset value (after taking account of expenses including the costs of selling investments in order to fund the repurchase).

In addition to any necessary shareholder approval from time to time, the ability of the Directors to give effect to this policy is dependent upon confirmation by the Court of the proposed cancellation of the Company's share premium account which was approved by shareholders on 8 November 2002. Such confirmation is being sought at a Court hearing expected to take place on 18 December 2002.

#### **Dividend Policy**

It is the intention of the Directors to distribute substantially all of the Company's net income (if any) after expenses in the form of a single dividend in February of each year.

#### **Size**

If valid elections for the option to roll-over investments in BEET Shares pursuant to the BEET Scheme would otherwise create an Issue of less than 17.5 million Shares, then all BEET Shareholders and BEET Warranholders shall be deemed to have elected for the cash option under the BEET Scheme and the Issue will not proceed. If the holders of less than 10 million BEET Shares elect for cash, then the BEET Scheme will not proceed. The Issue will also not proceed if, for any other reason, the BEET Scheme does not become effective.

**Prospective investors should not construe the contents of this Prospectus as legal, taxation or financial advice. Prospective investors should consult their professional advisers as to legal, taxation or financial consequences that may be relevant to the purchase, holding or disposing of shares in the Company.**

## **SPECIAL CONSIDERATIONS AND RISK FACTORS**

Prospective investors should be aware that the value of the Company's Shares and the income from them may fluctuate. In addition, there is no guarantee that the market prices of shares in investment trusts will fully reflect their underlying Net Asset Value.

**The risks inherent in investment by the Company in Emerging Europe are of a nature and degree not typically encountered in investing in securities of companies listed on the major securities markets. Such risks are both political and economic and include those described below. They are additional to the normal risks inherent in any equity investment.**

The Company's initial portfolio will be derived from that of BEET and will thus principally consist of investments in Russia, the Czech Republic, Hungary, Poland and Turkey.

Investment in the Company should be regarded as long-term in nature. There can be no guarantee that the Company's investment objectives will be achieved. The Company is newly-established and has no operating history. The past performance of BEET and the assets managed by BAM are not necessarily guides to the future performance of the Company.

### **Ordinary Shares**

Dividend growth on the Ordinary Shares will depend on dividend growth in the underlying portfolio. The ability of the Company to pay dividends will depend on the income received from the portfolio, which may be wholly offset by the Company's expenses.

### **Political and Economic Factors**

Although democratic systems of government are established in Emerging Europe, such countries remain exposed to risks of political change or periods of political uncertainty which could adversely affect the value of assets of the Company.

The fiscal and monetary systems of Emerging Europe remain relatively underdeveloped compared with the UK and the United States and this may affect the stability of the economies and financial markets of these countries.

The high rates of inflation experienced by many countries in Emerging Europe have also had, and may continue to have, negative effects on the economies in these countries. Steps have been taken to reduce inflation but there is no guarantee that these steps may not be reversed in the future. Governments may also take further steps to control inflation, which may lead to periods of lower economic growth.

Turkey has accumulated substantial external debt service obligations and has entered into debt refinancing agreements with foreign creditors, such as the IMF, and adopted economic policies to facilitate debt service requirements. The debt situation has adversely affected its economy in the past and may do so again in the future.

Although recent governments in Emerging Europe have implemented policies which have been, in the main, market-oriented, there can be no guarantee that current or future governments will continue to pursue these policies.

### **Currency Risks**

The assets of the Company will be invested in Emerging Europe and substantially all income will be received in Emerging European currencies. The currencies of some countries in Emerging Europe, in particular those which have suffered from a high rate of inflation, have depreciated in value substantially against Sterling in recent years and may depreciate further in the future. Since the net asset value of the Company and its income will be calculated and reported in Sterling, further depreciation in these currencies could have an adverse impact on the performance of the Company. The Company may enter into currency hedging transactions but appropriate mechanisms on acceptable terms may not be readily available.

### **Securities Markets**

The securities markets of Emerging Europe are less developed than those of the United Kingdom and the United States. Trading in all these markets may, therefore, be subject to restricted marketability, low turnover and high volatility. Opportunities for accumulation and disposal of holdings may, on occasion, be limited.

In addition, there is generally less regulation of securities markets, brokers and listed companies in Emerging Europe than in the United Kingdom and the United States.

**Reporting Standards**

Accounting, auditing and financial reporting standards and practices and disclosure requirements applicable to many companies in Emerging Europe are less rigorous than those in the United Kingdom and the United States. As a result there may be less information available publicly to investors in Emerging European securities than to investors in comparable securities in the United Kingdom and the United States securities markets. Such information as is available is often less reliable.

**Enforcement of Rights**

It may be more difficult for the Company to obtain effective enforcement of its rights in certain countries of Emerging Europe than in the United Kingdom or the United States.

**Local tax and trading/transfer costs**

The Company will suffer withholding tax on dividends and interest payments received from its portfolio at varying rates. There is presently no taxation levied on the sale of securities in the countries in which the Company will invest. However, this may change in the future.

## DEFINITIONS

In this document the words and expressions listed below have the meanings set out opposite them, except where the context otherwise requires:

<b>“Act”</b>	Companies Act 1985 (as amended)
<b>“Administrator”</b>	Baring Investment Services Limited
<b>“Admission”</b>	admission of the Baring Emerging Europe Shares to the Official List and such admission becoming effective
<b>“Articles”</b>	the Articles of Association of the Company as amended from time to time
<b>“BAM” or “Investment Manager”</b>	Baring Asset Management Limited
<b>“BAM Group”</b>	BAM and its subsidiaries
<b>“Baring Emerging Europe” or “Company”</b>	Baring Emerging Europe PLC
<b>“BEET”</b>	The Baring Emerging Europe Trust PLC
<b>“BEET Directors”</b>	the directors of BEET
<b>“BEET Shares”</b>	ordinary shares of US\$0.10 each in the capital of BEET
<b>“BEET Shareholders”</b>	holders of BEET Shares
<b>“BEET Preference Shares”</b>	redeemable preference shares of £1.00 each in the capital of BEET and/or preference shares of £1.00 each in the capital of BEET, as the context requires
<b>“BEET Preference Shareholders”</b>	holders of BEET Preference Shares
<b>“BEET Scheme” or “Scheme”</b>	the proposed scheme of reconstruction relating to BEET
<b>“BEET Warrant”</b>	a warrant to subscribe for one BEET Share
<b>“BEET Warrantholders”</b>	holders of BEET Warrants
<b>“Benchmark”</b>	customised benchmark based on the FTSE Greater Eastern Europe with Turkey Index, within which Russia and Turkey are reduced to 50 per cent. and 15 per cent. of their Index market capitalisations respectively
<b>“Board”</b>	the board of directors of the Company
<b>“CREST”</b>	the system for the paperless settlement of trades in securities and the holding of uncertificated securities operated by CRESTCo Limited in accordance with the Uncertificated Securities Regulations 2001
<b>“Custodian”</b>	State Street Bank and Trust Company
<b>“Directors”</b>	the directors of the Company
<b>“Effective Date”</b>	the date on which the resolutions to be proposed at the Second Extraordinary General Meeting are passed and the Scheme becomes effective, which is expected to be 17 December 2002
<b>“Election”</b>	an election under the BEET Scheme for Baring Emerging Europe Shares or cash, as the case may be, in respect of BEET Shares and BEET Warrants
<b>“Emerging Europe”</b>	that area which is so defined from time to time by the Company and which will initially comprise the successor countries in Europe of the former Soviet Union, the Balkan countries, Poland, Hungary, the Czech Republic, Slovakia, states of the former Yugoslavia and Turkey
<b>“Emerging European”</b>	of or relating to Emerging Europe
<b>“Emerging Market”</b>	all countries which are constituents of the MSCI Emerging Markets Index
<b>“EPS”</b>	earnings per share
<b>“EU”</b>	European Union

<b>“Extraordinary General Meetings”</b>	the First Extraordinary General Meeting and the Second Extraordinary General Meeting
<b>“First Extraordinary General Meeting”</b>	the extraordinary general meeting of BEET to be held on 5 December 2002 or any adjournment of that meeting
<b>“Forms of Election”</b>	the forms of election sent to BEET Shareholders or BEET Warrantholders in connection with the BEET Scheme, as the context so requires
<b>“Investment Management Agreement”</b>	the investment management agreement between BAM and the Company dated 11 November 2002, details of which are set out in paragraph 7.1 of Part IV
<b>“ISA”</b>	Individual Savings Account
<b>“Issue”</b>	the issue of Baring Emerging Europe Shares pursuant to the BEET Scheme
<b>“Issue Price”</b>	the value of the assets to be transferred to the Company pursuant to the Transfer Agreement when the same is executed in final form, divided by the total number of Ordinary Shares required to be issued pursuant to clause 2.2 of the Transfer Agreement
<b>“Liquidators”</b>	the liquidators of BEET, to be appointed at the Second Extraordinary General Meeting, jointly and severally, and their successors
<b>“Listing Rules”</b>	the listing rules of the UK Listing Authority
<b>“London Stock Exchange”</b>	London Stock Exchange plc
<b>“NAV” or “Net Asset Value”</b>	in relation to the Baring Emerging Europe Shares, the net asset value per share of such shares calculated in accordance with the Company’s Articles and accounting policies
<b>“Ordinary Shares” or “Baring Emerging Europe Shares”</b>	ordinary shares of £0.10 each in the capital of the Company
<b>“Official List”</b>	the official list of the UK Listing Authority
<b>“Participating Member State”</b>	means any member state of the European Union which adopts the single currency in accordance with the Treaty establishing the European Communities as amended by the Treaty on European Union
<b>“PEP”</b>	Personal Equity Plan
<b>“Preference Shareholders”</b>	holders of Preference Shares
<b>“Preference Shares”</b>	redeemable preference shares of £1.00 each in the capital of the Company
<b>“Prospectus”</b>	this document
<b>“Registrar”</b>	Capita IRG Plc
<b>“Second Extraordinary General Meeting”</b>	the extraordinary meeting of BEET to be held on 17 December 2002 or any adjournment of that meeting
<b>“Shares”</b>	unless the context otherwise requires, Ordinary Shares
<b>“Shareholders”</b>	holders of Baring Emerging Europe Shares
<b>“Sterling” or “£”</b>	the lawful currency of the United Kingdom
<b>“Transfer Agreement”</b>	an agreement to be entered into between BEET, the Liquidators and the Company for implementing the transfer of assets from BEET to the Company pursuant to the BEET Scheme
<b>“UK Listing Authority”</b>	The Financial Services Authority in its capacity as the competent authority under the Financial Services and Markets Act 2000 (as amended)
<b>“US\$” or “US dollar”</b>	United States Dollars, being the lawful currency of the United States of America

In this document references to “m” refer to million, “billion” and “bn” refer to one thousand million. “Euro” or “€” refers to the single currency of the Participating Member States in the third stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Community as amended from time to time, “Rouble” means the lawful currency of Russia, “HUF” means Hungarian Forint, “PLN” means Polish Zloty, “CZK” means Czech Koruna and “HRK” means Croatian Kuna. Unless otherwise specified, references to individual years are to the relevant calendar year.



## DIRECTORS, MANAGERS AND ADVISERS

<b>Directors</b>	Iain Saunders, <i>Chairman</i> John Cousins Prince Abbas Hilmi  all of whom are non-executive directors and having a business address at: 155 Bishopsgate, London, EC2M 3XY
<b>Secretary</b>	Michael Nokes, FCA 155 Bishopsgate London EC2M 3XY
<b>Administrator</b>	Baring Investment Services Limited 155 Bishopsgate London EC2M 3XY
<b>Registered Office of the Company</b>	155 Bishopsgate London EC2M 3XY
<b>Investment Manager</b>	Baring Asset Management Limited 155 Bishopsgate London EC2M 3XY
<b>Sponsors and Financial Advisers</b>	Ernst & Young LLP Rolls House 7 Rolls Buildings Fetter Lane London EC4A 1NH
<b>Stockbrokers</b>	UBS Warburg Ltd. 1 Finsbury Avenue London EC2M 2PP
<b>Legal Advisers</b>	Slaughter and May One Bunhill Row London EC1Y 8YY
<b>Auditors</b>	KPMG Audit Plc 8 Salisbury Square London EC4Y 8BB
<b>Custodian</b>	State Street Bank and Trust Company One Canada Square London E14 5AF
<b>Registrar and Transfer Office</b>	Capita IRG Plc Bourne House Beckenham Road Beckenham Kent BR3 4TU

# PART I

## THE COMPANY

### 1. INTRODUCTION

Baring Emerging Europe is a new United Kingdom investment trust company with an unlimited life which will take advantage of investment opportunities associated with Emerging Europe and which has been established in connection with the scheme of reconstruction of BEET. Baring Emerging Europe Shares will be issued to BEET Shareholders and BEET Warranholders who elect to roll-over their investment into the Company for a consideration consisting wholly or mainly of portfolio assets of BEET or (in the case of certain BEET Warranholders) cash. The Company's portfolio will be managed by BAM, the investment manager of BEET.

The Company is a closed-end investment company which will direct its affairs to enable it to seek approval from the Inland Revenue as an investment trust under section 842 of the Income and Corporation Taxes Act 1988 in respect of its current and future accounting periods and therefore will not be subject to UK corporation tax.

### 2. THE ISSUE

The Issue consists of the allotment of Baring Emerging Europe Shares pursuant to the BEET Scheme and to BEET Warranholders who elect to apply their cash entitlements in subscription for Ordinary Shares.

#### 2.1 The BEET Scheme

On 12 November 2002 the directors of BEET published details of the proposals for the reconstruction of BEET. These proposals include the winding up of BEET and will, if implemented, offer the choice to BEET Shareholders and BEET Warranholders of electing to receive Baring Emerging Europe Shares or cash. The latest time and date for receipt of Forms of Election from BEET Shareholders and BEET Warranholders in relation to the BEET Scheme and the Issue is 5.00 p.m. on Tuesday 3 December 2002.

The Company intends to enter into an agreement with the Liquidators and BEET under which it will acquire an investment undertaking, which will comprise former investments and/or cash of BEET, from the Liquidators in exchange for the issue of Baring Emerging Europe Shares to BEET Shareholders who have elected (or are deemed to have elected) to receive Baring Emerging Europe Shares. The total value of the assets to be acquired by the Company from the Liquidators will depend on the elections made by BEET Shareholders and on the value on the Effective Date of BEET's assets. The maximum number of Baring Emerging Europe Shares allotted pursuant to the Issue is equal to the number of BEET Shares in issue on the record date for the BEET Scheme plus that number of Ordinary Shares which is equal to the aggregate cash entitlements of the BEET Warranholders under the Scheme divided by the Issue Price (as to which, see below).

BEET Preference Shareholders will receive their entitlements under the terms of BEET's Articles of Association. Proposals have been put to BEET Warranholders which, if approved by BEET Warranholders at a separate meeting, would enable them to elect either for cash or to subscribe for BEET Shares which would rollover into Baring Emerging Europe Shares or to apply the cash entitlement which the BEET Warranholder would otherwise receive (as a consequence of the liquidation of BEET) in subscription for Baring Emerging Europe Shares. If the BEET Warranholders do not vote in favour of this proposal at the meeting of BEET Warranholders convened for 5 December 2002, BEET Warranholders will receive their cash entitlements under the terms of the BEET Warrants.

#### 2.2 Conditions of the Issue

The BEET Scheme (and accordingly the Issue) is conditional upon the passing of the resolutions to be proposed at the Extraordinary General Meetings, Baring Emerging Europe Shares being admitted to listing on the Official List by the UK Listing Authority and to trading on the London Stock Exchange.

In addition, if valid elections made by BEET Shareholders for the option to roll-over their investment in BEET Shares pursuant to the BEET Scheme would otherwise create an Issue of less than 17.5 million Ordinary Shares, then all BEET Shareholders shall be deemed to have elected for the cash option under the BEET Scheme. In this event, the Issue would not proceed. The Issue would also not proceed if holders of less than 10 million BEET Shares elect for cash or if the BEET Scheme did not, for any other reason, become effective.

### **2.3 Admission and Dealings**

Applications have been made to the London Stock Exchange and to the UK Listing Authority for the Baring Emerging Europe Shares to be admitted to trading on the London Stock Exchange and to be admitted to the Official List. It is expected that Admission will become effective, and dealings in Baring Emerging Europe Shares will commence, on 18 December 2002.

### **3. INVESTMENT OBJECTIVE**

The investment objective of the Company is to achieve long-term capital growth, principally through investment in Emerging European securities.

### **4. INVESTMENT POLICY**

The policy of the Directors is that, in normal market conditions, the portfolio of the Company should consist mainly of equity securities listed or traded on Emerging European securities markets (including over-the-counter markets). Equity securities for this purpose include equity-related instruments such as preference shares, convertible securities, options, warrants and other rights to subscribe or acquire, or relating to, equity securities. For the purpose of this investment policy the Russian Trading System is treated as an over-the-counter market. The Company may also invest in debt instruments such as bonds, bills, notes, certificates of deposit and other debt instruments issued by private and public sector entities in Emerging Europe.

In addition, Emerging European exposure may be obtained by indirect means. Investments may, for example, be made in the securities of companies listed on securities markets outside Emerging Europe that derive, or are expected by the Directors to derive, the majority of their revenues and/or profits and/or growth from activities in Emerging Europe.

The Directors intend to take advantage of the investment opportunities which may arise from the privatisation programmes which are at varying stages of implementation in Emerging Europe.

The Company may also invest in other investment funds in order to gain exposure to Emerging Europe where, for example, such funds afford one of the few practicable means of access to a particular market, or where such a fund represents an attractive investment in its own right.

The Company may from time to time invest in unquoted securities, but the amount of such investments is not expected to be material.

In accordance with the requirement of the UK Listing Authority, the investment policy of the Company will, in the absence of unforeseen circumstances, be adhered to for at least 3 years following Admission, and any material change in the investment policy within that period will only be made with the approval of Shareholders.

The Company will not be a dealer in investments.

### **5. INVESTMENT OPPORTUNITY**

#### *Overview*

Whilst global equity markets have been adversely affected by concerns surrounding the outlook for a global economic recovery and for corporate earnings as the excesses of the strong growth in the late 1990's are unwound, the Central and Eastern Europe region has demonstrated a remarkable resilience to these events. The Directors and Investment Manager believe that this is a direct consequence of the region's investment attractiveness both from a long-term perspective in the case of Russia and from convergence with the European Union in the case of the Czech Republic, Hungary and Poland.

It is only in the case of Turkey, which arguably has the potential to be one of the strongest economies within the region due to its sizeable domestic economy, efficient industrial workforce and supportive demographics that the fundamentals have been overshadowed by political instability.

The Directors believe that the long-term prospects for capital appreciation in these markets are good.

#### *Russia*

The investment case for Russia is rooted in its abundance of natural resources and intellectual capital. This has been supported by the emergence of a pro-reform leadership now led by President Putin, and attractively valued companies.

Russia continues to be one of the strongest economies in the region with economic growth expected to remain in excess of the Emerging Market average driven by a strong export performance, primarily from

the oil and gas sector, and domestic demand. The strengthening of the oil price from the lows reached in 1998 has not only allowed the government to put its public finances in order but has also allowed it to rebuild the country's foreign exchange reserves and retire debt. This has resulted in a lowering of its cost of capital and has lent support to the equity market.

From a company perspective, the devaluation of the Rouble in 1998 coincided with the rebound in the oil price, which served to improve margins and cash generation (owing to such enterprises having US dollar revenues but predominantly Rouble-linked costs) allowing reinvestment in the sector as well as attracting foreign capital, a situation which the Investment Manager expects to continue.

Whilst accelerating production growth and the drive towards greater efficiency gains within the oil and gas sector continue to underpin the economic performance currently being experienced by Russia, there is little doubt that in order for the commodity led recovery in Russia to broaden into the domestic economy and be sustainable, a wide array of structural reforms will need to continue to be implemented. The Investment Manager has been encouraged that since President Putin's election in 2000, he has embarked upon a programme of structural reforms tackling issues such as corporate taxation, the banking sector and the introduction of a "Land Code", which has paved the way for the private ownership of land. At the company level, President Putin has also been active in tackling the power of the "Oligarchs". The Investment Manager believes that in effect the "Oligarchs" have been encouraged to reduce their influence in the affairs of government in return for which the government will not question their property rights in assets which they obtained in a less than transparent manner. The Investment Manager believes that this rapprochement has provided a level of security for the "Oligarchs", which has encouraged them to retain and re-invest capital in their businesses and to adopt better corporate practices. As progress on this issue has become more tangible to investors and more firmly entrenched in corporate practices, market capitalisations have increased.

The continuing commitment by the President to effect structural changes within the economy is essential not only to lower the barriers to doing business in Russia but also to underpin economic growth and the re-rating of Russian securities.

### *Central Europe*

The long-term investment case for the Central European markets of the Czech Republic, Hungary and Poland (the "CE3") lies both in the secular fundamentals of each of these countries and also their expected accession into the European Union ("EU") and thereafter economic and currency convergence with EU members.

For the Czech Republic, Hungary and Poland closer links with the EU are already producing tangible rewards. Trade, for instance, between the EU and these candidate countries which have applied for EU membership increased threefold between 1993 and 1999 to €210 bn and now accounts for approximately sixty two per cent. of their total trade. Pre-accession aid from the EU is currently €3 bn per annum whilst transfers of up to €16.8 bn to 2006 are earmarked for the region. These transfers will be primarily allocated to infrastructure spending, which will provide substantial support for sustainable economic growth. In addition to the benefits of trade and investment flows into these countries, convergence towards EU members and adherence to the Maastricht criteria will also lead to a lowering of domestic interest rates towards the EU reference rate, which will significantly lower the cost of capital for these countries and should allow for a re-rating of equity valuations. The recent experience of both Portugal and Greece, the first two emerging countries to embark upon economic and monetary union, would support this argument.

Despite the clear benefits of convergence, risks still remain as regards the enlargement process and in particular surrounding the political decision making process, which might delay EU enlargement. Additional risks to investors surround the CE3 countries' ability to satisfy all aspects of the Maastricht criteria should the EU decide to adopt a strict interpretation of the targets. Currently all three countries have debt ratios of less than 60 per cent. but have yet to meet the budget deficit and inflation targets.

Whilst the Investment Manager expects the EU to exhibit some flexibility concerning certain aspects of the criteria (as was the case with Greece), it is clear that the CE3 countries still have to do more to comply with EU standards.

Despite these risks, the Investment Manager continues to believe that the convergence process is irreversible and that even if EU membership is delayed, the benefits accruing for improved capital flows and a reduction in the cost of capital will continue to support these countries.

### *Turkey*

Turkey, with its large domestic economy, an outstanding industrial workforce, export access to the European Union, strong population growth and excellent demographics has significant potential for economic growth. In order for this potential to be realised, there needs to be improvement in the political landscape. The recent elections may pave the way for this as Turkey now has a two party Parliament and a single party government for the first time since the 1940's and early 1980's respectively. How the governing AKP party will act in a secular country is uncertain and the powerful military who forced the last Islamist government to resign in 1999 are likely to be watching developments closely.

The new government has expressed an intention to work with the International Monetary Fund and the World Bank which currently assists Turkey through its support programme. Should the government be successful in achieving the economic and corporate reforms, as laid down in the conditions for financial support, this may finally allow the country to realise its growth potential. Clearly commitment to the programme remains critical and given Turkey's chequered political history, high risks remain in this regard.

### *Conclusion*

The Directors and the Investment Manager believe that the investment case for Emerging Europe centres on the continuing process of structural economic reforms in Russia and Central Europe and by convergence towards economic and monetary union with the EU for the CE3 countries in particular. Whilst there are a number of shorter-term hurdles to clear, not least in the timing of EU enlargement and the ability of the CE3 countries to meet the Maastricht criteria as well as the improvement in the political landscape in Turkey, the Directors and the Investment Manager maintain that these processes are so firmly entrenched as to be irreversible. On that basis, the Directors and the Investment Manager continue to believe that the investment outlook for the region remains compelling.

## **6. DIVIDEND POLICY**

It is the intention of the Directors to distribute substantially all of the Company's net income (if any) after expenses in the form of a single dividend payable in February of each year.

The above comment relates to dividends only and is not a profit forecast.

## **7. CAPITAL STRUCTURE**

The Company's authorised share capital consists of 199,500,000 ordinary shares of £0.10 each (of which two are in issue) and 50,000 redeemable preference shares of £1.00 each (all of which are in issue). The Preference Shares were allotted to Baring Investment Services Limited and paid up to the extent of 25 pence per share to comply with the legal requirements as to the capital of a public company and to enable the Company to obtain a certificate to commence business under section 117 of the Companies Act. The two subscriber shares will be transferred to investors pursuant to the Issue. All the Preference Shares are expected to be redeemed at their paid up value immediately after the Issue.

### **7.1 Ordinary Shares**

The Ordinary Shares will be quoted on the London Stock Exchange. The Ordinary Shares will have an Issue Price which will be approximately equal to the asset value (calculated as at the Effective Date in accordance with the provisions of the BEET Scheme) attributable to a BEET Share whose holder has elected to rollover his investment into Baring Emerging Europe Shares. On the basis of the net asset value of BEET and the exchange rate between Sterling and the US Dollar as at 6 November 2002 (the latest practicable date prior to publication of this document), if the Scheme had become effective and if the Ordinary Shares had been issued on that date the Issue Price per Ordinary Share would have been approximately £1.93, resulting in a premium per Ordinary Share of approximately £1.83. Had the reconstruction of BEET completed on 6 November 2002 (being the latest practicable date prior to the publication of this document) and based on the estimated formation expenses of the Company and 17.5 million shares being issued (being the minimum number required to be issued for the roll-over option under the BEET Scheme to take effect) the estimated NAV would have been the sterling equivalent of US\$3.02 per share. Ordinary Shares will be issued in consideration of the transfer of those assets transferred by BEET to the Company pursuant to the BEET Scheme and for cash at the Issue Price to those BEET Warrantheolders who elect to apply the cash entitlement to which they would have otherwise received on the liquidation of BEET in subscription for Ordinary Shares.

## **7.2 Preference Shares**

The Preference Shares were created for technical reasons to comply with the legal requirements as to the capital of a public company and to enable the Company to obtain a certificate to commence business under section 117 of the Companies Act. The Preference Shares have a nominal value of £1.00 each. Preference Shareholders do not have voting rights, other than in relation to a resolution to amend the terms of the Preference Shares. The Preference Shares carry the right to receive a fixed dividend at the rate of 0.1 per cent. on their nominal value but no other right to share in the profits of the Company in any circumstances. All the Preference Shares are expected to be redeemed at their paid up value immediately after the Issue.

## **7.3 Gearing**

The Company intends to arrange a loan facility to take advantage of short-term investment opportunities, but it is intended that the Company would only be geared when the Directors, advised by the Investment Manager, have a high level of confidence that gearing would add significant value. It is not intended that the Company raise long-term borrowings.

## **7.4 Authority to repurchase Ordinary Shares**

The Directors have adopted a firm policy with regard to the market rating of the Company's shares. At all times, the Board will seek to limit any discount to NAV at which the Company's shares trade to a level significantly lower than the 12 per cent. trigger level referred to in the paragraph below, using as necessary the share repurchase authority which it is intended should have been granted to the Directors on the day that dealings commence in Baring Emerging Europe Shares. This authority will permit repurchases of up to 15 per cent. of the Company's shares during the period expiring on the earlier of the date of the Company's first annual general meeting and 1 May 2004; it is intended to seek Shareholders' approval for the renewal of this authority every year at the Company's annual general meeting, and at an earlier extraordinary general meeting if necessary.

If the average closing mid-market price at which the Ordinary Shares trade in the market in the period of 90 days prior to the publication of the Company's preliminary results each year represents a discount to NAV which exceeds 12 per cent. the Company will offer to repurchase, by way of tender available to all Shareholders, up to 15 per cent. of the outstanding issued share capital at 95 per cent. of NAV (after taking account of any expenses including the costs of selling investments in order to fund the repurchase).

Purchases of Ordinary Shares will only be made in the market at prices below the prevailing net asset value of an Ordinary Share, and in any event, the minimum price paid will not be below £0.10 per Ordinary Share.

In the case of repurchases not made as a result of a tender offer to all Shareholders, the Company may not repurchase Ordinary Shares at a price which is more than 5 per cent. above the average of the closing mid-market prices of the Ordinary Shares for the five business days preceding the repurchase.

Purchases will be funded either by using available cash resources, debt or by selling investments.

## **7.5 Cancellation of share premium account**

It is a legal requirement that the purchase price of Ordinary Shares that are repurchased by the Company be paid out of distributable profits of the Company or the proceeds of a fresh issue of shares. Immediately after the Issue has been completed, Baring Emerging Europe will not have distributable profits available for this purpose. It is therefore proposed that the Baring Emerging Europe Shares will be issued at a premium and that the resulting share premium account will be cancelled, thereby creating a distributable reserve available to repurchase Baring Emerging Europe Shares.

A cancellation of share capital (including a share premium account) must be approved by the Company in general meeting and confirmed by the High Court. A special resolution has been passed by the current shareholders of Baring Emerging Europe approving the reduction of the Company's share premium account.

Following the passing of the resolution approving the reduction of the Company's share premium account, an application has been made to the High Court to confirm the reduction. The final Court hearing to consider this application is expected to take place at 10:30 a.m. on 18 December 2002, following the Second Extraordinary General Meeting. The date of the final hearing will be advertised in the Financial Times. BEET Shareholders are able to attend the Court hearing for the confirmation of the cancellation of the Company's share premium account if they so wish.

## 7.6 Further share issues

The Directors of the Company have taken wide powers to issue Baring Emerging Europe Shares and have authority, until the conclusion of the next annual general meeting of the Company, to issue such shares. Shareholders' pre-emption rights over any unissued share capital have been disapplied so that the Directors can issue Shares pursuant to the BEET Scheme and may also issue up to a further 10 per cent. of the issued share capital immediately following completion of the Issue without being obliged to offer new Ordinary Shares to Shareholders on a *pro rata* basis. The reason for this is to retain flexibility, following the launch of the Company, in issuing new Ordinary Shares to investors. Such new shares will only be issued at a price greater than the Net Asset Value per share at the time of issue.

## 7.7 Listing

Application has been made for all the Baring Emerging Europe Shares to be admitted to trading on the London Stock Exchange and admitted to listing on the Official List by the UK Listing Authority.

## 8. ADVANTAGES OF AN INVESTMENT TRUST STRUCTURE

Investing in Emerging Europe through an investment trust with a managed portfolio has, in the opinion of the Directors, the following advantages:

- a closed-end structure is a more attractive way to invest in relatively illiquid markets and companies, because it allows long-term investment without the Investment Manager being exposed to the short term requirements sometimes experienced by open-ended funds to buy or sell illiquid stocks as a result of inflows and outflows of money;
- it provides investors with access to markets in which it may be difficult for them to invest directly;
- it saves investors from devoting the time or developing the specialist knowledge needed to follow Emerging European companies on a daily basis;
- it enables investors to achieve diversification in their investments in Emerging Europe; and
- investment by the Company may result in economies of scale, such as in commissions on transactions.

## 9. LIFE OF THE COMPANY

The Company has been incorporated with an indefinite life.

## 10. DIRECTORS

The Board of Directors is independent of the Investment Manager. Details of the Directors of the Company, all of whom are non-executive and are currently directors of BEET, are set out below:

**Iain Ogilvy Swain Saunders** (55), Chairman, is a British national and resident. He spent thirty years with the Fleming Group until his retirement in 2001, latterly as deputy chairman of Robert Fleming Asset Management. He is at present a director of JP Morgan Fleming American Investment Trust PLC, JP Morgan Fleming Indian Investment Trust PLC and Czech & Slovak Investment Corporation.

**John Stewart Cousins** (62) is a British national and resident and was formerly chief executive of BZW Puget Mahé in Paris and managing director of BZW Equities in London. Prior to that he held various posts with Kleinwort Benson and has over thirty years of experience in international equity investment. He is a former chairman of the International Equity Rules and Compliance Committee of the London Stock Exchange.

**Prince Abbas Hilmi** (61) is an Egyptian and Turkish national and is a partner of Concord International Investments Group LP, an asset management firm based in New York, and is chairman of Swiss Egyptian Portfolio Management Company SAE. Previously, he was a director of Kidder, Peabody International Investments Limited, general manager of Schroder Asseily Limited, an associate partner of Grieson Grant & Co. and worked with Standard Bank.

## 11. MANAGEMENT OF BARING EMERGING EUROPE

### 11.1 Responsibility for management

The Directors will be responsible for the determination of the Company's investment policy and have overall responsibility for the Company's activities. The Company has, however, entered into an investment management agreement with BAM under the terms of which BAM will be responsible for managing the investments of the Company and its portfolio of assets on a discretionary basis, subject to the overall supervision of the Directors. The Investment Management Agreement can be terminated on 6 months' notice by either party expiring on or after 30 June 2004.

## 11.2 BEET performance under BAM and details of the Company's largest investments

BAM is currently the investment manager of BEET. BEET's performance under BAM is illustrated in the following table which compares the performance of BEET's undiluted net asset value per share in US dollars with its benchmark since inception, as at 31 October 2002:

<i>Period</i>	<i>BEET</i>	<i>Benchmark*</i>	<i>Annualised BEET</i>	<i>Annualised Benchmark</i>
Year to date in 2002 ..	18.5%	12.2%		
1 year .. .. .	36.7%	24.1%	36.7%	27.1%
3 years .. .. .	54.2%	3.2%	15.5%	1.1%
5 years .. .. .	61.5%	-24.9%	10.1%	-5.6%
Since inception .. ..	244.5%	-13.4%	15.2%	-1.6%

Source: BAM/BEMI/FTSE

\* Hybrid benchmark in 1994, then BEMI Emerging Europe Index from 1 January 1995 until 30 April 2001, and then replaced by BEMI Greater Eastern Europe with Turkey Index (Russia at 50 per cent. and Turkey at 15 per cent. of actual market weighting) until 31 December 2001 when this became the FTSE Greater Eastern Europe with Turkey Index (Russia at 50 per cent. and Turkey at 15 per cent. of actual market weightings).

Under the terms of the BEET Scheme, and as a result of the composition of the assets transferred to it, the Company's initial portfolio will initially replicate that of BEET. As at 31 October 2002 BEET's ten largest investments were as follows:

**Lukoil Oil Co (Lukoil)** is the largest oil and gas company in Russia, and has been expanding both its upstream and downstream operations inside and outside Russia. It controls shipping and pipelines in Timan-Pechora. The company has its own export terminal on the Barents Sea. It also has a 12.5 per cent. stake in the Caspian Pipeline Consortium (CPC). Refining acquisitions in Eastern Europe and Ukraine give the company the ability to expand its retail business and increase exports. The company has 14.5 bn barrels of proved oil and 2 bn barrels oil equivalent (boe) of proved gas reserves.

**Yukos Oil Company (Yukos)** is the second largest oil producer and the second largest holder of proven reserves in Russia after Lukoil. The company currently produces around 1.5 mn barrels/day (bbl/day) of crude oil. It is also Russia's largest refiner and has the largest network of gasoline stations in Russia. The company operates in European Russia and Siberia. It ranks number 9 in the world in terms of production and 6th in terms of reserves behind Exxon, Shell, Petro China, Lukoil and BP.

**Surgutneftegaz** is Russia's third largest integrated oil company in terms of production. The company's operations are concentrated in Western Siberia. After Gazprom, it is the largest producer of gas in Russia with 11 billion cubic metres (bcm) of production. It also has downstream assets in the form of the Kirishi refinery.

**OTP Bank** is the largest bank in Hungary.

**Bank Pekao SA** is the second largest bank (largest private bank) in Poland and has a national franchise. Unicredito of Italy is a strategic partner of the company.

**Magyar Olaj es Gazipari (MOL)** is the leading oil and gas company in Hungary. It is vertically integrated and has a significant stake in Slovakia's Slovnaft.

**Polska Koncern Naftowy Orlen SA (PKN Orlen)** is the largest and leading Polish oil refiner with downstream and petrochemical activities. The company is still partially state owned.

**Komerční Banka** is the third largest bank in the Czech Republic. It serves 942,000 retail customers and has a network of 334 branches.

**RAO UES – Unified Energy Systems of Russia** is the national holding company for the Russian Power sector with interests in generation of heat and power; transmission and distribution. The company is currently undergoing major restructuring. It has 156 GW of installed capacity which represents 72.4 per cent. of installed capacity in Russia; UES does not own any nuclear generation. In addition to electricity UES provides heat to its Russian customers which activity accounts for 18 per cent. of total revenue.

**Pliva D D** is one of the leading pharmaceutical companies in Emerging Europe with its own developed blockbuster drug, azithromycin. The company is successfully moving into global generic production.

It is intended to own no more than 20 per cent. of the free float of each of these companies.



<i>Company</i>	<i>Percentage size within investment portfolio (%)</i>	<i>Cost of Investment (as at 31 October 2002) US\$'000</i>	<i>Market Price per Share (as at 31 October 2002) US\$</i>	<i>Aggregate market value (as at 31 October 2002) US\$'000</i>	<i>EPS (for the 2001 financial year)</i>	<i>Dividend per Share (for the 2001 financial year)</i>	<i>Total underlying earnings for the last financial year</i>	<i>Extraordinary items of latest audited financial year</i>	<i>Net assets attributable to the investment as at latest audited balance sheet</i>
Lukoil .. .. .	9.88	23,776	US\$16.43	32,925	US\$2.68	US\$0.29	US\$1952 mn	None	US\$12385 mn
Yukos .. .. .	9.06	16,512	US\$9.60	30,178	US\$1.47	US\$0.22	US\$3156mn	None	US\$8059 mn
Surgutneftegaz .. ..	7.64	15,806	US\$0.3720	25,464	Rouble 1.24	Rouble 0.033	Rouble 10857 mn (unconsolidated accounts) Rouble 53668 mn (consolidated accounts)	None	Rouble 332255 mn
OTP Bank .. .. .	7.29	13,873	HUF2080	24,281	HUF182	HUF28.79	HUF48848 bn	None	HUF166200 bn
Bank Pekao .. .. .	6.05	12,760	PLN96.00	20,153	PLN7.55	PLN1.89	PLN1252 mn	PLN20 mn	PLN6874 mn
MOL .. .. .	5.04	13,417	HUF4825	16,784	HUF133	HUF203	HUF13.1 bn	None	HUF373.4 bn
PKN Orlen .. .. .	4.71	15,003	PLN17.9	15,685	PLN0.89	PLN0.07	PLN376 mn	None	PLN7958 mn
Komerčni Banka .. ..	4.12	5,026	CZK1725	13,731	CZK89.17	None	CZK3389	None	CZK24530 bn
RAO UES .. .. .	3.68	12,721	US\$0.0964	12,242	Rouble 0.98	Rouble 0.0321	Rouble 41696 mn	None	Rouble 463811 mn
Pliva DD .. .. .	3.67	12,613	US\$11.50	12,223	US\$7.11	US\$1.48	HRK1095.8 mn	None	HRK5292.9mn

### 11.3 Investment Manager

The Investment Manager will be Baring Asset Management Limited. As at 31 August 2002 the Investment Manager managed total assets in excess of £25.1 billion, including £1.8 billion in emerging markets of which £0.8 billion is invested in Emerging Europe.

The Investment Manager will be entitled to an annual management fee, calculated monthly and paid in arrears at an annual rate of 0.8 per cent. of the net asset value of the Company. In addition the Investment Manager will receive a performance fee which is payable at the rate of 10 per cent. of the amount by which the change in the Company's net asset value exceeds the change in the Benchmark. The performance fee will be capped at 0.6 per cent. of the net asset value of the Company on the first day of the performance period. Any outperformance in excess of this cap figure can only be offset against future under-performance. The Investment Manager is also entitled to be reimbursed by the Company for its out of pocket expenses.

The Board initially intends that all management fees will be charged to the Company's revenue account. However this will be reviewed in the light of changes in best practice, accounting standards and any other relevant considerations.

### 11.4 Custodian

State Street Bank and Trust Company has been appointed by the Company as custodian of the assets of the Company which will be held on behalf of the Company, either directly by the Custodian or through sub-custodians, nominees or agents of the Custodian.

The Custodian will be entitled to a safe-keeping fee varying by market ranging between 0.75 basis points and 50 basis points per annum on the value of the investment portfolio and paid monthly in arrears. In addition, the Custodian is entitled to a transaction fee which varies by market, and ranges from £10 to £100 per transaction.

### 11.5 Administrator

Baring Investment Services Limited, a wholly-owned subsidiary of Baring Asset Management Holdings Limited, which is itself a wholly-owned subsidiary of ING Group NV, has been appointed by the Company as the Administrator of the Company. It is responsible for providing general administration and accounting services to the Company including calculation of Net Asset Value, and for providing the services of a person qualified to act as the Company's secretary.

Under the Secretarial and Administrator Agreement between the Administrator and the Company, the Administrator is entitled to receive from the Company a fee, payable quarterly in arrears, calculated by reference to the value of the net asset value of the Company, as calculated on the last day of the quarter, at a rate of 0.125 per cent. per annum of such value (together with VAT thereon) subject to a minimum fee of £18,750 payable in respect of each quarter. The Administrator is also entitled to be reimbursed by the Company for its out-of-pocket expenses.

## 12. FEES AND EXPENSES

### 12.1 Initial Expenses

The expenses (exclusive of VAT) of launching the Company are expected to amount to £450,000 but will be more than offset by the provision in the BEET Scheme for the transfer from BEET Shareholders electing for cash of approximately 2 per cent. of the net asset value of their Scheme entitlements, subject to a maximum of US\$2 million. The Company's initial expenses will be paid by the Liquidators of BEET and deducted from the value of the assets transferred to the Company under the BEET Scheme.

### 12.2 Annual Expenses

In addition to fees for the investment management, secretarial, administrative and custodial services referred to in paragraph 11 above the Company will incur other expenses including directors' fees, which are limited to a maximum of £175,000 under the Articles, and are expected to amount to approximately £67,500 per annum for the current directors. Based on an Issue of 17.5 million Ordinary Shares and taking into account other costs including audit fees, printing costs for the interim results statement and the annual report and accounts and the annual charges of the London Stock Exchange, the total fixed expenses of the Company are initially expected to be incurred at the rate of approximately £150,000 per annum, plus variable expenses of approximately one per cent. of the value of the Company, excluding any performance fees which may become payable to the Investment Manager in the event of strong relative performance.

## 13. ACCOUNTING POLICIES

The accounts will be prepared in accordance with applicable accounting standards. They will be prepared using the historical costs basis of accounting, modified to include the revaluation of fixed asset investments. The accounts will comply with the Statement of Recommended Practice ("SORP") for the financial statements of investment trust companies.

The Company intends that its income will consist wholly or mainly of eligible investment income as defined in section 842 of the Income and Corporation Taxes Act 1988.

## 14. TAXATION

The Directors intend to conduct the affairs of the Company in a manner which will satisfy the conditions of approval as an investment trust under section 842 of the Income and Corporation Taxes Act 1988 (as amended). Under current law and Inland Revenue practice such approval is granted retrospectively for each accounting period. The Company will be exempt from United Kingdom corporation tax on capital gains in respect of each accounting period for which such approval is granted.

Further information concerning the tax status of the Company and the taxation of Shareholders is contained in Part II of this document. **If any potential investor is in doubt about the tax consequences of acquiring, holding or disposing of Ordinary Shares he should seek advice from his own professional adviser.**

### 15. ISAs and PEPs (UK Resident Shareholders)

Under current legislation Ordinary Shares will qualify for inclusion in an ISA or PEP. The attraction of an ISA and PEP is that returns from shares held within it are free of income tax and capital gains tax.

**The information above about ISAs and PEPs is based on the law and regulations currently in force and is subject to any changes therein. Investors should note that all elections for Ordinary Shares are irrevocable and will remain valid even if the ISA or PEP regulations or limits change and prevent Ordinary Shares allotted being held within an ISA or PEP.**

## 16. AVAILABILITY OF PROSPECTUS

Copies of this Prospectus can be obtained during normal business hours up to and including 19 December 2002 from Baring Asset Management, 155 Bishopsgate, London EC2M 3XY. In addition, copies of this Prospectus can be viewed up to and including 18 December 2002 at the UK Listing Authority's Document Viewing Facility, Financial Services Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS.

## **PART II**

### **TAXATION**

**The following paragraphs, which are intended as a guide only, are based on current UK taxation legislation and Inland Revenue published practice as at the date of this document. They summarise certain aspects of the UK taxation treatment of holding Ordinary Shares and they relate only to the position of Shareholders who hold their Shares beneficially as an investment (rather than as securities to be realised in the course of trade) and who are resident and, in the case of individuals, ordinarily resident in the UK for tax purposes.**

#### **Investment Trust Status**

The Directors intend to conduct the affairs of the Company in a manner which will satisfy the conditions of approval as an investment trust under section 842 of the Income and Corporation Taxes Act 1988 (as amended). Under current law and Inland Revenue practice such approval is granted retrospectively for each accounting period. The Company will be exempt from United Kingdom corporation tax on capital gains in respect of each accounting period for which such approval is granted.

The Directors intend that the Company's income will consist wholly or mainly of "eligible investment income" as defined in section 842 of the Income and Corporation Taxes Act 1988. The income of the Company will be subject to United Kingdom corporation tax to the extent that it does not consist of dividends received from United Kingdom companies.

#### **Dividends**

Under current UK law no tax will be withheld by the Company when it pays a dividend.

A Shareholder who is an individual resident (for tax purposes) in the UK and who receives that 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 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 dividend, unless and except to the extent that the gross 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 dividend calculated as 32.5 per cent. of the gross 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 the dividend by an individual liable to income tax at the higher rate would be 32.5 per cent. of £88.89, namely £28.89, less the tax credit of £8.89, leaving a net tax charge of £20.

There will be no payment of the tax credit (or any part of it) to an individual Shareholder whose liability to income tax on the dividend and the related tax credit is less than the amount of the tax credit, except where the individual holds the relevant Ordinary Shares through a PEP or ISA and the dividend is paid on or before 5 April 2004.

Holders of Ordinary Shares which are charities will not be entitled to a tax credit in respect of dividends which they receive from the Company, but they will generally be entitled to a payment from the Inland Revenue of a percentage of any dividend paid by the Company to them on or before 5 April 2004, that percentage declining on a year-by-year basis.

A United Kingdom resident corporate Shareholder will not generally be liable to corporation tax on any dividend received from the Company and the dividend and related tax credit will constitute franked investment income.

#### **Disposals**

Any sale or other disposition of Ordinary Shares will generally constitute a disposal for the purposes of UK taxation of chargeable gains. Whether any gain realised on such disposal will give rise to a liability to taxation will depend on the personal circumstances of the holder. Individual Shareholders may benefit from taper relief, which will reduce the amount of any gain chargeable to tax according to how long the asset has been held. For Shareholders which are companies subject to UK corporation tax, indexation allowance will be available up to the date of disposal.

#### **Stamp Duty**

The following applies except in relation to depositary or clearance services, where special rules apply.

The issue of the Ordinary Shares is not subject to UK stamp duty or stamp duty reserve tax ("SDRT").

The transfer of Ordinary Shares will give rise to a charge to *ad valorem* stamp duty or SDRT (which is normally a liability of the purchaser) at a rate of 0.5 per cent., rounded up, in the case of stamp duty, to the nearest multiple of £5, of the consideration paid for the transfer.

**If you are in any doubt as to your tax position, or if you may be subject to taxation in a jurisdiction other than the United Kingdom, you are recommended to consult your own independent professional adviser.**

## **PART III**

### **INFORMATION FOR SHAREHOLDERS**

#### **1. REPORT TO SHAREHOLDERS**

Annual accounts will be made up to 30 September in each year; the first audited financial statements of the Company will be in respect of the period from the Company's incorporation to 30 September 2003.

A copy of the annual report and accounts will be sent to each Shareholder at his registered address, together with notice of the Annual General Meeting, not less than 21 days before the date fixed for such meeting. Shareholders will also receive an unaudited interim report covering the period from the Company's incorporation to 31 March 2003. Shareholders will also receive unaudited interim reports covering the six months ending on each subsequent 31 March.

#### **2. GENERAL MEETINGS**

The Annual General Meeting of the Company will be held in London. Notices convening the Annual General Meeting in each year at which the audited financial statements of the Company will be considered (together with the Directors' Report and the Accounts of the Company) will be sent to each Shareholder at their registered address not less than 21 days before the date fixed for such meeting. Other general meetings may be convened from time to time by the Directors by sending notices to each Shareholder at their registered address or by Shareholders requisitioning such meetings in accordance with English law. Such meetings will also be held in London.

#### **3. VALUATION OF NET ASSETS**

The calculation of the Net Asset Value per Ordinary Share will be undertaken weekly and at each month end by the Administrator, who will announce these to the London Stock Exchange. The Company will cause the market price per Ordinary Share to be published daily in the Financial Times (or in such other newspaper as the Directors may from time to time determine) and in the Daily Official List of the London Stock Exchange.

## PART IV

### GENERAL INFORMATION

#### 1. INCORPORATION

- 1.1 The Company was incorporated in England and Wales under the Companies Act 1985, as amended (the “Companies Act”), and registered, as a public limited company on 11 October 2002 with the registered number 4560726.
- 1.2 The Company did not carry on business or incur borrowings prior to the issue on 5 November 2002 by the Registrar of Companies of a certificate under section 117 of the Companies Act enabling it to do business and exercise borrowing powers.
- 1.3 It is the intention of the Directors to conduct the affairs of the Company so that it satisfies the requirements for qualification as an investment company under section 266 of the Companies Act and the Company has given notice to the Registrar of Companies of its intention to carry on business as an investment company pursuant to that Section.

#### 2. CAPITAL

- 2.1 The authorised share capital of the Company on incorporation was £100,000 divided into 1,000,000 Ordinary Shares of £0.10 each. On incorporation, two Ordinary Shares were issued, nil paid, to the subscribers to the Company’s Memorandum of Association, and such Ordinary Shares were subsequently fully paid up. On 4 November 2002 the two subscriber shares were respectively transferred to Baring Investment Services Limited and International Fund Managers UK Limited.
- 2.2 On 4 November 2002, at an extraordinary general meeting of the Company:
  - (A) the authorised share capital of the Company was increased to £150,000 by the creation of 50,000 redeemable preference shares of £1.00 each;
  - (B) the Directors were authorised, pursuant to section 80 of the Companies Act, to allot Preference Shares up to an aggregate nominal amount of £50,000, such authority to expire at the end of the first annual general meeting of the Company, unless previously revoked, varied or extended by the Company in general meeting; and
  - (C) new Articles were adopted.
- 2.3 On 8 November 2002, at an extraordinary general meeting of the Company:
  - (A) the authorised share capital of the Company was increased to £20,000,000 by the creation of 198,500,000 additional ordinary shares of £0.10 each;
  - (B) the Directors were authorised, pursuant to section 80 of the Companies Act, to allot, in connection with the issue of shares to BEET Shareholders and/or BEET Warranholders, Ordinary Shares up to an aggregate nominal amount of £12,500,000; and the Directors were generally and unconditionally authorised, pursuant to section 80 of the Companies Act, to allot relevant securities (as defined in that section) up to an aggregate nominal amount equal to the lesser of £4,166,000 and one third of the aggregate nominal amount of the issued ordinary share capital of the Company immediately following completion of the issue of shares to BEET Shareholders and/or BEET Warranholders, such authority to expire at the conclusion of the first annual general meeting of the Company, unless previously revoked, varied or extended by the Company in general meeting, save that the Company may, at any time prior to the expiry of such authority, make an offer or enter into an agreement which would or might require relevant securities to be allotted after the expiry of such authority and the Directors be authorised to allot relevant securities in pursuance of such an offer or agreement as if such authority had not expired;
  - (C) the Directors were empowered pursuant to section 95 of the Companies Act to allot equity securities (within the meaning of section 94 of the Companies Act) for cash pursuant to the authorities conferred by the previous resolution as if sub-section (1) of section 89 of the Companies Act did not apply to any such allotment, such power being limited to:
    - (i) the allotment of up to 125,000,000 shares in connection with the issue of Shares to BEET Shareholders and/or BEET Warranholders; and
    - (ii) the allotment of equity securities in connection with a rights issue, open offer or any other pre-emptive offer in favour of Shareholders where the equity securities respectively

attributable to the interests of all Shareholders are proportionate (as nearly as may be) to the respective numbers of Ordinary Shares held by them (subject to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to fractional entitlements or legal or practical problems arising in any overseas territory, the requirements of any recognised regulatory body or stock exchange or any other matter whatsoever); and

- (iii) the allotment (otherwise than pursuant to sub-paragraph (i) or (ii) above) up to an aggregate nominal amount of the lesser of £12,500,000 and ten per cent. of the issued equity share capital of the Company immediately following completion of the issue of shares to BEET Shareholders and/or BEET Warrantholders;

such power to expire at the conclusion of the first annual general meeting of the Company, unless previously revoked, varied or extended by the Company in general meeting, save that the Company may, at any time prior to the expiry of such power, make an offer or enter into an agreement which would or might require equity securities to be allotted after the expiry of such power and the Directors be authorised to allot equity securities in pursuance of such an offer or agreement as if such power had not expired;

- (D) it was resolved that the share premium account of the Company as it will stand following an allotment and issue of Ordinary Shares in consideration for the transfer to the Company of certain assets of The Baring Emerging Europe Trust PLC by the liquidator of that company be cancelled;
- (E) it was resolved that the Company be generally and unconditionally authorised in accordance with section 166 of the Companies Act to make market purchases (within the meaning of section 163 of the Companies Act) of Ordinary Shares in the capital of the Company up to a maximum number of 18,737,500 Ordinary Shares provided that that if this figure is equal to or more than 15 per cent. of the Company's issued ordinary share capital, the Company shall only use such authority up to a maximum number of shares being 15 per cent. of the Company's issued ordinary share capital immediately following completion of the issue of shares to BEET Shareholders and/or BEET Warrantholders less one Share; and
- (F) new Articles were adopted.

- 2.4 Under the Issue, the Baring Emerging Europe Shares will be issued fully paid and in registered form and may be held in either certificated or uncertificated form. Temporary documents of title will not be issued in respect of Baring Emerging Europe Shares issued in certificated form under the Issue. Definitive certificates for such Baring Emerging Europe Shares are expected to be despatched in the week beginning 22 December 2002.
- 2.5 Save as set out in this paragraph 2, since the date of the Company's incorporation, no share or loan capital of the Company has been issued or agreed to be issued, or is now proposed to be issued, for cash or any other consideration, and no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any such capital; and no share or loan capital of the Company is under option or has been agreed, conditionally or unconditionally to be put under option.
- 2.6 The provisions of section 89(1) of the Companies Act (which, to the extent not disapplied by section 95 of the Act, confer upon Baring Emerging Europe Shareholders rights of pre-emption in respect of the allotment of equity securities (as defined in section 94(2) of the Companies Act) in the Company which are, or are to be, paid up in cash) shall apply to the authorised but unissued share capital of the Company, except to the extent disapplied by the resolution referred to in paragraph 2.3(E) above.

### **3. INVESTMENT RESTRICTIONS**

In accordance with the requirements of the UK Listing Authority, the investment policy described in Part I above ("The Company – Investment Policy") will, in the absence of unforeseen circumstances, be adhered to for at least three years following Admission, and any material change in the policy within that period may only be made with Shareholder approval. In this context, an extension beyond the initial geographic range of the portfolio investment area within Emerging Europe referred to in Part I would not constitute a change in investment policy.

#### 4. MEMORANDUM AND ARTICLES OF ASSOCIATION

The Memorandum of Association of the Company provides that the Company's principal object is to undertake and carry on the business of an investment trust Company. The objects of the Company are set out in full in clause 1 of the Memorandum of Association which is available for inspection at the addresses set out in paragraph 9 below.

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

(a) *Voting rights*

Subject to any rights or restrictions attaching to a class of shares, on a show of hands every member who is present in person at a general meeting of the Company shall have one vote, and on a poll every member who is present in person or by proxy shall have one vote for in respect of every one Ordinary Share held by him. No shareholder is entitled to vote with shares at any general meeting or class meeting if he has not paid all amounts relating to those shares which are due at the time of the meeting or if those shares are subject to a restriction imposed pursuant to a determination of the Directors in accordance with the Company's Articles after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Act.

The Preference Shares do not confer any right to receive notice of or to attend and vote at any general meeting of the Company except upon any resolution to vary the rights attached to the Preference Shares.

(b) *Variation of rights and changes in capital*

Subject to the provisions of the Companies Act, all or any of the rights attached to any existing class of shares may from time to time (whether or not the Company is being wound up) be varied either with the consent in writing 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 meeting (except an adjourned meeting) the necessary 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.

Subject to the provisions of the Companies Act and the requirements of the UK Listing Authority and the London Stock Exchange and to any rights attached to existing shares, the Company may purchase or may enter into a contract under which it will or may purchase all or any of its shares of any class (including any redeemable shares).

(c) *Dividends and other distributions*

The Ordinary Shares carry the right to receive the Company's revenue profits available for distribution and determined to be distributed by way of interim or final dividend at such times as the Directors may determine. 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 Preference Shares carry the right to a fixed preferential dividend at the rate of 0.01 per cent. per annum on the amount for the time being paid up or credited as paid up thereon. The dividend ranks for payment in priority to the payment of a dividend of any other shares of the Company and is payable in respect of each accounting reference period of the Company within 21 days of the end of such period. The Preference Shares do not confer the right to any further or other participation in the profits of the Company.

(d) *Alteration of share capital*

The Company may by ordinary resolution increase, consolidate, consolidate and then divide, or (subject to the Companies Act) 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, capital redemption reserve or any other undistributable reserve.

(e) *Capital reserves*

The Board shall establish a reserve to be called the "capital reserve" and shall either carry to the credit of such reserve from time to time or apply in providing for depreciation or contingencies, all capital profits arising on the sale, transfer, conversion, payment of, or realisation of any investments or other capital assets of the Company in excess of the book value thereof, all other capital profits, and all unrealised appreciation of investments or other assets representing or in the nature of accretion to capital assets. Any losses realised on the sale, transfer, conversion, payment of or



realisation of any investment or other capital assets and provisions in respect of the diminution in value or depreciation in the value of capital assets shall be carried to the debit of the capital reserve except insofar as the Board may in its discretion decide to make good the same out of other funds of the Company. All sums carried and standing to the capital reserve may be applied for any of the purposes to which sums standing to any reserve of the Company are applicable, except and provided that no part of the capital reserve or any other moneys in the nature of accretion to capital shall in any event be transferred to revenue account or be regarded or treated as profits of the Company available for distribution (save for distribution by way of redemption or purchase of any of the company's own shares in accordance with section 160 or 162 in chapter VII of Part V of the Companies Act) or be applied in paying dividends on any shares in the Company's capital.

The Board may, before recommending any dividend, whether preferential or otherwise, carry to reserve out of the profits of the Company (including any premiums received upon the issue of debentures or other securities of the Company) such sums as they think proper as a reserve or reserves which shall, at the discretion of the Board be applicable for any purpose to which the profits of the Company may be properly applied, and pending such application may, at the like discretion, either be employed in the business of the Company or be invested in such investments as the Board may from time to time think fit. The Board may also without placing the same to reserve carry forward any profits which they may think prudent not to distribute.

(f) *Transfer of shares*

The shares are in registered form.

Any shares in the Company may be held in uncertificated form and, subject to the articles, title to uncertificated shares may be transferred by means of a relevant system. Provisions of the Articles 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, 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:

- (A) is accompanied by the relevant share certificate and such other evidence of the right to transfer as the Board may reasonably require;
- (B) is in respect of only one class of share; and
- (C) 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) 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 any of the Company's certificated shares by a person with a 0.25 per cent. interest (as defined in the Articles) if such a person 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, unless the transfer is shown to the Board to be pursuant to an arm's length sale (as defined in the Articles).

(g) *Compulsory transfer of shares*

(A) If it shall come to the notice of the Directors that:

- (i) any share or shares are or may be owned or held directly or beneficially by any person or persons whose holding or continued holding of those shares (whether on its own or in conjunction with any other circumstance appearing to the Directors to be relevant) might in the sole and conclusive determination of the Directors cause or be likely to cause the assets of the Company to be considered "plan assets" within the meaning of regulations adopted under the United States Employee Retirement Income Security Act of 1974; or

- (ii) the aggregate number of United States Persons who are beneficial owners (which shall include beneficial ownership by attribution pursuant to Section 3(c)(1)(A) of the United States Investment Company Act of 1940) of shares is or may be more than 75;

the Directors may serve a notice (hereinafter called a "Transfer Notice") upon the person (or any one of such persons where shares are registered in joint names) appearing in the register as the holder (the "Vendor") of the share, shares or any of the shares concerned (the "Relevant Shares") requiring the Vendor within 21 days (or such extended time as in all the circumstances the Directors shall consider reasonable) to transfer (and/or procure the disposal of interests in) the Relevant Shares to another person whose holding of such shares, in the sole and conclusive determination of the Directors, would not fall within (i) above and would not result in the aggregate number of United States Persons who are beneficial owners of shares being 75 or more (such a person being hereinafter called an "Eligible Transferee"). On and after the date of such Transfer Notice, and until registration of a transfer of the Relevant Share to which it relates pursuant to the provisions of this sub-paragraph (i) or sub-paragraph (ii) above, the rights and privileges attaching to the Relevant Shares shall be suspended and not capable of exercise.

- (B) If within 21 days after the giving of a Transfer Notice (or such extended time as in all the circumstances the Directors shall consider reasonable) the Transfer Notice has not been complied with to the satisfaction of the Directors, the Directors may arrange for the Company to sell the Relevant Shares at the best price reasonably obtainable to any Eligible Transferee or Transferees. For this purpose the Directors may authorise in writing any officer or employee of the Company to execute on behalf of the holder or holders of the Relevant Shares a transfer of the Relevant Shares to the purchaser or purchasers. The net proceeds of the sale of the Relevant Shares shall be received by the Company whose receipt shall be a good discharge for the purchase money and shall be paid over by the Company to the former holder or holders (together with interest at such rate as the Directors consider appropriate) upon surrender by him or them of the certificate for the Relevant Shares which the Vendor shall forthwith be obliged to deliver to the Company. The Company may register the transferee or transferees as holder or holders of the Relevant Shares and issue to him or them a certificate for the same and thereupon the transferee or transferees shall become absolutely entitled thereto.
- (C) A person who becomes aware that his holding, directly or beneficially, or shares will, or is likely to, fall within sub-paragraph (A)(i) above or, being a United States Person and a beneficial owner of shares, becomes aware that the aggregate number of United States Persons who are beneficial owners of shares is more than 75, shall forthwith, unless he has already received a Transfer Notice pursuant to sub-paragraph (A) above either transfer the shares to an Eligible Transferee or Transferees or give a request in writing to the Directors for the issue of a Transfer Notice in accordance with sub-paragraph (A) above. Every such request shall be accompanied by the certificate or certificates for the shares to which it relates.
- (D) Subject to the provisions of the Company's Articles, the Directors shall, unless any Director has reason to believe otherwise, be entitled to assume without enquiry that none of the shares are held in such a way as to entitle the Directors to serve a Transfer Notice in respect thereof. The Directors may however, at any time and from time to time call upon any holder (or any one of joint holders) of shares by notice in writing to provide such information and evidence as they shall require upon any matter connected with or in relation to such holder of shares. In the event of such information and evidence not being so provided within such reasonable period (not being less than 21 days after service of the notice requiring the same) as may be specified by the Directors in the said notice, the Directors may, in their absolute discretion, treat any share held by such a holder or joint holder as being held in such a way as to entitle them to serve a Transfer Notice in respect thereof.
- (E) The Directors shall not be required to give any reasons for any decision, determination or declaration taken or made in accordance with this article. The exercise of the powers conferred by sub-paragraph (A) and/or (B) and/or (D) above shall not be questioned or invalidated in any case on the ground that there was insufficient evidence of direct or beneficial ownership of shares by any person or that the true direct or beneficial owner of any shares was otherwise than appeared to the Directors at the relevant date provided that the said powers shall have been exercised in good faith.

Where:

“**United States**” means The United States of America, its territories, possessions and all areas subject to its jurisdiction (including the commonwealth of Puerto Rico); and

“**United States Person**” means any citizen or resident of the United States, any corporation, trust, partnership or other entity created or organised in or under the laws of the United States or any state thereof or any estate or trust the income of which is subject to United States federal income tax regardless of source.

(h) *Duration and winding-up*

The life of the Company shall be of indefinite duration. On a winding up or other return of assets of the Company, the assets of the Company available for distribution to shareholders will, subject to any rights or restrictions attaching to any other class of share, be distributed to holders of Ordinary Shares rateably according to amounts paid or credited as paid up on the shares held by them. The Preference Shares confer the right to be paid out of the assets of the Company available for distribution amongst the members the capital paid up on such shares in priority to any such payment to the holders of Ordinary Shares, but do not confer any right to participate in any surplus following payment of such amounts.

(i) *Borrowing powers*

The Directors shall manage the Company’s business and can use all the Company’s powers. However, this does not apply where the Memorandum of Association of the Company, the Company’s Articles or the Companies Act say that powers can only be used by the shareholders voting to do so at a general meeting and it is also subject to any regulations laid down by the shareholders by passing a special resolution at a general meeting. In particular, the Directors may exercise all the Company’s powers to borrow money, to mortgage or charge all or any of the Company’s undertaking, property and assets (present and future) and uncalled capital, to issue debentures and other securities and to give security for any debt, liability or obligation of the Company or of any third party. The Directors will limit the total borrowings of the Company and, so far as they are able, its subsidiary undertakings to ensure that the total amount of the Company’s borrowings (as defined in the Articles) does not exceed an amount equal to the Company’s adjusted capital and reserves (as defined in the Articles). However, the shareholders may pass an ordinary resolution allowing borrowings to exceed such limit.

(j) *Directors*

(A) *Appointment of Directors*

Directors may be appointed by the Company’s shareholders by ordinary resolution or by the Directors. A Director appointed by the Directors must retire from office at the first annual general meeting after his appointment. A Director who retires in this way is then eligible for election but is not taken into account when deciding which and how many Directors should retire by rotation at that meeting.

(B) *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 provided that the aggregate of all fees so paid to Directors (excluding amounts payable under any other provision of the Articles) shall not exceed £175,000 per annum or such higher amount as may from time to time be decided by ordinary resolution of the Company.

Any Director who goes or resides abroad for any purposes of the Company or 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 (whether by way of salary, commission, participation in profits or otherwise) as the Board or any committee authorised by the Board may in its discretion decide.

(C) *Age of Directors*

No person is disqualified from being appointed a Director or is required to stop being a Director because he has reached the age of 70 years or any other age, nor is it necessary to give special notice of a resolution appointing or electing a Director who is aged 70 or more.

(D) *Retirement of Directors by rotation*

At every annual general meeting a minimum of one-third of the Directors shall retire from office, save that if their number is not three or any multiple of three then the minimum number

required to retire shall be the number nearest to and less than one-third. If there are fewer than three Directors they shall all retire.

(E) Restrictions on voting

Except as mentioned below, a Director cannot vote on, or be counted in a quorum in relation to, any resolution of the Board on any contract in which he has an interest which he knows is material. Interests purely as a result of an interest in the Company's shares, debentures or other securities are disregarded. These prohibitions do not apply so long as the only material interest that a Director has in it is included in the following list:

- (i) 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 subsidiaries),
- (ii) the giving to a third party of any guarantee, indemnity or security in respect of a debt or obligation of the Company (or any of its subsidiaries) for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by giving of security,
- (iii) the subscription or purchase by him of shares, debentures or other securities of the Company pursuant to an offer or invitation to members or debenture holders of the Company, or any class of them, or to the public or any section of the public,
- (iv) the underwriting by him of any shares, debentures or other securities of the Company (or any of its subsidiaries),
- (v) any contract or arrangement 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,
- (vi) any contract concerning the adoption, modification or operation of a pension fund or retirement death or disability benefits scheme which relates both to Directors and employees of the Company (or of any of its subsidiaries) and does not provide in respect of any Director as such any privilege or advantage not accorded to the employees to whom the fund or scheme relates, or
- (vii) any contract for the purchase or maintenance for any Director or Directors of insurance against any liability.

Subject to the provisions of the Companies Act, the shareholders may by ordinary resolution suspend or relax the above provisions to any extent or ratify any contract not properly authorised in accordance with the Articles.

(F) Indemnity of officers

Subject to the provisions of the Companies Act (i) the Company may indemnify any Director or other officer of the Company against any liability and may purchase and maintain for any Director or other officer insurance against any liability; and (ii) every Director or other officer shall be indemnified out of the assets of the Company against any liability incurred by him as a Director or other officer in defending any civil or criminal proceedings in which judgement is given in his favour or he is acquitted or in connection with any application under the Act in which relief is granted to him by the court.

## 5. DIRECTORS' AND OTHER INTERESTS

- (a) No Director has any beneficial or non-beneficial interest in the share capital of the Company which would be required to be notified to the Company by each Director under the provisions of sections 324 or 328 of the Act, other than Mr Iain Saunders who has 10,000 BEET Shares and has indicated his intention to acquire 50,000 BEET Shares, all of which he intends to elect to roll over into Baring Emerging Europe Shares pursuant to the BEET Scheme.
- (b) No Director has any beneficial or non-beneficial interest in the share capital of the Company which would require, pursuant to section 325 of the Act, to be entered in the register referred to in that section.
- (c) So far as it is known to each of the Directors or could with reasonable diligence be ascertained by each of the Directors, no person connected with the Directors (within the meaning of section 346 of the Act) has any beneficial or non-beneficial interest in the share capital of the Company which would, if that person were a Director, be required to be notified to the Company under the provisions

of sections 324 and 328 of the Act or would require, pursuant to section 325 of the Act, to be entered in the register referred to in that section.

- (d) No Director has any interest, direct or indirect, in any assets which have been or are proposed to be acquired or disposed of by, or issued to, the Company and no Director is materially interested in any contract or arrangement subsisting at the date hereof which is unusual in its nature and conditions or significant in relation to the business of the Company.
- (e) There are no service contracts in existence between the Company and any of its Directors nor are any such contracts proposed.
- (f) It is estimated that the total aggregate remuneration payable and benefits in kind to be granted to the Directors by the Company for the financial period ending 30 September 2003 will be approximately £67,500. The total annual emoluments receivable by the Directors will not be varied in consequence of the BEET Scheme.
- (g) Details of those companies of which the Directors have been directors at any time since 12 November 1997, 5 years prior to the date of this document, are as follows:

**Iain Saunders** is currently a director of The Baring Emerging Europe Trust plc, JP Morgan Fleming American Investment Trust PLC, JP Morgan Fleming Indian Investment Trust PLC, Czech & Slovak Investment Corporation, Deutschland Investment Corporation, Equitalia Ltd, JP Morgan Fleming Funds, Fleming Series II Fund, Fleming Frontier Fund, Fleming Flagship Portfolio Fund, JP Morgan Fleming Investment Funds, J.P. Morgan Currency Strategies Fund, J.P. Morgan Universal Fund, JP Morgan Fleming Liquidity Funds, JP Morgan Liquidity Funds PLC, MB Asia Select Fund and Polebrook Developments Ltd. In the previous five years Iain Saunders has been a director of Robert Fleming Asset Management Ltd, Electra Fleming Holdings Ltd, Ericott Offshore Ltd, Fleming Guaranteed Fund, Fleming Taiwan Investments Ltd, Fleming UCB Holdings Ltd, Japanese Warrant Fund, Jardine Fleming India Asset Management Ltd, JF Asian Realty Inc, Leach International Inc, New South Africa Fund, Robert Fleming Holdings Ltd, The Fleming Poland Fund Ltd, The Fleming Russian Securities Fund Ltd, Windgold, JPM US Equity Fund, JP Morgan Funds and J.P. Morgan International Funds.

**John Cousins** is currently a director of The Baring Emerging Europe Trust plc, Corney & Barrow Group Limited, St David's Investment Trust Plc, Corney & Barrow Participation Scheme Trustees Limited, and Corney & Barrow Trustees. In the previous five years, John Cousins has been a director of The Caledonian Club Trust Limited.

**Prince Abbas Hilmi** is currently a director of The Baring Emerging Europe Trust plc, is a partner of Concord International Investments Group LP, an asset management firm based in New York, and is chairman of Swiss Egyptian Portfolio Management Company SAE. Previously, he was a director of Kidder, Peabody International Investments Limited, general manager of Schroder Asseily Limited, an associate partner of Grieson Grant & Co. and worked with Standard Bank.

- (h) At the date of this document none of the Directors:
  - (i) has any unspent convictions in relation to indictable offences; or
  - (ii) has been bankrupt or entered into an individual voluntary arrangement; or
  - (iii) was a director with an executive function at the time of or within the 12 months preceding any receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with that company's creditors generally or with any class of its creditors; or
  - (iv) has been a partner in a partnership at the time of or within the 12 months preceding any compulsory liquidation, administration or partnership voluntary arrangement of such partnership; or
  - (v) has had his assets the subject of any receivership or has been a partner of a partnership at the time of or within the 12 months preceding any assets thereof being the subject of a receivership; or
  - (vi) has been the subject of any public criticism by any statutory or regulatory authority (including any recognised professional body) or has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

- (i) No loan has been granted to, nor any guarantee provided for the benefit of, any Director by the Company. No Director has or has had any interest in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company which has been effected by the Company since its incorporation.

## **6. SUBSTANTIAL SHARE INTERESTS**

The Company is not aware, as at the date of this document, of any persons who, immediately following the Issue, will be interested (within the meaning of Part VI of the Companies Act), directly or indirectly in three per cent. or more of the issued share capital of the Company. The Company is not aware, as at the date of this document, of any persons who, directly or indirectly, jointly or severally, exercise or could exercise control over the Company, where joint control means control exercised by two or more persons who have concluded an agreement which may lead to their adopting a common policy in respect of the Company.

## **7. MATERIAL CONTRACTS**

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company since its incorporation and are all the Contracts entered into by the Company since its incorporation which are, or may be, material:

### **7.1 Investment Management Agreement**

- (i) By an Investment Management Agreement (and related fee schedule) dated 12 November 2002 between the Company and the Investment Manager, the Company has appointed the Investment Manager to provide, or procure the provision of investment management services to the Company.
- (ii) The Investment Management Agreement is for an initial one year period and will continue thereafter unless and until determined by either party giving to the other not less than six months' notice in writing expiring on or after 30 June 2004. In certain circumstances this agreement may be determined forthwith by notice in writing by either party to the other.
- (iii) The fees payable under the agreement are summarised in paragraph 11.3 of Part I.

### **7.2 Custodian Agreement**

- (i) By a Custodian Agreement (and related fee letter) dated 11 November 2002 between the Company and the Custodian, the Custodian has agreed to act as custodian of the Company's assets.
- (ii) The appointment of the Custodian will continue unless determined by either party giving to the other not less than six months' notice in writing although in certain circumstances the agreement may be determined forthwith by notice in writing by either party to the other. The agreement contains certain indemnities in favour of the Custodian and certain provisions regarding the legal responsibilities of the Custodian, including provisions to the effect that the Custodian is not to be liable for the acts and defaults of sub-custodians.
- (iii) The fees payable under the agreement are summarised in paragraph 11.4 of Part I.

### **7.3 Secretarial and Administrator Agreement**

- (i) By a Secretarial and Administrator Agreement (and related fee letter) dated 11 November 2002 between the Company and the Administrator, the Administrator has agreed to act as administrator of the Company and to provide the services of a person qualified to act as the company secretary of the Company.
- (ii) The appointment of the Administrator will continue unless determined by either party giving to the other not less than 6 months' notice in writing although in certain circumstances the agreement may be determined forthwith by notice in writing by either party to the other. The agreement contains certain indemnities in favour of the Administrator and certain provisions regarding the legal responsibilities of the Administrator.
- (iii) The fees payable under the agreement are summarised in paragraph 11.5 of Part I.

### **7.4 Registrar's Agreement**

By a Registrar's Agreement dated 11 November 2002 between the Company and the Registrar, the Registrar has agreed to act as the Company's registrar. The Registrar will receive from the Company for its services a register creation fee of at least £200 (together with VAT thereon if applicable), calculated by reference to the number of Shareholders on the register, and register maintenance fees subject to an annual

minimum fee of £1,500 (together with VAT thereon if applicable) payable monthly in arrears, calculated by reference to the number of shareholders on the register and the number of transfers undertaken where these exceed 25 per cent. The Registrar is also entitled to be reimbursed by the Company for its reasonable disbursement costs, storage costs (charged at £120.00 per annum) and forged transfer insurance costs (subject to an annual minimum charge of £250.00).

## **7.5 Transfer Agreement**

A transfer agreement to be entered into between the Company, BEET and the proposed Liquidators of BEET pursuant to section 110 of the Insolvency Act 1986 which will provide for the transfer of certain assets of BEET to the Company and for the allotment of Baring Emerging Europe Shares all in implementation of the BEET Scheme.

## **7.6 Other Agreements**

The Company has not entered into any other contracts which contain provisions under which the Company has any obligation or entitlement which is material to the Company as at the date of this document.

## **8. GENERAL**

- 8.1 The Company has not traded and nor have any accounts been made up since its incorporation.
- 8.2 The Company has not been engaged in any legal or arbitration proceedings which may have or has had in the previous 12 months a significant effect on its financial position, nor are any such proceedings pending or threatened by or against the Company of which the Company is aware.
- 8.3 There has been no significant change in the financial or trading position of the Company since the date of its incorporation.
- 8.4 The Company intends to direct its affairs to enable it to seek approval from the Inland Revenue as an investment trust in respect of the accounting period ending 30 September 2003.
- 8.5 The Company intends that its income will derive wholly or mainly from shares or securities.
- 8.6 The Company does not have and does not expect that it will have, nor has it had since its incorporation, any employees.
- 8.7 The principal place of business and registered office of the Company is at 155 Bishopsgate, London EC2M 3XY.
- 8.8 Dividends on the Ordinary Shares will be paid to those holders of Ordinary Shares on the register of members on the record date for such dividend. Such record date will normally be between four and six weeks before the date of payment.
- 8.9 It is estimated that the legal, accounting and other expenses (excluding VAT) of and incidental to the Issue and the listing of the Baring Emerging Europe Shares, all of which are payable by the Company, will be £450,000.
- 8.10 The Investment Manager has given, and has not withdrawn, its written consent to the issue of this document with the inclusion of its name in the form and context in which it is included.

## **9. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents may be inspected during usual business hours on any business day (Saturdays and public holidays excepted) at the offices of Slaughter and May, One Bunhill Row, London EC1Y 8YY and at the registered office of the Company, 155 Bishopsgate, London EC2M 3XY, from the date of this document until the latest time for receipt of Forms of Election under the BEET Scheme:

- (a) the Memorandum and Articles of Association of the Company;
- (b) the material contracts referred to in paragraph 7 above;
- (c) the written consent referred to in paragraph 8.10 above; and
- (d) this document.

12 November 2002

