

Important Announcement to members of the following Pension Schemes (“the Schemes”)

Mendip RBS

Pennines RBS

This is our eleventh Announcement.

In our tenth Announcement we confirmed that Dalriada had lodged its own summary judgment application but that we had agreed to ‘stay’ this application in the hope of reaching a negotiated settlement with the Hedge companies. This would enable Dalriada to bring matters to a conclusion more quickly and cost effectively than continuing legal action.

We couldn’t go into great detail about the settlement because the details are "without prejudice" which means, generally, that they cannot be disclosed publicly. However, both parties were prepared to disclose that heads of terms had been agreed. Both parties were also prepared to disclose that the idea of the settlement was to enable Dalriada to take control of the assets of the Hedge companies and the underlying investments.

At the time of our last Announcement, we were hopeful that we could progress the settlement quickly. However, we also commented that the settlement process might stall and it has been the case that the process has progressed more slowly than hoped.

There have been a number of delays in the settlement process, which is complicated and involves a significant amount of documentation and information being exchanged, advice being required on different areas of law, and input regarding valuations/status of investments made. Whilst some issues have taken more time to resolve than originally anticipated, there is very good engagement on both sides and discussions are progressing well.

In particular, certain matters of corporate law have proved problematic but both parties are now hopeful these matters have been resolved and that a significant hurdle on the way to settlement has been cleared.

This all means that Dalriada remains hopeful that a settlement will be achieved that is in the best interests of the members as opposed to taking forward the litigation, albeit it still has its application for summary judgment pending before the Court and can ask for it to be addressed should the negotiations break down with the Hedge companies.

As we commented previously, there remain several more stages to be gone through in order to complete the settlement and thereafter be in a position to calculate the value of, and subsequently settle, members' benefits. To confirm, these include:

- The settlement agreement will need to be approved by the Court before it can be formally followed – it is very difficult presently to say how long that might take.
- We will need to dismantle the corporate structure that overlays the investments such that we can, where appropriate and possible, look to realise funds and invest them elsewhere.
- We will need to understand and, possibly, seek Court direction as to how to apportion investment losses across members.
- We need to understand the possible tax implications both for members and, possibly, the Schemes generally.

As such, it will still be some time before we are able to provide members with an indication of the value of their benefits under the Schemes.

Also, whilst we have no reason to think this should be the case, there is always a chance that the settlement process might stall again between now and completion.

We appreciate that it has been over a year since our last Announcement and we apologise that we have not been able to update members before now. It is primarily because we were hoping to be able to report more positive news on conclusion of a settlement but that has not been possible. However, we are hopeful of continued progress towards conclusion of the settlement and we will issue a further Announcement in due course to update members.

Investments

In our Fourth Announcement we referred to some of the investments in which, ultimately, members' funds are invested.

With regard to the iPhone mobile learning application (Ko-Su), having taking appropriate professional advice, Dalriada has agreed to a restructuring of the investment held by Hedge Capital Investments Limited such that no further monies will be paid over to Ko-Su but an equity stake is retained in the company. Further funding is being sought and it is hoped that the company will, ultimately, succeed and provide some return on the Schemes' investment.

With regard to the investment through Sustainable Wealth Group, we reported that over £2m of funds had been transferred to the US without the knowledge of the Hedge companies, and that the Hedge Capital Investment Limited had embarked on legal action in the US to recover those funds.

Hedge's legal action, which was supported by Dalriada, was unsuccessful and is now subject to appeal. It is unlikely that we will know the outcome before the end of year but we will update members when we have further news.

Interest payments on loans

We have commented in previous Announcements that if you have received a loan from HCL, this will be as a result of an agreement between you and HCL, and Dalriada is not able to comment on those Agreements.

Dalriada would also repeat its previous comments that the action it has taken to date does not impact directly on the individual loan agreements or the obligation to make any contractual interest payments.

As before, this Announcement will be uploaded onto our website

www.dalriadatrustees.co.uk/pennines-and-mendip

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