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**ELEPHANT CAPITAL PLC  
("ELEPHANT CAPITAL" OR THE "COMPANY")**

**PROPOSED REDUCTION OF CAPITAL AND TENDER OFFER**

**1. Introduction and Summary**

As indicated in the Company's interim statement issued today (the "**Interim Report**"), the Board of Elephant Capital is proposing not to make new investments other than follow on investments in existing portfolio companies, and to focus instead on returning capital to Shareholders over time. As a first step in implementing this new strategy the Board is proposing a tender offer to Qualifying Shareholders to a maximum value of £5,000,000 (the "**Tender Offer**"). In order to give the Company sufficient distributable reserves so that it can lawfully purchase its own Shares under the Tender Offer, the Directors also propose the Reduction of Capital (as described further below).

The Company is publishing and sending a circular to shareholders today outlining the Tender offer and is also available on the Company's website [www.elephantcapital.com](http://www.elephantcapital.com). Terms defined in the circular have the same meaning in this announcement.

This announcement sets out the details of the proposed Reduction of Capital and Tender Offer and the background to and reasons for the Tender Offer as well as the Reduction of Capital. The Reduction of Capital requires the approval of Warranholders, Shareholders and the Court before it (and consequently the Tender Offer) becomes effective or capable of implementation. In this regard, Part 5 of the circular sets out a notice convening an Extraordinary General Meeting which is to be held on 21 June 2011 and Part 6 sets out a notice convening a Warranholders' Meeting which is to be held on 21 June 2011 (or as soon thereafter as the Extraordinary General Meeting shall have been concluded or adjourned). At these meetings resolutions necessary to implement the Reduction of Capital and Tender Offer will be proposed. The Board is also proposing a resolution at the Extraordinary General Meeting authorising the Company to make further purchases of Shares in the market generally for cancellation within the period leading up to the next annual general meeting.

For the purposes of the circular, the Reduction of Capital, the Tender Offer, the Policy Resolution and the proposed buyback resolution are collectively referred to as the "**Proposals**". Shareholders should note that the Tender Offer, the Policy Resolutiion and

Reduction of Capital are conditional on each other as well as Warranholders' approval and sanction of the courts, as further set out in the letter and the Notice of Extraordinary General Meeting. Defined terms can be found in Part 7 of the circular.

## 2. Background to the Proposals

Following a difficult period for some of the Company's investment portfolio, as set out in the Interim Report, the Company's net asset value per Share as at 28 February 2011 had fallen to 63 pence and the market price of the Shares is at a significant discount to that net asset value. There is also a very illiquid market in the Shares, and a number of Shareholders who wish to sell their Shares have been unable to do so. These factors have led the Board to propose that no further investments (other than follow on investments) be made, with the Board and the Manager instead focussing on realising the Company's existing investment portfolio over time and, subject to the Company's working capital requirements, returning realised capital to Shareholders. As a first step in this process the Board is proposing the Tender Offer to Qualifying Shareholders and seeking Shareholder approval to amend the Company's investment policy accordingly.

The Company will fund the Tender Offer out of the Company's existing cash resources and the realisation of listed investments if necessary. However, in order to do this the Company will first need to create sufficient distributable reserves by the reduction of amounts standing to the credit of the Share Premium Account of the Company and the reclassification of such amounts as a distributable capital reserve of the Company (a "**Distributable Capital Reserve**"). The Board proposes that £27,000,000 of the total amount of £47,752,000 which stands to the credit of the Share Premium Account be reclassified as a Distributable Capital Reserve. Such a reduction of capital (the "**Reduction of Capital**") is subject to the passing of the Reduction Resolution and the subsequent confirmation of the High Court of the Isle of Man.

The Board believes that the Reduction of Capital and the Tender Offer together balance the interests of those Shareholders who wish to realise some or all of their investment in the Company with those that wish to remain invested. The Board believes that the Tender Offer together with the Reduction of Capital has the following benefits:

- The Tender Offer provides a meaningful exit opportunity for those Shareholders who wish to exit, in whole or in part (subject to tenders from other Shareholders), from the Company.
- The Tender Offer should enhance the overall return to Shareholders remaining after the Tender Offer as any Shares purchased by the Company under the Tender Offer will be purchased at a discount to both the net asset value per Share and to the last reported offer price for the Shares as at 25 May 2011 (the latest practicable date prior to the publication of the circular) and thereafter be immediately cancelled.

As described further below, the Tender Offer is subject to a number of conditions.

In addition, following on from the Tender Offer, in line with their proposed focus for the Company the Board believes that it would benefit the Company to be able to make further purchases of Shares from time to time pursuant to the Distributable Capital Reserve created by the Reduction of Capital. As such, Shareholders are being asked to pass a resolution giving the Company this power (the "**General Buyback Resolution**"). Full details of the General Buyback Resolution are set out in the Notice of Extraordinary General Meeting in Part 5 of the circular.

Following completion of the Tender Offer and approval of the proposed strategy of not making further new investments, the Board intends to review its future structure.

### 3. **Details of the Proposals**

#### 3.1 **The Reduction of Capital**

As at 28 February 2011 (the date of the Company's most recent interim accounts), the Company's consolidated net assets were approximately £31,741,186 and it had no distributable reserves. Purchases by the Company of its own shares (as proposed under the Tender Offer) need to be made out of its distributable reserves and therefore the Board proposes that £27,000,000 of the total amount of £47,752,000 which stands to the credit of the Share Premium Account be reclassified as a "Distributable Capital Reserve" by way of the Reduction of Capital.

The Reduction of Capital will not involve any immediate distribution or repayment of capital by the Company to any Shareholder or other person, and will not reduce the underlying assets of the Company. Its principal effect will be to enable the Company to make market purchases of its own Shares under the Tender Offer, although it is envisaged that in due course the Company may also pay distributions out of distributable reserves accruing subsequent to the Effective Date and may make market purchases of Shares. Although no such market purchases other than the Tender Offer are currently anticipated, as a matter of Isle of Man law if the Company wishes to make such a purchase it must have the prior approval of Shareholders. As such, the General Buyback Resolution is being proposed to Shareholders to give the Company this power.

In calculating the level of funds to be returned to Shareholders by way of the Tender Offer, the Board has taken account of available funding to the Company and its working capital requirements. The Company is solvent and the Reduction of Capital and the Tender Offer are not expected to have any effect upon the Company's ability to discharge its liabilities to creditors. The Company's ongoing annual costs (other than transactional expenses associated with acquisitions and disposals of investments) are estimated by the Board to be no more than £1,250,000; these are not anticipated to increase to any material extent in the future. The Board will also consider carefully the available funding to the Company and its working capital requirements before proceeding with any additional market purchase of Shares (assuming that the General Buyback Resolution is approved).

### 3.2 The Tender Offer

The Tender Offer is available to those Qualifying Shareholders on the register of members of the Company on the Tender Offer Record Date (26 May 2011) and on the Tender Offer Closing Date (17 June 2011) and is only made in respect of the number of Shares registered continuously in those Shareholders' names on those dates. If a Qualifying Shareholder acquires additional Shares after the Tender Offer Record Date, any such Shares so acquired are not eligible for inclusion under the Tender Offer.

Shareholders are invited to tender any or all of their Shares for purchase by the Company at any Tender Price subject to a minimum of 2 pence per Share (the "**Lowest Tender Price**") and a maximum of 35 pence per Share (the "**Highest Tender Price**"), in increments of 1 pence only and:

- all Shares under the Tender Offer will be purchased at a single Strike Price;
- subject to the Directors' right to elect otherwise as set out below, the Strike Price will be the highest Tender Price at which the aggregate number of Shares that are tendered for purchase by the Company equals or exceeds the Tender Offer Limit, being an amount set by the Directors up to a maximum value of £5,000,000;
- offers made at a Tender Price lower than the Strike Price will be satisfied in full at the Strike Price;
- offers made at the Strike Price may be scaled back pro-rata; and
- offers made at a Tender Price above the Strike Price will be rejected in their entirety.

A minimum Tender Price is required under Isle of Man law and the Lowest Tender Price has been set at 2 pence per Share to ensure that the Company complies with applicable law. This is not an indication of the value the Board attributes to the Shares.

The Directors will seek to conduct the Tender Offer in the best interests of the Company as a whole and accordingly the Tender Offer Limit will be determined with due regard to the number of Shares offered at different Tender Prices. In this regard, if the number of Shares offered at a lower Tender Price would account for substantially all of the funds available for the Tender Offer, the Directors may elect to set the Strike Price at that level rather than at a higher Tender Price where the number of Shares offered would be significantly greater but, as a result of scaling back, the proportion of Shares redeemed at the Strike Price would be low. Therefore in this scenario, the number of Shares actually redeemed may be lower than the maximum amount redeemable pursuant to the Tender Offer. Alternatively, the Directors may resolve to determine the Strike Price at a level that means that, were all validly tendered Shares at (or below) the Strike Price purchased, the Tender Offer Limit would be exceeded. In these circumstances, all tenders at the Tender Price that would have resulted in the Tender Offer Limit being exceeded will be scaled back on a pro rata basis (rounded down to the nearest whole number).

Subject to the satisfaction of the Company's obligations under the laws of the Isle of Man (which the Directors believe will be satisfied), and subject to the passing of the Reduction Resolution, the Tender Resolution and the Warranholders' Resolution and the Reduction of

Capital becoming effective, the purchase of Shares by the Company under the Tender Offer will be funded from the Company's existing cash resources and the realisation of listed investments if necessary. Shares not validly tendered may not be purchased.

Shares will be purchased from Shareholders free of commissions and dealing charges.

Shares validly tendered and purchased by the Company in accordance with the terms of the Tender Offer will be automatically cancelled in accordance with Isle of Man law and will not rank for any dividends declared after, or whose record date is after, the date on which the Shares are purchased by the Company (expected to be on 19 July 2011).

The Board estimates that the aggregate costs and expenses of the Company relating to the Tender Offer and the Reduction of Capital will not exceed £75,000 (excluding VAT).

The terms and conditions of the Tender Offer, as well as illustrative examples of the mechanics, are set out in Part 2 of the circular. Shareholders do not have to tender any Shares if they do not wish to do so. The Tender Offer is in any case conditional upon certain conditions set out in paragraph 6 of the Part 1 of the circular.

### **3.3 The Share Buyback Facility**

The Board would like to have the facility over the period leading up to the next annual general meeting to opportunistically purchase Shares in the market for cancellation, subject to a minimum price of 2 pence per Share and a maximum price per Share of the most recently reported offer price per Share immediately prior to the purchase. Such purchases would be undertaken with the aim of increasing the net asset value per Share for the remaining Shareholders. Shareholders should note that, subject as aforesaid, market purchases of Shares authorised by the General Buyback Resolution shall be executed as the Directors in their discretion see fit (including the discretion to utilise only part of the share buyback facility). The authority granted by the General Buyback Resolution shall expire on the next annual general meeting, unless renewed, varied or revoked prior to that time.

## **4. Warrantheolders' Subscription Rights**

The Company hereby gives notice of the Tender Offer (being an invitation by the Company to the Shareholders for the purchase by the Company of a certain number of its Shares) to the Warrantheolders.

**Further to paragraph 3.8 of the Warrant Instrument schedule and subject to its obligations under the Warrant Instrument, each Warrantheolder is entitled, at any time between the Tender Offer Record Date and 1:00 p.m. on the Tender Offer Closing Date, to exercise its subscription rights under the Warrant Instrument on the terms on which the same could have been exercised if they had been exercisable on the day immediately preceding the Tender Offer Record Date and so as to take effect as if such Warrantheolder had exercised its rights immediately prior to the Tender Offer Record Date.**

## **5. Overseas Shareholders**

The Tender Offer is not available to Shareholders with a registered address in the United States, Canada, Australia, New Zealand, the Republic of South Africa or Japan or any other Restricted Jurisdiction. Overseas Shareholders should note that they should satisfy themselves that they have fully observed any applicable legal requirements under the laws of their relevant jurisdiction if they tender Shares in the Tender Offer. The attention of Shareholders who are not resident in the United Kingdom is drawn to the section headed "Overseas Shareholders" in Part 2 of the circular.

## 6. Conditions and approvals required for the Proposals

The Tender Offer is conditional upon:

- the passing of a resolution by Shareholders to proceed with the Reduction of Capital (the "**Reduction Resolution**");
- the passing of an extraordinary resolution of the Warranholders pursuant to paragraph 3.4 of the schedule to the Warrant Instrument to proceed with the Reduction of Capital (the "**Warranholders' Resolution**");
- the High Court of the Isle of Man confirming the Reduction of Capital proposed in the Reduction Resolution and such reduction becoming effective following the registration of the relevant court order and minute with the Isle of Man Government's Department of Economic Development;
- the passing of a resolution to allow purchases by the Company of its own shares under the Tender Offer (the "**Tender Resolution**"); and
- the passing of a resolution by Shareholders to proceed with the change to the Company's investment policy (the "**Policy Resolution**");
- the Tender Offer not being terminated pursuant to the Directors' right to do so if they conclude its implementation is no longer in the best interests of the Company and/or Shareholders as a whole or that the purchase of Shares by the Company would have adverse legal or fiscal consequences for the Company and/or Shareholders as a whole.

Certain filings will also need to be made in respect of the Reduction of Capital with the Isle of Man Companies Registry. Assuming that the necessary approvals and sanctions are obtained, it is expected that the Reduction of Capital will take effect on or about 12 July 2011.

Neither the Reduction of Capital nor the Tender Offer is conditional on the General Buyback Resolution. However, the Company will not be able to make further market purchases of Shares unless the General Buyback Resolution or another Shareholders' resolution permitting such purchases is approved by Shareholders, and unless the Company has distributable reserves such as those created by the Reduction of Capital.

An extraordinary general meeting of the Company has been called for 10.00 a.m. on 21 June 2011, at which Shareholders will be asked to pass the Reduction Resolution, the Tender Resolution, the Policy Resolution and the General Buyback Resolution. The full text of the

Reduction Resolution, the Tender Resolution, the Policy Resolution and the General Buyback Resolution are set out in the Notice of Extraordinary General Meeting set out in Part 5 of this document.

A meeting of Warranholders has been called for 10.30 a.m. on 21 June 2011 (or as soon thereafter as the Extraordinary General Meeting shall have been concluded or adjourned), at which Warranholders will be asked to pass the Warranholders' Resolution. The full text of the Warranholders' Resolution is set out in the Notice of Warranholders' Meeting set out in Part 6 of the circular.

Further details of the procedure for tendering and settlement are set out in Part 2 of the circular and for certificated Shareholders in the accompanying Tender Form.

## 7. Recommendation

The Directors are of the opinion that the Proposals are in the best interests of the Company and Shareholders. Accordingly, the Directors unanimously recommend that Shareholders and Warranholders (as the case may be) vote in favour of the resolutions to be proposed at the Extraordinary General Meeting and the Warranholders' Meeting.

**The Directors make no recommendation to Shareholders in relation to participation in the Tender Offer itself. Whether or not Shareholders decide to tender all or any of their Shares will depend, amongst other things, on their view of the Company's prospects and their own individual circumstances, including their tax position. Shareholders are recommended to consult their duly authorised independent advisers and make their own decision.**

## 8. Expected timetable of events

Tender Offer Record Date	6 p.m. on 26 May 2011
Tender Offer opens	28 May 2011
Latest time and date for receipt of White Forms of Proxy for the Extraordinary General Meeting	1.00 p.m. on 17 June 2011
Latest time and date for receipt of Green Forms of Proxy for the Warranholders' Meeting	1.00 p.m. on 17 June 2011
Latest time and date for receipt of Tender Forms and TTE instructions from CREST in relation to the Tender Offer	1.00 p.m. on 17 June 2011
Tender Offer Closing Date	17 June 2011
Extraordinary General Meeting of the Company	10.00 a.m. on 21 June 2011

Warranholders' Meeting	10:30 a.m. on 21 June 2011
Announcement of the resolutions in respect of the results of the Tender Offer and Reduction of Capital	By 6 p.m. on 21 June 2011
Expected date for the Reduction of Capital	On or about 12 July 2011
Completion of the Tender Offer and purchase of Shares under the Tender Offer	19 July 2011
Cheques issued/CREST accounts credited for Tender Offer proceeds in respect of Shares sold under the Tender Offer	26 July 2011
CREST accounts credited/share certificates issued for revised holdings of Shares following the sale of Shares under the Tender Offer	26 July 2011

All times stated in this expected timetable of events and in the circular are London times, unless otherwise stated. If any of the above times and/or dates change, the revised times and/or dates will be notified to Shareholders by announcement through a Regulatory information Service.

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